Wed Nov 15, 2023 / Who can fix 150% inflation?

[HALF SECOND OF SILENCE]

[BILLBOARD]

NOEL: In the summer of 2022, inflation in the U.S. hit 9-point-one percent and we all freaked out.

SCORING IN — Strawberry Knucles

NOEL: OK, now consider this: in Argentina today inflation is ONE HUNDRED AND FORTY THREE PERCENT.

NOEL: Fortunately for the Argentines, they’re about to elect a new president.

NOEL: Unfortunately for the Argentines, they are choosing between these two:

Sergio Massa, the CURRENT Economy Minister. Minister of one hundred and forty three percent inflation.

NOEL: And Javier Millei, rockstar libertarian economist with a lust for life.

ANA: So he wears a lot of like leather jackets and he screams and jumps around a lot on stage.

<CLIP> MILEI: “Yo estoy aca para despertar de leones” *[I am here to awaken the lions]*

NOEL: Coming up on *Today, Explained*: why DID Argentinians vote these two men into a runoff and why inflation is always and everywhere the ultimate election issue.

[THEME]

NOEL: I’m Noel King. Ana Lankes is the Latin America correspondent for the Economist. She says this election is about the economy and IN PARTICULAR about inflation which affects every aspect of life.

ANA: It's very hard to imagine what it's like.

SCORING IN - Spookyman

ANA: You basically go into the shops and every day the prices have changed. So, for example, if you go into a restaurant, nobody has like a fixed menu.

*<CLIP> REUTERS: “It’s hard. Whatever one thing costs today, tomorrow costs a little more. We’re always racing against the clock.”*

ANA: Then there's a lot of very poor people who don't have access to black market dollars, which is how kind of Argentine people with means get by and save.

<CLIP> BLOOMBERG: “*What do you do to survive inflation in Argentina?” “Well I do what every Argentinian does. I buy dollars.”*

ANA: And for those poor people who don't have access to black market dollars, they've had to resort to quite extreme measures to get by.

<CLIP> NBC NEWS: *“Chaos playing out in the streets of argentina as business owners fend off looters with firearms while frustrations mount over astronomical inflation rates.”*

ANA: ~~So, for example,~~ bartering has come back, which is, you know, you go to a market and you might have diapers and you exchange those for cans of food with somebody instead of using money.

*<CLIP> REUTERS: “People have no money left but we need to take something home, so there’s no choice but to barter.*

NOEL: Which is not how we think of developed countries typically.

ANA: No, not at all.

SCORING OUT

ANA: However, I think what happens to a lot of people when they come from outside and visit Argentina, they're quite surprised because it actually seems fairly functional on the surface. And I think that there's something particularly dangerous and seductive about Argentina's decline because Argentina has been in decline for 100 years. And so a lot of people have, you know, developed mechanisms to deal with extremely high inflation. There are a lot of people who know how to beat the system, basically, which makes it also very difficult to solve the problem.

NOEL: Hmm. Is inflation Argentina's only economic problem? It's a big problem. Is that basically all that's going on?

ANA: No. So inflation is a symptom of a very, very rotten pattern of economic policymaking over a long period of time.

<CLIP> Presidente Alberto Fernandez: *“Inflación es una fenómeno histórico en Argentina.”*

ANA: So there's very high inflation, but there are also 15 different exchange rates in the country, which is crazy. So you can pay completely different things for the same product depending on what exchange rate you're using. It's very difficult to access some of those exchange rates. There's also a kind of a dual monetary system in some ways, because most Argentines don't trust the peso, so they save in dollars, but it's very difficult to access dollars legally. So there's a gigantic black market for dollars. Actually, Argentines are thought to hold more dollars outside of the U.S. and possibly Russia than any other country in the world. So there's all sorts of issues. The banks have very little money. Everybody has dollars out of the system under the mattress in foreign bank accounts. There's price controls. So the prices of many products are frozen. And basically the country consistently overspends. So it spends a gigantic amount of GDP on subsidies, which it cannot afford. And on things like public health care and pensions and public wages. So it's very, very tricky. There are many different things going on, and there's also really entrenched interest groups. The official exchange rate, it costs around $350 to buy $1 at the official exchange rate. On the black market. It costs around $1,000 to buy $1 right now. So obviously you want to get the cheaper access to dollars. So that kind of thing creates really, really deep incentives for corruption. So there's all sorts of problems going on.

NOEL: Yeah, you're describing something that sounds fairly catastrophic. What has the current government, the people currently in power, what have they done to try to fix this?

ANA: Oh, it hasn't really made deep efforts to fix this at all.

SCORING IN - Clocked up

ANA: So the economy minister, Sergio Massa, has been in power since last August and he's basically made a lot of short term fixes. So I'll give you an example. Fuel prices have been going up recently in Argentina because of all sorts of, you know, structural problems. And instead of addressing those problems, he said, okay, we're going to ban fuel exports if you don't lower prices. So it's these kinds of short term patches that don't address the kind of structural issues underneath. Or I'll give you another example. Argentina spends more money than it brings in in revenue. And so the solution to that has often been to force the central bank to print a lot of money, which just worsens inflation. And that has happened to an excessive amount in the past few years. Before that, the previous government borrowed a lot of money from abroad. The kind of solutions that politicians in Argentina reach for are often actually damaging in the long term. They might be short term solutions, but they produce problems that need to be addressed further down the line.

SCORING OUT

NOEL: Okay. Somewhat shockingly, this economic minister,Sergio Massa, is the same man who won the majority of the votes in the Argentine election on October 22nd. How is this possible, ma'am?

ANA: Oh, my gosh. Okay. So I think in any other country in the world, an economy minister presiding over this level of inflation and this kind of economic disaster would not have any chance of being elected president. But in Argentina, you have to understand the movement behind this man, Sergio Massa. And that movement is called Peronism. It's not really a party. It's more like a brand.

*<CLIP> EVITA: “Peron! Peron! Peron!”*

ANA: Basically, it was founded in the 1940s with a general called Juan Domingo Peron, and it kind of blends nationalism, strong labor rights, social justice, economic and political sovereignty and corporatism, which is kind of complicated to explain. But it's this idea that the state can intervene a lot inmanaging interest groups in society. What has happened over the past few decades, since the 1940s, is that Peronism has won most elections in which Peronist figures have been allowed to run. It's a hugely organized movement that has support all over the country, and that means that even if the economy does badly, they have this gigantic network across the country that they can mobilize. So that's partly why Sergio Marcel was able to win. He has the support of certain big business groups. He has the support of the trade unions

*<CLIP> EVITA: “There is only one man who can lead any workers regime.”*

ANA: and importantly, the football associations in the country. Remember that in Argentina, football is a religion.

NOEL: Sure do.

*<CLIP> “Argentina, champions of the world!”*

ANA: So I think if you want to understand why such a mass actually has a chance of becoming president, you have to look beyond the man. This is really about the movement behind him.

NOEL: Yeah, he's an establishment figure, as you've described him. Does he have personal characteristics that are appealing to the public? Is it pure establishment with Massa or is there you're chuckling? Or does the guy have some charisma, some charm, some Peron in the peronism?

ANA: I mean, Sergio Massa has about as much as charisma as a wooden plank.

<CLIP> MASA: *[being boring] / Crossfade with Charlie Brown teacher*

ANA: Argentines love to give their political leaders nicknames. Sergio Massa's nickname is The Pancake.

*<CLIP> IHOP AD: “Of course it says pancake on the outside, but in the inside there’s a whole lot more going on.”*

ANA: Why? Because he's been with anyone who's in power. He doesn't really have an ideology. He kind of is very fluid and an opportunist. He has been with the hard left. He has been with the center right. And he promised to put the ex-president in jail if he was elected president. Then he lost. And now he works with that ex-president again. You know, flipping ideologies like a pancake. That's why he's called the pancake. So, again, he doesn't have a lot of personal charisma. He has the movement behind him. And that's what matters.

NOEL: All right. I hear your skepticism. I want to try one more thing for Masa. Does he have proposals? He's been an economy minister is a high ranking position. Does he have specific proposals to fix the economy if he ascends to the presidency?

ANA: He has not presented a comprehensive economic plan. So I think what he's banking on is a continuation of this policy of Band-Aids.

*<CLIP> WION: “On MOnday Argentina’s Economic MInister and Presidential contender Sergio Masa will meet with the IMF and the United States to discuss refinancing disbursements amid the peso’s collapse.”*

ANA: So I'll give you another example in the run up to the first round of the election. He abolished income taxes for 99% of registered workers in the country. They've also just now in the run up to the second round of the presidential election, they've also expanded bonuses for pensioners and unemployed workers. You can't do that in an economy with such high inflation that's going to create problems in the coming months. I think instead he's banking on governability because very few non Peronist presidents have been able to finish their terms in Argentina. What usually happens? Like I said, Peronism has the support of the street, basically.

*<CLIP> VICE: “In Argentina the street is a really important political tool. These are low income earners and welfare recipients who are a really important voter block for the current government.”*

ANA: You can, as a Peronist leader, call people to the streets and those protests can force governments to collapse.

SCORING IN - Objective Evaluation

ANA: So the hope, I think, for said Mussa, is that he's able to keep a lid on violence and social explosion in the country and that he's able to continue this kind of policy of small, short term adjustments that prevent things from completely blowing up, but not really addressing the deeper problems of Argentina.

NOEL: Ana, hold on with us, because coming up next, we're going to talk about Javier Milei.

SCORING OUT

[BREAK]

[BUMPER]

NOEL: Ana Lankes, Latin America correspondent for Leading Magazine The Economist. Who is Javier Millei?

ANA: So Javier Milei calls himself an anarcho-capitalist That's the strand of libertarianism developed by an American libertarian called Murray Rothbard.

*<CLIP> MURRAY ROTHBARD: “Libertarianism itself is of course international, it’s transnational, it’s cosmopolite.”*

ANA: And it kind of it sees the state as a criminal organization because the state finances itself through taxes, which people usually pay in voluntarily. So this is somebody who's a complete outsider. He was an economist, and before that he was an academic. So he was never in politics. And then he kind of burst on the scene as an economist in the last, you know, 5 to 6 years in Argentina. He was, uh, increasingly invited to TV shows on the radio to talk about Argentina's economic problems because he had these slightly wacky ideas in a country used to a big state, he was saying that the state was the enemy.

<CLIP> MILEI: Entoces, como no pueden pelear con las herramientas legítimas en el aparatito represivo de el estado poniendo —-- *[And since they can’t beat our ideas peacefully they use the repressive apparatus of the state to try and destroy us.]*

ANA:So it was something new, something quite radical. And he was also invited to talk on, you know, TV shows and the radio because he's quite an eccentric character. So he has wild hair and huge sideburns and he wears leather jackets and he kind of he's very histrionic. He often screams. He uses a lot of swear words to talk about his enemies.

<CLIP> MILEI: “Estan desesperados. Estan perdiendo la batalla cultural los zurados de acorrado los zurdos de mierda. Por primera vez acorralados los zurdos de mierda. *[They are desperate. They are losing the cultural battle. The shitty lefties are cornered for the first time. The shitty lefties are cornered.”*

ANA: So he's a really kind of oddball. He has you know, he's called himself a tantric sex coach.

<CLIP> MILEI: “El sexo tantrico es lo que vendria a ser el yoga sexual” *[Tantric sex is what sexual yoga would be”]*

ANA: He says his former girlfriends call him the naughty cow.

*<CLIP> WOMAN: “Brown chicken brown cow”*

ANA: He does things like he says he's going to blow up the central bank. And so he does things on TV like breaking pinatas shaped like a central bank with clubs.

*<CLIP> [Milei smashing pinata]*

ANA: He gained fame for that, for using quite aggressive rhetoric and doing strange things.

NOEL: You know, if I base on everything you've told me about the past century in Argentina, if I were an Argentinean voter. I might be compelled by a man who says we're going to do things differently because the way we're doing things hasn't worked.

ANA: Totally. I completely agree. I think there's really a demand for change in Argentina. And five year Milei. is seen as the most radical option, offering change.

*<CLIP> BLOOMBERG: “Oriana and Samir were raised by parents loyal to Peronism. But this year the couple says they plan to vote for a different kind of politician / Javier Melei”*

ANA: He's also, I think, become very popular because he attacks politicians in Argentina. He says they're all part of a caste that's working together to steal from hard working Argentines. And this rhetoric that there's corrupt politicians that are bringing hardworking Argentines down really strikes a chord with a lot of people, understandably.

NOEL: You have interviewed Melaye. What are those interviews like? Is he coherent? Does he have good ideas? What do you hear?

ANA: I spent 3 hours with Javier Milei a few months ago and it was a strange experience. He was not as aggressive as he is on television, but I don't think his ideas were terribly coherent. I actually think he's been slightly surprised by how far he's come himself. He's very comfortable talking about his libertarian ideas and theory and philosophy. But when talking about lots of other things, he's not very comfortable. And he knows very, very little about international trade, about international politics. He'll say things in our interview that were quite conspiratorial. He suggested that Biden hadn't fairly won the election.

NOEL: Huh, he sounds like President Trump.

ANA: Well, yes.

*<CLIP> MILEI ELECTION DENIALISM: For example how do they steal ballots? How come kids are finding ballots inside our schools?*

NOEL: One of the more interesting things that I've read about Milei is first, that he cloned one of his dogs and he then named one of the clones. There's more than one. After the famed libertarian economist Milton Friedman, friend of the show Milton Friedman.

<CLIP> “My name is Milton Friedman…”

ANA: Laughs

NOEL: What are his proposals? What are his specific proposals? Aside from blowing up the central bank, which I guess is always an option? How is he going to fix the economy?

ANA: He actually cloned his dog, Conan, into five cloned puppies in a company in the U.S. And all puppies are named after economists, kind of free market economists. Yeah,

SCORING IN - Clockwise Motion

ANA: So many of his economic ideas aren't terribly radical. He wants to slash public spending. Public spending in Argentina as a share of GDP has doubled in the last almost doubled in the last 20 years. He wants to cut it by around 15% of GDP. He wants to slash the number of taxes. There is a gigantic amount of taxes in Argentina, and very few of them actually collect a lot of revenue. So he wants to kind of simplify the tax system and lower the tax burden overall. And he also wants to privatize many of Argentina's ineffic ient state owned companies. He wants to reach zero primary deficit in the first year of government. Now, his big economic proposal is much more controversial. He wants to dollarized the economy. That would mean basically swapping out all the vessels in Argentina based or the local currency and swapping them for the U.S. dollar. And that's controversial for a number of reasons. The central bank does not have enough dollars in its vaults to be able to do that. So you need to get those dollars from somewhere. And a lot of economists think that it'll be very hard to dollarized and not necessarily good for Argentina. But as I mentioned to you, most Argentines already have a habit of saving in dollars. And you do big purchases in the country in dollars, like when you buy a house, you tend to do that in dollars. So for a lot of people, there is also some appeal in dollarization. They're like, well, who trust the peso? We we we we save in dollars anyways. Then he has some social proposals that he is in the recent weeks after the first round of the presidential election significantly moderated because they were not terribly popular. He wanted to liberalize gun laws to make it easier for people to buy guns. He also wants to ban abortion, which was legalized in Argentina just a few years ago. And it's one of the few countries in Latin America where it's legal.

NOEL: Hmm. That's not a very libertarian stance there, is it? No.

ANA: So it's interesting. I asked him that in our interview and he said that within libertarianism, there is no kind of consensus on abortion. So there's people who believe that the state should not tell you what to do with your body, and so that you should be able to abort if you want to. And then there's others like me who believe that you can’t actually be free if you're not allowed to be born. And so abortions should be banned.

<CLIP> MILEI: “Una de las ideas fundamentales es defender el derecho a la vida o sea filosóficamente estoy favor de respetar el derecho a la vida. *[“One of the fundamental ideas is to defend the right to life, that is, philosophically I am in favor of respecting the right to life”]*

ANA: And then he had also had this proposal, which was to legalize a human organ market, which just like nobody, nobody was calling for that in Argentina. So he's been kind of in the past few weeks, stop talking about those things or talk less about those things and is focusing more on corruption in this government and Argentina's economic problems.

SCORING OUT

NOEL: Who is Milei’s constituency? Who likes him? Who's out in the streets with the signs saying Milei?

ANA: Young men, it’s like my summary. Yeah. Really? I on Election Day, I interviewed dozens and dozens and dozens of people. And nine times out of ten, when I interviewed a young man, I could be sure that they were Milei voters. And they were.

NOEL: Why is that?

ANA: Melaye became very popular on social media for attacking other politicians using often extremely aggressive language. One 16 year old that I interviewed on Election Day told me that what he liked most about Milei was that he spoke, you know, totally openly, that he was very frank. And he said in his own words, I like it when he calls other people leftist pieces of shit.

ANA: I think all of that is quite appealing to an electorate that is kind of very used to stuffy old establishment politicians that haven't really changed the system.

NOEL: Can he turn any of these libertarian and perhaps not so libertarian ideas? We're talking about abortion. Can he turn any of these ideas into policies if he wins the election?

ANA: So if he wins, I think it would be very difficult for Javier Milei to govern. He doesn't have a network of support across the country like the parents do. He doesn't have governors in every province of Buenos Aires supporting him. He's not going to have a whole lot of legislators or senators. So he's going to have to find alliances to get anything done in Congress If support for him starts to drop off, I don't think he'll be able to get almost anything done because his party structure is almost nonexistent.

NOEL: We've got a tight race. What are the possibilities for Argentina's future here?

ANA: Oh, Noel, Honestly, I'm quite pessimistic.

SCORING IN - New Highway

ANA: On the one hand, the kind of case for optimism, the kind of bullish case for Argentina. Is that what the world is going to need in the next few years? Argentina has an ample amount. So, for example, Argentina has one of the world's greatest reserves of lithium. That's going to be needed increasingly in the green transition. Argentina also has a gigantic amount of oil and natural gas. And right now, with increased geopolitical tensions and the rest of the world, you know, Europe and the U.S. might be interested in Argentina as a supplier of oil and gas because, you know, Russia is kind of off the map and the Middle East is in turmoil. And also with increasing tensions between the U.S. and China, Argentina and Latin America in general become interesting because they're fairly neutral and also such a gigantic producer of foodstuffs. And the world is going to need a stable supply of that in the coming years. And Ukraine was a big producer of foodstuffs and that's been significantly disrupted. So that's kind of the bullish case.

But that is stuff that's happening outside of Argentina. Within Argentina, there's not such a strong case for optimism because fundamentally what Argentina needs is to find the political consensus needed to pass some basic economic reforms and maintain them for a long period of time. Because saving Argentina one government can't do that. It's going to take many governments and consistently good policy. And in order to have consistently good policy that is respected over time, you need political consensus. And I don't see that political consensus being forged in today's Argentina. And I also don't see much appetite for the deep structural reforms that will be needed in order to change the country's economy and put it on a path of sustainable growth.

NOEL: That was Ana Lankes of The Economist. Today’s show was produced by Jon Ehrens who dislikes musical theater as much as editor Matt Collette dislikes pandas. David Herman is our engineer. Laura Bullard, our fact-checker. I’m Noel King. It’s Today, Explained.

[10 SECONDS OF SILENCE]