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RAHN: Could the U.S. become Argentina?

Obama policies have put the nation on a similar downhill slide

By Richard W. Rahn

A century ago, if you had told typical citizens of Argentina (which at that time was enjoying the fourth-highest per capita income in the world) that it would decline to become just the 76th richest nation on a per capita basis in 2010, they probably would not have found it believable. They might have responded, "This could not happen; we are a nation rich in natural resources, with a great climate for agriculture. Our people are well educated and largely descended from European stock. We have property rights, the rule of law and an open free-market economy."

But the fact is, Argentina has been going downhill for eight decades, and it has the second-worst credit ranking in the entire world - only Venezuela has a lower ranking. Argentina, despite its natural resources and human capital, has managed to throw it all away. Argentina did not become relatively poor because of having been involved in destructive conflicts. It became poor because it has had a series of both democratically elected leaders and non-elected dictators who never missed an opportunity to make the wrong economic decisions. It is, once again, trying to renege on paying the principal and interest on Argentine government bonds to foreign bondholders, and hence New York state (where many of the bonds are serviced) may take further action against Argentina, including fines and asset seizures.

In the 1930s, the Argentine government increased its interventions in the private economy. Juan Peron took over in 1946 and ended up nationalizing the railroads, the merchant marine, public utilities, public transport and other parts of the private economy. For much of the past half-century, Argentina has engaged in a series of erratic monetary policies, often resulting in periods of very high inflation and economic stagnation. Because of their political power, the unions have been coddled, resulting in unsustainable wage-and-benefit programs. Excessive government spending has caused recurrent fiscal meltdowns, where both foreign and domestic debt-holders have lost many of their investments.

According to the Economic Freedom of the World Annual Report (published by the Fraser Institute in cooperation with the Cato Institute and others), Argentina ranks 105 out of 141 countries surveyed. Similarly, the 2010 Index of Economic Freedom (published by the Heritage Foundation and the Wall Street Journal) ranks Argentina 135 out of the 179 countries surveyed. (The U.S. is No. 8 and falling.)

The U.S. has a per capita income of about $47,000 per year, while Argentina's is just $14,000 on a purchasing-power parity (PPP) basis. A hundred years ago, Argentina's per capita income was about 80 percent of that in the U.S. If Argentina had done as well relatively as the United States, it would have a per capita income of about $38,000 today. Countries can become wealthy in a few decades, as have South Korea, Taiwan, Hong Kong, Singapore and Finland, by following the correct economic policies. They also can become relatively poor, as have Argentina, Cuba and Venezuela, by doing the wrong things.

Argentina has extensive import bans and controls. The Obama administration has been advocating protectionist trade policies and has opposed the ratification of previously negotiated trade agreements.

Argentina has income tax rates roughly equivalent to those in the United States but also has a value-added tax (VAT) and a wealth tax. Officials of the Obama administration and some members of the U.S. Congress are flirting with a VAT.

Argentina has continued to run inflationary monetary policies while at the same time attempting to treat the symptoms through price controls. The U.S. Federal Reserve has greatly increased the money supply, which is likely to produce future inflation. Officials of the Obama administration, at times, have advocated price controls of insurance companies, medical suppliers, financial institutions and even fees for carry-on luggage on airplanes.

Argentina's largest bank is state-owned, as are a number of its other banks. The Obama administration forced a number of large American banks to become partially government-owned. The two largest mortgage institutions in the United States - Fannie Mae and Freddie Mac - are now largely government-owned-and-controlled.

Argentine courts are slow and corrupt. Property rights are not secure, and the government has willfully understated inflation statistics, causing foreign and domestic bondholders to lose much of their investments. The Obama administration unilaterally took away bondholders' rights in the GM and Chrysler cases and, in essence, took their assets and turned them over to the unions that had supported Mr. Obama.

Argentina has extensive labor regulations to favor unions, which greatly increase the cost of hiring. The Obama administration has supported costly labor regulations that the unions favor, which eventually will drive up the cost of hiring workers and result in higher unemployment.

Argentina has a long history of deficit spending, which, in turn, has made government debt burdens so high that the government refuses to pay the debt to the private domestic and international debt holders. Over the next 30 years, economists associated with the Bank for International Settlements in Basel, Switzerland, estimate (as have many U.S. economists) that the U.S. public debt will rise to between 200 percent and 500 percent of GDP. (It is now about 60 percent.) Debt levels of 200 percent to 500 percent cannot be supported; hence, the debt holders will face erosion of their capital through either inflation or nonpayment.

The U.S. is not yet Argentina, but, if many of the policies of the Obama administration are not reversed, America will only get poorer and, in as little as 30 years, become a middle-income country, while dozens of other countries will enjoy a higher standard of living.

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