# Growth and inflation in Argentina under the Kirchner governments

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SINCE 2003 Argentina has again boasted strong industrialization and high growth. Although insufficient, since the pressures on the installed production capacities remain strong, the investment rate has increased. Social and welfare expenditures have grown without affecting major macroeconomic balances, with the notable exception of the price boom. Income distribution has become less unequal. Poverty has fallen considerably. According to ECLAC, there has been a reduction in both poverty depth and inequality among the poor: ultimately, a good economic and social assessment, in global terms, despite significant inflationary risks and governance problems.

The extremely vigorous economic recovery is explained, first, by the abandonment of the real exchange rate policy. The exchange rate appreciation of the 1990s was followed by a sharp devaluation of the peso in late 2001 and the ensuing abandonment of the convertibility plan that established a nominal parity between the peso and the U.S. dollar, causing Argentina to plunge into a very serious crisis. But since 2003 the industrial sector, protected by the exchange rate, had experienced strong growth. The reawakening of the economy led to an increase in jobs and wages, despite the reduction in real wages produced by the crisis. Subsequently, the re-appreciation of salaries and the higher number of jobs,[1] which favored an increase in consumption, contributed to "pull" growth forward. Higher profits and prospects of capital appreciation led to a relative rise in investment,[2] which together with the increase in public spending fueled growth. A virtuous circle was set in motion with great ease, especially because the external constraint had disappeared, due mainly to the boom in commodity prices and the rise in exports of manufactured goods. Budget constraint, in turn, disappeared thanks to tax revenues stemming, on the one hand, from growth, and on the other from the greater weight of fiscal pressure.

This virtuous circle, however, is threatened by a new and stronger inflationary wave, and is at risk of becoming a vicious circle. The high inflation rate had been lurching since 2007, despite manipulations of the price index.[3] Thus, the increase in the purchasing power of wage workers says below that which resulted from official statistics, the revaluation of the exchange rate in real terms

is higher than announced and the competitiveness of manufactured exports weakens. Will the Argentine model "saved" by soybeans be sustainable? The risk of inflation and the loss of competitiveness by industry are real. In this aspect, the development model that followed the failure of the convertibility plan has limitations. After the presidential elections of October 2011, the new government will face the following alternative: expand the model by pursuing a more "generous" social policy at a depreciated exchange rate, hoping that increased investment, encouraged by a bolder industrial policy will be able to reduce inflation; or, what seems more likely, seek to contain the inflationary risk through a stricter control of global demand, at the risk of curbing wage increases and social spending and allowing the exchange rate to appreciate. The purpose of this article is to address the originality of this model, its successes and limitations with regard, essentially, to three aspects: income distribution, inflation, and industrial competitiveness.

Table 1 – Statistical data on Argentina

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* |
|---|---|---|---|---|---|---|---|---|---|---|
| GDP growth rate | -10.9 | 8.8 | 9 | 9.2 | 8.5 | 8.7 | 6.8 | 0.9 | 9 | 6* |
| Inflation** | 25.9 | 13.4 | 4.4 | 9.6 | 10.9 | 17.7 | 22.6 | 13.3 | 19.5 | NA |
| Investment rate | 12.5 | 14.1 | 18.7 | 20.8 | 23.0 | 24.1 | 25.2 | 21.2 | 24.5 | 24.4 |

*Source*: ECLAC Statistical Yearbook 2010 - 2011; IMF forecasts (**) (April 2011) Global Economic Outlook. * Forecast. ** Data for inflation have been underestimated since 2007; therefore, the data presented here are unofficial and estimated on the basis of provincial indices.

## Personal income distribution less unequal since 2003

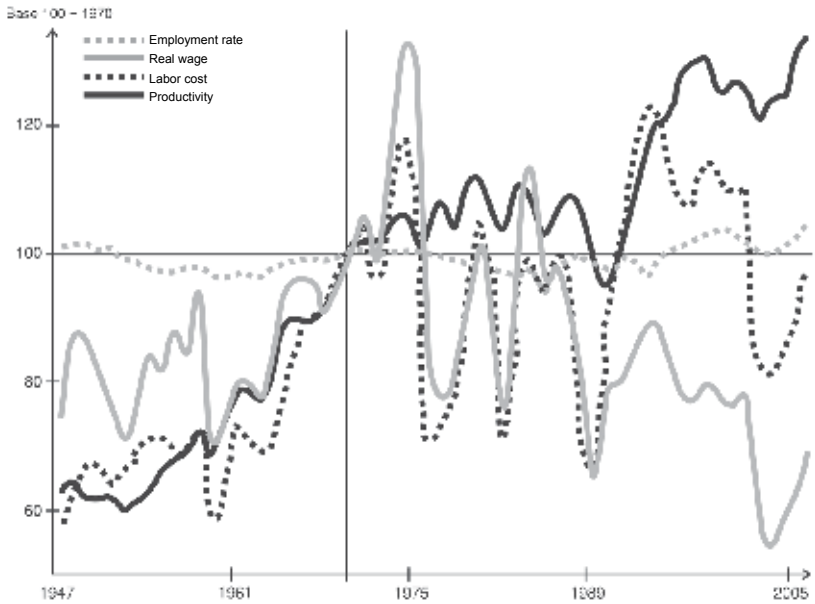
In the third quarter of 2003, when President Nestor Kirchner took office, the richest 10% of the population monopolized 39.3% of the national income, and only 0.7% was left to the poorest 10%. One year before the end of the Kirchner administration, in the third quarter of 2010, the share of income allocated to the poorest 10% of the population had doubled. According to INDEC, the ratio of people's income from the main job among the richest 90% and the poorest 10% fell from 10 in the fourth quarter of 2003 to 8.3% in the fourth quarter of 2010; in the same period, the Gini index dropped from 0.471 to 0.390. Considering all income sources and no longer just income from the main job, the first ratio drops from 9.7 to 7.7 and the Gini from 0.525 to 0.439 (INDEC, 2011). Therefore, the reduction in inequality is undeniable: around 18% during the period, even with a short phase of increasing inequality in the second half of 2010 linked to the 2009 crisis and the effects of inflation. However, the reduction in inequality is slower. In fact, inflation growth had been officially underestimated since mid-2007, and the price boom affected more directly the purchasing power of the poorest.

Although lower today than in 2003, inequality remains extremely high. The poorest 10% of the population earn on average 216 pesos per capita monthly, i.e., altogether 1.4% of the national income, while the richest 10% earn 7,845 pesos, i.e., a total of 32.89% of the national income or twice the earnings of the preceding 10%.

*Strongly contrasted evolution of the real wage and labor productivity over a long period of time*

Understanding the recent evolutions of the real wages requires fitting them in a long period of time. Three types of analysis can be conducted: the first concerns the evolution of the real wage; the second is related to labor productivity; and the third is the growth rate differential between these two variables.

For a long period of time the real wage a great volatility. Since 1975, the real wage has fluctuated strongly around a downward trend, as can be seen in Figure 1.




*Source*: Prepared by Lindenboim et al. (2010), from INDEC data, p.548.

Chart 1 – Evolutions in wage rate, real wage, labor cost and average productivity over a long-period of time - 1947-2006 (base 100:1970).

From 1976 to 2003, the real wage showed a downward trend. At the time, the volatility of wages was very steep; the real wage index dropped from 132 in 1975 (peak) to 78 in 1977. Following new fluctuations, it reached the index 110 in 1984 to fall again to 65 (the lowest point) in 1989. In 2003 the real wage began to rise again, and in 2006 reached the level recorded in the late 1950s.

The extent of real wage fluctuations was considerable, while that of pro-

ductivity was much weaker. After numerous oscillations, labor productivity reached its 1976 level in 1983, experienced a new decline in 1988, rising again in 1989 to the level recorded in 1970. Compared with the majority of other countries where productivity growth is more solid, Argentina is losing its industrial competitiveness. With the liberalization of the exchange rate in the early 1990s, this loss of competitiveness will result in a sharp deindustrialization by 2003.

From 1995 to 2003, an increasing "gap" was observed between the evolution of wage and productivity. This "gap" is explained mainly by the combined effects of financial and trade globalization, and particularly by the way it was conducted. From 2003 to 2006, the real wage increased slightly faster than labor productivity (at a ratio of approximately 23% to 10% over the same period). The reduction in the gap between the growth rates of the real wage and productivity is explained, at the same time, by the resumption of industrial activity and wage bargaining in the respective areas, encouraged by the government, in a context of external and internal constraints mitigated by trade balance and primary budget surpluses.

*The relative increase in formal employment*

According to the study by Arakaki & Del Pilar (2009), on 28 urban clusters in the second half of 2003, 30% of workers were employed in micro-enterprises (largely dominated by informal employment), 40% in small and medium enterprises, and 30% in large enterprises (dominated, in turn, by formal employment). Three years later the employment structure changed according to the size of the company, i.e., 27%, 40% and 33% respectively. Large companies employ the majority of workers and hold fewer informal jobs. The weight of micro-enterprises - where informal, low skilled jobs prevail - decreases. Therefore, in relative terms there is a decline in informal employment. Employment, in its entirety, grew 43% in the period. According to the authors, this growth is due, on the one hand, to the absolute increase in informal employment (23%) and, on the other, to the creation of formal jobs (77%).

By sector of activity, the situation is different. In the industry, the proportional share of informal workers is smaller than in the construction and trade sectors, including micro-enterprises. The total number of jobs in the industry increased 48%, and 98% of this increase is explained by the creation of more formal jobs. It is different in construction, where the number of employees grew more than 120%, but only 35.5% of these hold formal jobs. In commerce, the increase in the total number of jobs was 40%, of which 75.5% are formal jobs. The evolution of wage differences is not the same – it varies according to the sector.

Between 2003 and 2006 the average monthly wage of registered (formal) workers went from 904 to 1,372 pesos, i.e., an increase of 52%. For unregistered (informal) workers, the wage rose from 493 pesos to 755 pesos, i.e., an

increase of 53% (Table 1). The wage range (between formal and informal jobs) over that period tended to remain unchanged.

In general, wage workers in large companies earn more than those in small or medium companies with equivalent skills, and the latter, in turn, earn more than those employed by micro-enterprises. Wage workers with informal jobs earn more when they work in large companies as compared to those with equivalent skills working in micro-enterprises, but the progression of their income is less significant with respect to the period mentioned (26 % against 56% in micro-enterprises).

Altogether, the wage gap between formal and non-formal jobs tend to remain unchanged over the period in question and the strong growth of average wages is explained, in part, by the change in the nature of employment, which moves towards greater formality. In light of less complete data than those used for the period 2003-2006, it can be said that despite the 2009 crisis, these characteristics remained unchanged between 2007 and 2010.

Table 1 – Evolution of real wages by size of enterprise and nature of employment, 2003-2006

| | 2nd Qtr. 2003 | 2nd Qtr. 2004 | 2nd Qtr. 2005 | 2nd Qtr. 2006 |
|---|---|---|---|---|
| Total | 736.5 | 782.6 | 939.5 | 1154.1 |
| Formal | 904 | 942.6 | 1123.3 | 1372.3 |
| Informal | 492.6 | 527.2 | 617.7 | 754.8 |
| Micro-enterprises | 476 | 522.2 | 643.8 | 721.1 |
| Formal | 646.9 | 716.1 | 911 | 1038.7 |
| Informal | 399.5 | 433.1 | 510 | 624.7 |
| Small and medium enterprises | 683.5 | 741 | 877 | 1073 |
| Formal | 781.3 | 837.7 | 986.5 | 1189.3 |
| Informal | 532.4 | 571.9 | 681.2 | 857.9 |
| Large enterprises | 1958.2 | 1078.2 | 1264.7 | 1568.8 |
| Formal | 1101.2 | 1114.1 | 1311.8 | 1633.1 |
| Informal | 802.8 | 838.2 | 901.3 | 1008 |

*Source*: Arakaki et al. (2009, p.10, according to EPH data).

## The virtuous circle of growth threatened by the return of inflation

### *The growth that became virtuous*

The vicious circle, analyzed at the time by Diamand, and in which numerous countries such as Argentina were trapped, tends, then, to become virtuous.

Since 2003 – with the exception of 2009 - the growth rate has been high, regular, and accompanied by trade balance surpluses that are due to the combination of several factors.

- With the strong growth of China and India, the global environment has changed. The high prices of commodities driven by the demand of these countries eased the (external and internal) restrictions of Argentina in a sustainable way, thanks to trade balance surpluses and fiscal revenues from commodity exports.
- Some industries have achieved productivity levels close to those of developed countries, which enable them to take advantage of a depreciated exchange rate and thus export more.
- Finally, the policy followed by the government resembles a policy of multiple exchange rates, aiming to maintain a depreciated exchange rate.

The latter benefits the industry by protecting it through exchange rates, hampering imports and making exports easy for them. The rates ("retenciones") calculated on the international price of commodity exports reduce the incomes of exporters in local currency. For them, these effects resemble those of an exchange rate appreciation. Imported inflation, induced by the continued depreciation of the local currency and rising commodity prices, among them foodstuffs and energy, can be curbed through grants financed with funds from the "retenciones".

So the vicious circle becomes virtuous through changes in the context, both national and international: strong growth, improved employment and wages and, in lieu of the twin - external and internal - deficits, trade balance surpluses and primary budget surplus (excluding expenses related to debt service). It is this virtuous circle that has been in operation since the end of the convertibility plan. However, the recent resumption of inflation in 2007 has threatened to transform it into a vicious circle in coming years. It cannot be explained by the maintenance of a depreciated exchange rate alone. The heterogeneity of the industrial structure - despite some modernization since 2003, new forms of the distributive profit-wage conflict with wage workers, which increase their bargaining power in this phase of continued economic growth (Amico & Fiorito, 2010), also explain the price boom.

*A worrying return of inflation*

There is abundant literature on inflation and its causes. The neoclassical and monetarist schools insist in excess demand in relation to supply, due to government overspending and excessive labor incomes, which need to be controlled. The Keynesian and Marxist approaches, which we will examine here, insist on the conditions of supply and the distributive conflict. According to them, society is hierarchical: entrepreneurs act on two markets, the goods market, in which they set the prices, and the labor market, in which they buy labor. As for wage workers, they work on one single market, the labor market. In the monopolistic market prices are determined by the companies. Thus, supply (more precisely, investment) comes first, followed by demand. Then the market can

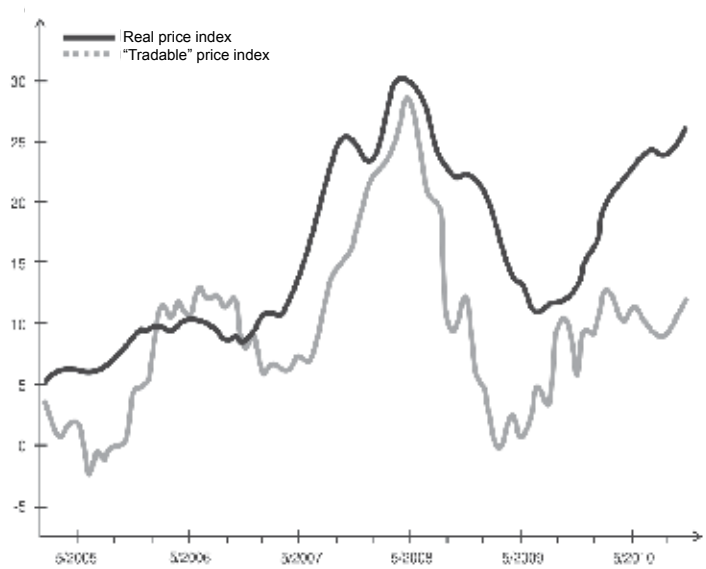
correct these prices if the demand is insufficient, or excessive, in relation to the supply. Thus, pricing reflects the strategy of the companies: it depends on their monopolistic power and aims to strengthen this power within certain temporal horizons through the investment allowed by the desired margin rate. In this Kaleckian approach, the inflation rate expresses the discrepancy between the need for a certain investment fee corresponding to the amount of investment desired by entrepreneurs, and the real wage rate they should pay to wage workers. In turn, the inflation rate expresses the difference between the actual real wage and that desired by wage workers. The role of inflation is thus to ensure the ex-post compatibility of the income distribution that precluded the ex-ante equilibrium in the goods market.

External shocks can influence inflation, fuel the distributive conflict, and even foster it. The increase in commodity prices is an inflationary factor: the increase in both agricultural products, which affects more strongly the purchasing power of the modest classes, insofar as their staples include an important part of basic products such as energy products disseminated in industrial activity and transportation (unless these are largely subsidized). This was the case in the 2000s. An exchange rate that remains depreciated is a channel particularly conducive to the dissemination of imported inflation. Although it may serve to protect the industry, i.e., to favor, as a whole, the competitiveness and profitability of many of its sectors, this depreciated exchange rate also allows high commodity prices to spread throughout the domestic market and amputate the purchasing power of wage workers,[4] starting a new distributive conflict and fueling inflation, at a time when wage workers manage to recover the losses in their purchasing power.

More concretely and in light of what has just been announced, it is observed that until May 2008 the price index and the price index for "marketable" products[5] evolve in parallel (Figure 2). Part of the price increase can be attributed to imported inflation, and this part does not seem to have changed until May 2008.[6] The gap between the evolutions of the two indices increases until January 2009, then strongly decreases, and finally widens again from September 2009. The difference between the two indices is concerning. The exchange rate policy cannot entirely explain the price boom, especially because the real exchange rate began to appreciate in 2011. This appreciation of the real exchange rate should be deflationary. However, inflation grows despite strong subsidies to transport and energy. Between January 2009 and January 2010, the inflation in pesos reaches 12%, while product prices expressed in U.S. dollars remain relatively stable. The impression one gets is that if inflation grows it is because the industrial structure is still very heterogeneous and partly archaic, despite a double increase: in the investment rate and in labor productivity. Faced with a growing demand, supply is unable to respond at the appropriate speed. So it is on the supply side and not on the demand side, toward a greater upgrading of

the industrial structure, that the remedies for an extremely high inflation should be chosen.

At the one and same time, it is the insufficient modernization of Argentina's industrial park and especially the absence of numerous segments of the production lines, destroyed by the deindustrialization of the 1980s and 1990s, that explain the persistence of the trade balance deficit of industrial products, despite an improvement in the country's average competitiveness. That is what we shall analyze.




*Source*: Chart developed by the "Inflacionheteredoxa" group (2011). Available at: <http://inflacion-heterodoxa.blogspot.com>.

Figure 2 – Evolution of price indices

*Industry competitiveness and trade balance*

Despite the clear modernization of some of its areas, industry remains deeply heterogeneous in terms of productivity. This partly explains why, despite improvements in average productivity and a favorable exchange rate, trade in industrial goods with Brazil continues to present deficits.

- The competitiveness of a country is usually measured outside the income sector by the unit labor cost, i.e., the wage/productivity ratio. When the wage differential between the exporting country and the importing country is lower than the productivity differential, the competitiveness/price ratio will be favorable to a given exchange rate. A depreciation of the exchange rate improves mechanically the competitiveness-price ratio for a given labor unit cost. On the other hand, by making imports more expensive the depreciation of the national currency protects entire sectors of the industry, favors a greater integra-

tion of production lines, and increases their added value. Accordingly, depreciation facilitates the consolidation of the industrial mesh.

- Despite the evolution of the unit labor cost and the strong devaluation and maintenance of a depreciated exchange rate, the trade balance of industrial products in Argentina is negative, including in relation to Brazil. With the end of the convertibility plan in late 2011, the labor cost per hour in the industry, expressed in dollars, experienced a sharp decline. According to Abramovitch et al. (2011), the labor cost per hour in Argentina, expressed in dollars, was equivalent to 31% of that same cost in the United States in 2001. In 2002, following the devaluation process, it did not exceed 11%. It would only recover the pre-devaluation level, i.e., 31%,[7] in 2008. The same trends appear in the comparison with Brazil.

Figures 3 and 4 show that in 2002, in Argentina, the unit labor cost in dollars decreased considerably, more than in Brazil, and then increased less in Argentina than in Brazil. It can be observed that the real exchange rate index weighted by unit labor costs between these two countries remained relatively stable between 2003 and 2008. As noted by Abramovitch et al. (2011, p.10), this relative stability is not due to the stagnating of wages in Argentina, since these grew 38.7% between 2001 and 2010. Therefore, the difference in wage growth between the two countries was offset by productivity and appreciation of the real against the peso.

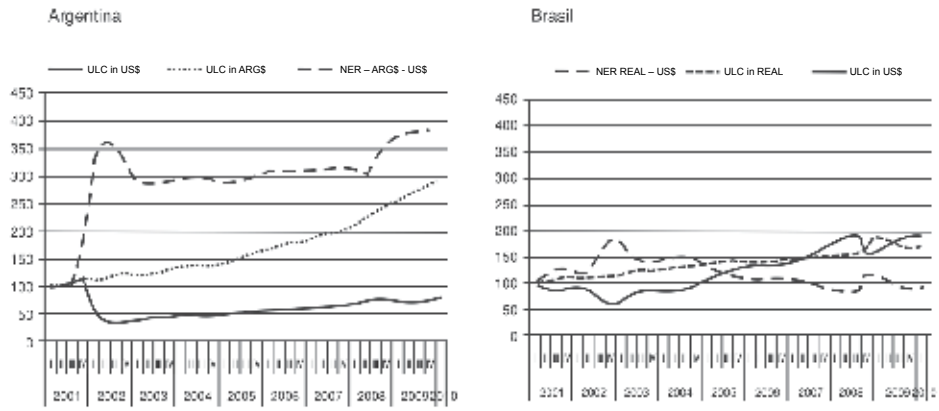
Apparently, the situation has not deteriorated from the point of view of competitiveness. However, since 2003 the trade balance between the two countries has reversed. From 1994 to 2002 trade between Argentina and Brazil generated a surplus to Argentina, but from 2003 to 2011 they generated deficits (IEDI, 2011). It is a paradox. The evolution of unit labor cost weighted by the exchange rate should not lead to this result.

This evolution is explained mainly[8] by the strong deindustrialization experienced by Argentina from 1976 to 2003. The Argentine industrial mesh is less dense than Brazil's. Despite the reindustrialization and modernization Argentina has experienced since 2003 and the trend towards deindustrialization in Brazil, Argentina's industrial structure is incapable to effectively resist.[9] In many sectors the elasticity of supply in relation to prices is minimal. Thus the difficulty to export. The elasticity of its demand in relation to prices is no different. Thus the propensity to import, even with rising prices.

Table 2 – Compared unit labor costs in Argentina, the United States and Brazil

| | 2001 | | 2002 | | 2008 | | 2001-08 |
|---|---|---|---|---|---|---|---|
| Country | US$ | Relative Index | US$ | Relative Index | US$ | Relative Index | Relative index Variation |
| Argentina | 8.15 | 1.00 | 2.98 | 1.00 | 9.89 | 1.00 | 0% |
| United States | 25.9 | 0.31 | 27.01 | 0.11 | 32.26 | 0.31 | -3% |
| Brazil | 3.6 | 2.26 | 3.07 | 0.97 | 8.28 | 1.19 | -47% |

(1) The relative index is the ratio between labor cost per hour in Argentina and in another country.
*Source*: Abramovitch et al. (2011).

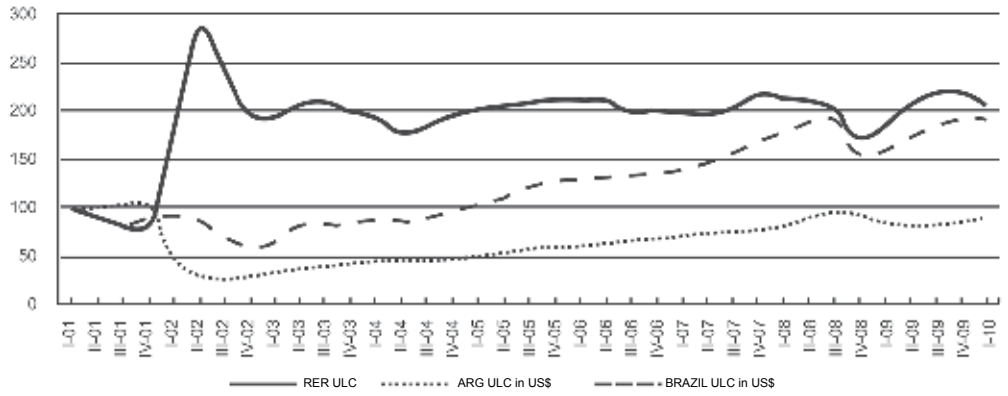



*Source*: Abramovitch et al. (2011, p.10), prepared by the authors from official data.

Figure 3 – Evolution of unit labor costs (ULC) in current US dollars.

Thus, during the period 1994-2009 it was observed that for 1% of Argentina's GDP growth, imports from Brazil varied 4%.[10]

The heterogeneity of the industrial structure is a source of cost-led inflation. Therefore, it is on the industrial mesh that all efforts should focus, with a view to promoting modernization without neglecting the added value. Although the external situation of Argentina is not alarming, it is worrying. The negative trade balance of industrial products, more particularly with Brazil, is an important sign of the weakness of Argentina.




*Source*: Abramovitch et al. (2011, p.10).

Figure 4 – Argentina-Brazil bilateral real exchange rate (RER base 100 in 2001) deflated by the respective unit labor costs (ULC).

## Conclusion

GDP growth rate is very high, the purchasing power of wage workers is high; even when corrected by a more reliable price index, the employment situation improves, including in the industrial sector, but at a moderate pace. Poverty recedes, but high inflation limits the progression of the purchasing power of the most vulnerable layers of the population. Informal employment, whether salaried or not, loses its relative importance, the trade balance is clearly generating surpluses, the debt ratio is not too high and it can be expected that in the near future Argentina will again relate to international financial markets. Finally, international reserves increase, despite massive capital flights in 2008 and 2009.

The recent appreciation of the real exchange rate, the virtual non-existence of a trade policy with defined goals and, finally, a tax system that remains largely regressive[11] are aspects that weaken the Argentine model. However, except in the case of a shock from a new international crisis and fall in commodity prices, the virtuous circle that benefits Argentina should prevail in the short and medium term, albeit losing some of its momentum.

One of the causes of the reindustrialization of Argentina is rooted in the exchange rate policy chosen, which resembles, in fact, a policy of multiple exchange rates. Despite the recent appreciation of the exchange rate, this is still relatively undervalued. A rate like that protects the industry, favors new import substitution and allows the real wage to increase, without this increase necessarily having a significant impact on wages expressed in dollars. The combination of wage and employment increase has positive effects on economic growth, while the trade balance remains positive. Fees ("retenciones") on commodity prices are equivalent to an appreciated exchange rate for the exporters of commodi-

ties, since each dollar obtained is converted into fewer pesos. These rates fuel the budget and enable getting rid of its requirements. Once the external (trade balance) and internal (primary surpluses instead of deficits) constraints are removed, the pursuit of economic growth finds fewer obstacles and can be implemented at a vigorous pace, provided that there is no resumption of inflation.

Today the price boom endangers the Argentine model. So it is likely that after re-elected the president may choose at the same time: 1. a policy to curb global demand, rather than try to develop supply by stimulating investment in industry and infrastructure (energy, transport) in order to reign in the price boom. Acting on global demand can reduce inflation, but at the expense of a slowdown in the economic activity; 2. an economy increasingly managed (control of certain prices, return of protectionist measures, including with Mercosur member countries, nationalization of large companies with insufficient investments), suitable for solving some immediate economic problems, with strong likelihood of expanding the capital flight process, which is already considerably high. In a context of slowdown of the world economy, the Argentine "miracle" would be at great risk of disappearing.

Notes

1 The employment level index fell from 100 in 2001 to 94 in 2002 to then rise rapidly to 118 in 2007. The average real salary was 100 in 2001, dropped to 75 in 2002 and to 72 in 2003; and nearly reached its 2001 level in 2007 (Source: Ministry of Economy of the Nation). However, it should be noted that in recent years job creation has occurred at a slower pace: of the three million jobs created between 2003 and 2010, 80% were created between the 2003 and 2007. The public sector offered more jobs (4% per year on average) than the private sector (2.7%). In 2009, the year of the crisis, public employment increased while private employment declined.

2 It should be remembered that with the boom of the convertibility plan, the financial system collapsed. Thus, self-financing and provision of "hidden" resources were the only sources to ensure the success of investment.

3 In 2006, in view of the price boom, public authorities changed the composition of the price index (INDEC). The new index underestimates the inflation rate. The credibility of the index and of the data released by the government has been undermined. The underestimation of inflation leads "mechanically" to the simultaneous overestimation of the growth rate calculated at constant prices and the share of wages in calculating the "value added" from 2007. The indices calculated by the provinces have not been modified. Often they are used as a basis to assess "true" price increases. There are other indices provided by universities and private companies. Generally these companies do not have the means to build the index (insufficient data collection) and the construction of their index is usually blurred. Often opposed to the government policy, they tend to overestimate the inflation rate. We prefer here to consider the index built from those provided by provinces that have not changed the methodology of the index, rather than base ourselves on an average of the two indices, that of the INDEC and that of the companies mentioned.

4 Oftentimes, producers supply food to both the domestic and foreign markets. Therefore, they tend to equate the domestic prices with prices obtained in foreign markets.

5 The general price index used here is not that of the INDEC, for the reasons stated above. It is actually a synthetic index, built from the indices of the different provinces, which have not been rebuilt (see note 4). The index of "marketable" products is an index established from international prices (average of the prices of Argentine exports and imports) assessed in accordance with the exchange rate in force. It is a good indicator of imported inflation.

6 The price index for "marketable" products is not fully reflected in the overall price index for two reasons: first because a significant part of exports consists of intermediate goods or equipment used to produce goods; and second because the government tries to minimize the effect of the spectacular increase in the prices of food and energy products by subsidizing these products. In 2008, of the 31 billion pesos in subsidies, 16.2 billion were allocated to the energy sector, 87 to the transport sector and 3.8 to the food industry (Source: ASAP in Frenkel & Damill, 2009, p.64. See also Salama (2008).

7 Two factors explain this new rise: a slight revaluation of the peso against the dollar and an increase in real wages above that observed in the United States.

8 We cannot discuss in this article the different behaviors of industrialists regarding the desired margin rates. The trade deficit is probably also partially explained by the consequences of less frequent access to credit in Argentina than in Brazil. The margin rate, quite popular at the time to finance investments, could be higher in Argentina than in Brazil. That would lead to a relative price increase that would have a negative impact on competitiveness. Likewise, the context, which is more inflationary in Argentina than in Brazil, could fuel inflationary expectations and undermine the price--competitiveness ratio.

9 The trade deficit of industrial products should not hide a strong growth in exports of such products. Taking as base 100 the year 1993, the exports of Manufactures of Industrial Origin (MIO) reached, in the fourth quarter of 2010, 733.6 in value and 587.9 in volume, and those of agricultural origin 517.7 and 297.5 respectively (INDEC, 2011). Overall, the prospects for 2011 are excellent, with a rise in exports of 17% compared to 2010: their total should reach 81 billion dollars, i.e., twice the amount achieved in 2005 and *thrice that of 2001*. Imports should move vigorously, probably 28% in 2011, due to strong growth and the appreciation of the peso. The amplitude of the trade balance surpluses will probably be reduced, but should remain at a comfortable level (2% of GDP, January 3, 2011).

10 See INDEC (2009). According to the INDEC, the structure of exports from Argentina to Brazil is as follows: 33% of food products; 32% of industrial products; 25% of primary products; and 10% of fuels; and 42% of Argentina's industrial exports are destined for Brazil. The weight of the automobile industry is very important, since 81% of automobile exports and 65% of auto parts go to Brazil. The structure of Argentine imports from Brazil is as follows: 19% of machinery; 30% of equipment; 19% of auto parts; 10% of automobiles; 12% of consumer goods; and 11% of fuels. According to Gigliani & Perrone (2004, p.4), the total industrial exports from Argentina gathered under the heading Manufactures of Industrial Origin (MIO) tripled between 2002 and 2008, and those aimed to Brazil increased three and a half times, but imports from that country were multiplied by 7.5. The bulk of this deficit with Brazil is explained by the purchase of electric machines, equipment and materials.

11 We cannot address this very important issue here. For Argentina, see Gagerro (2008), Gomez & Rossignoo (2008) and Goni et al. (2008).

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*Abstract* – Since 2003 the growth rate of GDP has been higher in Argentina than in Brazil. Income distribution has been less unequal. Poverty has decreased. Employment has grown – including in the industrial sector –; informal jobs, whether salaried or not, are losing ground, while the balance of trade shows a trade surplus and the debt ratio is not overly high. Real inflation is high, far higher than announced by the government, and it curtails any rise in purchasing power, particularly among the poorest. The recent rise of the real exchange rate, the rise in the share of raw materials in exports, the fact that these are needed for subsidies paid mainly to energy consuming sectors, the shortage of subsidies to research intensives industries could tomorrow turn what is currently a virtuous circle into a vicious circle.

*Keywords*: Industrialization, Inflation, Poverty, Distributional conflicts, Exchange rate.

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Translated by Jean Marie Joseph Briant. The original in French – "*Croissance et inflation en Argentine sous les mandatures Kirchner*" – is available to readers for consultation at the IEA-USP.

Received on 9 July 2011 and accepted on 26 Nov. 2011.