

Argentina

A nation permanently in economic crisis?

In this article, **Graham Wallace** examines Argentina's turbulent economic history and considers whether the radical reforms of President Javier Milei mark a break from decades of crises. Argentina's story illustrates core A-level themes, from inflation and hyperinflation to debt crises, protectionism, and the challenges of structural reform, and offers lessons for students of economics about how politics, policy, and international institutions shape long-run development. Argentina provides a vivid case study of hyperinflation, debt crises, protectionism, and supply-side reform, themes central to exam specifications across AQA, Edexcel and OCR

Argentina is the second largest economy in South America yet it has seemingly lurched from one economic crisis to another over the past 40–50 years with, at times, levels of inflation and hyperinflation seldom seen. However, Argentina is a rich country which exports products globally and benefits from a profile and reputation which are the envy of many. The question is, how does one reconcile this apparent contradiction and is the current situation in Argentina, led by the radical new policies of their populist President Javier Milei, a new beginning, or simply more of the same?

It is often said that Argentina is the most European of the Latin American countries. This, of course, is a gross over-simplification. Argentina stands out from most other Latin American societies as a result of its unique blend of European immigration and cultures together with its indigenous traditions. There are many other factors which differentiate

Argentina within the broader Latin American world. In economic terms, Argentina is the 8th largest country in the world with immense renewable energy capability and a wealth of natural resources including major lithium, oil, and gas deposits. It also has a very high rating on the United Nations Human Development Index, with a highly literate population and a very strong export oriented agricultural sector. For example, Argentine beef and wine exports are known throughout the world.

The current state of the Argentine economy may be the result of 40+ years of boom, bust, and soaring inflation but, if history does indeed repeat itself, it is also particularly relevant to today's international economics. It is clear that President Milei's cost cutting economic vision is closely linked with the current measures being implemented by President Trump in the USA.

Argentina's volatile economic history

Argentina suffered a major debt crisis in the 1980's when a major bank failed and millions of Argentinians lost their life savings overnight. Many factors contributed to this but the government's solution to this was 'money creation', which basically meant printing more Pesos (the Argentine currency). This only exacerbated the pressures on the banking system and led to its collapse and subsequent hyperinflation. After this many Argentinian citizens left the country taking their money with them. By the end of that decade the inflation rate had soared to 2,600%. This episode illustrates a breakdown of monetary control. As Milton Friedman famously argued, inflation is 'always and everywhere a monetary phenomenon': the government's expansion of the money supply far outstripped real output, driving prices ever higher.

The economy had to change and there was a greater opening up to increased foreign trade which did prove beneficial. However, Argentina's biggest trading partner is Brazil and Brazil itself was suffering from rising inflation. This situation all came to a head in December 2001 when the IMF bailed out Brazil with a loan but, at the same time, suspended financial aid to Argentina which caused a run on the banks thus completely devaluing the Argentinian Peso. Consequently, Argentina suffered its worst economic crisis which became known as the Argentine Great Depression. This crisis also highlights a classic macroeconomic trade-off. IMF support often comes with austerity conditions, cutting spending and raising taxes to restore fiscal sustainability. While these measures aim to stabilise the currency and reduce deficits, they can also depress aggregate demand and raise unemployment in the short run.

The government of the time resorted to a policy of 'pesification' which meant converting all national debts in Dollars to Pesos at a rate of one-to-one. This worked for a while and the economy bounced back and began to grow again. Then, the global financial crisis of 2008 struck.

As the USA is the second biggest trading partner of Argentina, the country was severely impacted by the crisis. The then President, Cristina Kirchner, implemented a range of measures which were largely protectionist in nature, such as raising taxes on exports, restricting imports and promoting a range of social welfare programmes to reduce poverty. This reflects the trade-off between efficiency and equity: protectionist policies can shield domestic producers and support welfare goals, but they often raise consumer prices, reduce competitiveness, and slow long-term growth. This did save many businesses but made the cost of living for many ordinary working Argentinian consumers very expensive. Here lies the fundamental problem which continues to plague Argentina today.

Argentina yesterday, today, and tomorrow

For most of the last century Argentine politics, and therefore economics has been dominated by Peronist doctrine. This comes from the former President Juan Peron who, although he died in 1974, his ideas and legacy continue to be a major force in Argentina. Peronism had periods of both success and failure for Argentina. It was a populist movement involving significant increased labour rights, for both men and women, and strong economic interventionism. In brief, Peronists believe the government should have control over the economy and not be unduly influenced by international or foreign business interests. It remains a contentious issue in Argentina if Peronism can be considered a success or failure. What is clear, however, is Peronism has struggled to adapt to changing circumstances, both domestically and globally, combined with frequent accusations of corruption. This has led to the present situation and the arrival of Javier Milei with his own brand of populist politics and a very different economic theory.

Since his unexpected victory in the election in 2023, President Milei has proven to be a controversial figure wielding his chainsaw to symbolically, and realistically, slash government spending. There has also been a great reduction in money printing to ease inflationary pressures. Economically, these policies combine elements of monetarism and supply-side reform. Cutting money creation is a monetarist approach to tackling inflation by reducing excess demand. Deregulation and cutting state spending are supply-side strategies aimed at improving efficiency, attracting investment, and raising long-run growth potential. Consequently, President Milei has seen some degree of success with his policies as inflation has fallen significantly and GDP growth is now forecasted at 5–5.5%. However, longer term recovery will depend on his ability to address structural changes such as a very complex

system of taxation, heavy bureaucracy, and a lack of investment in infrastructure in this huge and diverse country.

Could Argentina become a developed economy?

It is possible but nothing is guaranteed. Argentina has enormous natural resources and human capital. There is an established institutional framework in place to enable it to become a recognised and developed economy, but this will require structural reforms and a political stability which is something Argentina has struggled with for generations. It is also a fact that government corruption has been endemic for many years.

In 2024, four out of ten Argentinians were in poverty. Electoral fraud, corruption and the decline of trust in public institutions have all contributed to Argentina's economic demise. A deep socio-economic polarisation has emerged within the country, and this extreme division between left and right political factions inevitably brings discontent and chaos. In such a large country, there is also a great divide between the urban dwelling population in the large cities such as Buenos Aires and the vast and sprawling rural population. This economic divide and polarisation of society can make a wealthy country poor.

Conclusion

Every country, rich or poor, developed or developing can learn important lessons from Argentina. According to the OECD, the UK will be the worst performing economy in the G7 next year. This prediction is based on their assessment that government policies have hampered medium and long-term economic growth. Does this sound familiar? Early in the

twentieth century Argentina was one of the richest countries in the world, but it declined due to a series of unstable governments and economic mismanagement. It is highly unlikely that this will happen in the UK. Britain remains one of the world's largest economies but it does have vulnerabilities such as the post-Brexit situation and its own unique political uncertainties, but the lessons to be learnt are that long term decline is possible if serious problems such as the housing crisis, rising inequality, stagnant productivity and deteriorating public services are not addressed. Argentina didn't collapse overnight. It took decades of missteps. There lies a lesson for all. Argentina shows how persistent fiscal deficits, weak institutions and volatile policies can erode long-term growth, while also illustrating the importance of policy credibility, international finance, and structural reform.

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Specification links

macroeconomic policy instruments (monetary, fiscal, supply-side), global context (international trade, development and poverty), causes and costs of inflation

Key points

- Argentina has faced repeated crises of inflation, debt, and devaluation, making it one of the most volatile economies in the world.
- Structural problems include persistent fiscal deficits, weak institutions, and reliance on protectionism, which have undermined long-term growth.
- The country has experienced periods of hyperinflation (over 3,000% in 1989) and repeated defaults on international debt.
- The IMF and other international actors have played a major role, offering support but also imposing austerity measures that remain politically controversial.
- President Javier Milei's radical reforms, including aggressive spending cuts and deregulation, represent an attempt at monetarist and supply-side stabilisation, but their success remains uncertain.