Argentina Inflation

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Currency Fundamentals/Monetary Operations

- The state desires to provision itself
- The state levies a tax payable in pesos to create sellers of goods and services seeking pesos in exchange
- The pesos to pay taxes and buy state securities come only from the state through its agents which includes the central bank and its regulated commercial bank members
- The state can then spend pesos to provision itself
- Taxes can then be paid and state securities can be purchased

Model for Analysis: Europeans Colonizing Africa

- The British desired to grow coffee
- The British levied a hut tax payable in scrip called crown
- The crown was the tax credit that fulfilled the tax liability
- Huts were to be burned in the case of non payment
- The British paid Africans crown for working at a plantation
- The Africans worked at a plantation and got paid in crown
- Africans then paid their hut tax and avoided penalty
- THE BRITISH ALWAYS SPENT MORE CROWN THAN WERE PAID IN TAXES- THE DIFFERENCE WAS SAVED

Monetary Lessons From Africa

- The sequence: tax liabilities/paid work/payment of taxes
- British spending preceded African payment of taxes
- The British always spent more than they collected, which the accountants label deficit spending and public debt
- The British deficit spending = African savings of crown
- The British public debt=African savings=net money supply
- The net money supply is funded by British deficit spending
- THE PUBLIC DEBT=CROWN SPENT BY THE BRITISH THAT HAVE NOT YET BEEN USED TO PAY TAXES

Unemployment is a Monetary Phenomenon

- The British offered employment on the plantation to anyone looking for work
- Therefore there was no unemployment
- The only reason to work for the British was to earn crown to either pay taxes or to save
- If the British restricted available work Africans would not be able to earn enough to pay their taxes and save as desired
- The evidence of this restriction would be unemployment

The Value of the Currency

- The British were the single source of crown to pay taxes
- Therefore they set the wage rate at the plantation
- The currency is a monopoly and monopolists set price
- If the British paid 1 crown/day the crown would be worth the equivalent of 1 day of labor at the plantation
- If the British instead paid 2 crown/day 1 crown would only be worth ½ a day of labor.
- THE VALUE OF THE CURRENCY IS A FUNCTION OF PRICES PAID BY THE STATE WHEN IT SPENDS

Interest Rates

- The British never paid interest on savings of crown
- They knew the value of a crown was a matter of prices they paid and not interest rates
- The British knew interest payments would provide that much income to savers who would then have less need to work at the plantations
- The British knew that paying interest would decrease (and not increase) the exchange value of the crown.

The Argentine Peso

- Pesos to pay taxes and to buy state securities come only from the central bank and its regulated member banks
- The economy needs state spending to be able to pay taxes and fulfill its savings desires.
- State spending/lending necessarily precedes the payment of taxes and purchases of state securities
- This obviates any notion of solvency as peso spending is in no case operationally revenue constrained.

Real Wealth

- Domestic Output adds to total real wealth
- Imports add to real wealth
- Exports remove real wealth
- Imports minus exports are the real terms of trade
- Full employment optimizes real domestic output
- TOTAL REAL WEALTH IS OPTIMIZED BY SUSTAINING FULL EMPLOYMENT AND OPTIMIZING REAL TERMS OF TRADE

☆ Youth Unemployment Rate for Argentina (SLUEM1524ZSARG)

DOWNLOAD

Observation:
2020: **30.33600** (+ more)
Updated: Feb 16, 2022

Units:
Percent,
Not Seasonally Adjusted

Frequency:
Annual

1Y | 5Y | 10Y | Max   2015-01-01 to 2020-01-01

EDIT GRAPH

Exchange Rate Policy

- Full employment can only be sustained with floating exchange rate policy
- Sustaining a fixed exchange rate carries the risk of periodic episodes of unemployment to sustain positive foreign exchange reserve balances
- With fixed exchange rates markets determine state interest rates
- With floating exchange rate the central bank sets policy rates

Foreign Exchange Markets Lead Argentina's Inflation

- Peso interest on the public debt is paid to entities that sell those pesos for other currencies
- Indexation of public debt increases future state peso interest payments
- State issuance of term securities elevates and fixes future interest payments
- Elevated bank and other business profit margins channel peso earnings to sales in foreign exchange markets
- Asset diversification by pensions and corporate reserves channels pesos to sales in foreign exchange markets

Bank Lending Deposit Spread for Argentina (DDEI02ARA156NWDB)

DOWNLOAD

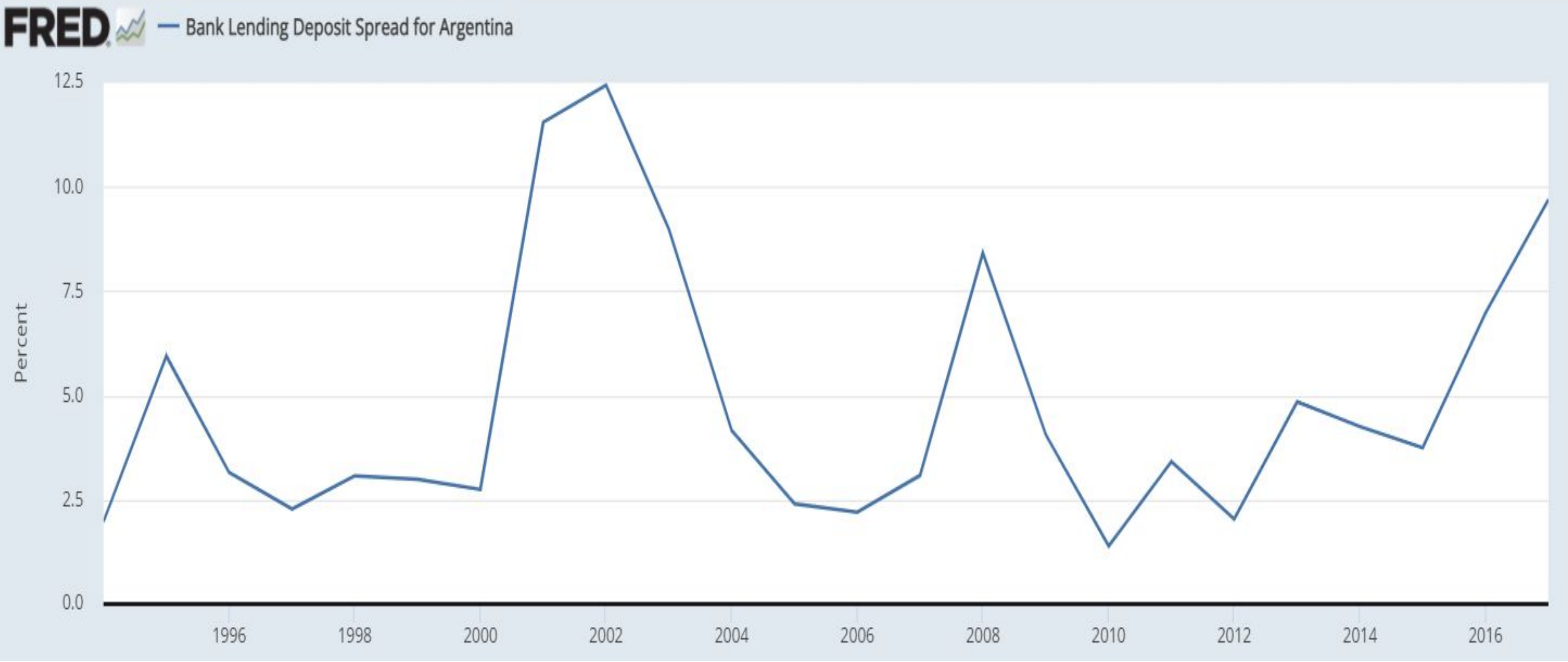
Observation:
2017: **9.69426** (+ more)
Updated: Oct 21, 2019

Units:
Percent,
Not Seasonally Adjusted

Frequency:
Annual

1Y | 5Y | 10Y | Max 1994-01-01 to 2017-01-01

EDIT GRAPH



Proposals

- Floating exchange rate retains foreign exchange reserves
- Permanent 0% rate policy- no state peso interest expense
- No state issuance of securities
- Narrow banking- financial assets not eligible collateral
- Regulated bank interest margins
- Regulate asset diversification of state supported entities
- Initiate an employed labor buffer stock policy

Private Sector Credit Review

Review all sources of private credit expansion to determine whether pesos are lent that get sold for foreign exchange:

Renegotiating the IMF Agreement

- The IMF's primary interest is to ensure Argentina can service its IMF debt
- The source of Argentine foreign currency income is its (gross) exports, which are currently $100 billion annually.
- A 3% export tax payable in $US fully services Argentina's IMF debt and far better secures the IMF loan to Argentina than the current IMF agreement
- Replacing the current agreement with a 3% export tax frees Argentina to pursue its desired economic policies

Further Considerations

- The IMF never mentions gross exports, only net exports
- US Federal Reserve Bank research now indicates that inflation is not a function of inflation expectations
- Dollar usage by the population does not diminish gross exports nor impede Argentina's ability to fiscally sustain full employment policy
- Sustaining positive real interest rates to subdue inflation is a flawed policy that instead works to perpetuate and exacerbate inflation
- With a floating exchange rate the balance sheet of the central bank is of no financial or economic consequence
- Fixed exchange rates have historically been tools of colonial exploitation

Export Prices and Domestic Inflation

- Residents are competing with non residents for domestic output
- The allocation between residents and non residents is a state policy option
- Higher export prices can promote an increase in nominal net exports which further promotes currency appreciation that resists domestic inflation
- Market forces work to ensure that living wages paid to the employed buffer stock workers support all workers

Advanced Proposals for Price Stability, Equity and Security

- Shift to a property tax to reduce real compliance costs
- Fully provision high quality public services including free education inclusive of graduate school, comprehensive healthcare, and efficient transportation networks
- Fully provision strategic buffer stocks
- Implement comprehensive energy conservation
- Inclusion in global currency indices