

Argentina Shows Woes of Land and Money

By Fred E. Foldvary

In 1900 Argentina was one of the most prosperous countries on earth. Its capital, Buenos Aires, was a world class city like Paris or New York. The Pampas region grew grains and beef to feed the people, with plenty left over for export.

The country is named after "argent," meaning silver. During the 20th century the silver became tarnished. It was not enough for the people that they were prosperous. They got greedy and wanted free education, health, and welfare. They set up a welfare state. But welfare is not free, as the money has to come from the people in the first place. Taxes then drained the economy of its vitality.

It would not have been so bad if the taxes came from the rent. The rich Pampas and the high-priced urban land would have provided a fountain of funds for welfare. But the rent was kept by the powerful landowners, while the taxes fell on workers. Does one need to be a Ph.D. mathematician to understand that if the taxes come from workers and then get dribbled back as welfare aid, workers will not be better off? Does one need to be a Ph.D. economist to understand that much of the revenue will stick with the government bureaucracy?

To pay for the welfare, government set the money printing presses at high speed. Since taxes hurt, why not just print more money? Does one need to be a mathematician or economist to understand that this just leads to price inflation, making the money worth less and less? The inflation was a tax on money holdings, further hurting the people.

Because taxes hurt and folks won't elect governments that tax them too much, the government borrowed funds from abroad to finance the welfare state. Then the government had to pay interest on that debt, adding greatly to government expenses. The debt is now \$132 billion; no wonder the Argentines are crying.

Then someone got a brilliant idea. Inflation is bad, so why not just adopt someone else's sound currency? Other countries were latching on the U.S. dollar, which was only inflating a bit every year rather than losing value with a gallop as in many Latin American countries.

So Argentina based its currency on the U.S. dollar. Inflation did come to a screeching halt. That was good, and for a few years, the Argentine economy recovered. But Argentina was now hostage to U.S. monetary policy and the value of the U.S. dollar. The U.S. dollar has recently been valued high relative to other currencies, making exports expensive and imports cheap. The U.S. gets a lot of imports, but it's not such a big problem for now because folks in other countries pour in billions into the United States for investment and to buy U.S. debt.

That did not happen in Argentina. U.S. government bonds are considered super safe; is that the case with Argentine bonds? No, especially since if Argentina breaks from the U.S. dollar and

devalues its currency, the bonds would lose much of their value. So to borrow funds, the government of Argentina must pay high interest rates, further adding to its expenses.

Unemployment in Argentina has reached 18 percent after several years of recession. People are rioting in the streets and looting grocery stores. The government has restricted withdrawals from banks. The president resigned. The new government intends to suspend the servicing of the debt, and says it will stick with the dollar.

Argentina can get out of the mess quickly with the right policy. First, eliminate all sales and income taxes, and shift government revenue to land rent. Make this permanent by putting the policy in the constitution. Investment will then pour in and workers will quickly be hired by companies building new factories, offices, and equipment, and needing human services.

The money is a problem, because if Argentina cuts from the dollar and devalues, investments and savings will fall in value, but if Argentina does not devalue, exports will continue to be expensive. One remedy is to shift to another currency, a sound currency, but not somebody else's currency.

Argentina would issue eternal postage stamps always good for domestic first-class mail. These would be an inflation hedge. Folks would buy them. Then issue currency always convertible into the eternal stamps. The currency would keep its value, since it would be good for postage, so long as the government were careful not to over issue. The postage currency would not be pegged to any outside currency, so that supply and demand would determine the exchange rates.

With no taxes on enterprise or labor, and with floating exchange rates balancing imports and exports, Argentina would be back on the road to being a wealthy country again, and with all folks sharing the prosperity rather than a few officials and landowners.

Unfortunately, the landed interests will not let the government switch to tapping the rent for public finances, and the people are too ignorant to be able to see the rent that continuously flows from the very ground they walk on. They can only see the superficial picture of welfare aid coming from government bureaus, which they want to continue. They cry "welfare, welfare!" but there is no welfare left. The economy is too poor to tax wages more, and too much in debt to borrow more.

There is only debt and debt repayment and an economy in ruins.

The only way out is to domesticate its currency and shift taxes to rent. Will Argentines stop crying and do the smart thing? Time will tell.

-- Fred Foldvary

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