

# CONTEMPORARY ECONOMIC SYSTEMS

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# what is an economic system?



- answers fundamental questions
  - ▣ what goods and services to produce
  - ▣ how to produce
  - ▣ how much to produce
  - ▣ to whom to distribute

# to evaluate an economic system

- efficiency
- stability
- viability
- economic growth
- form of government
- private property rights
- health indices
  - ▣ HDI – education, literacy, life expectancy, GDP
- freeness
- equality of distribution
  - ▣ gini coefficient

# examples of economic systems

## command

- full government involvement
- public property
- inefficient

## planned

- balance
- private & public ownership
- competition

## market

- no government involvement
- private property
- efficient
- competition

# argentina : macroeconomic Indicators

## □ Population

- 41 Million
- 30<sup>th</sup> in the world

## □ Geographical Area

- 2.8 Million km<sup>2</sup>
- 8<sup>th</sup> in world

## □ GDP (PPP)

- \$671.508 billion
- 18<sup>th</sup> in the world

## □ HDI

- 0.869
- 38<sup>th</sup> in the world

# post colonization & WWII

- 1870-1914
  - strong Economic Growth
    - labor demand → 2 million immigrants → Growth Rate 3.5%
    - foreign Investment 4.8%
- post WWI :1914-1930
  - decrease in capital flows, less Migration
  - cost of war → less British funds for foreign investment
  - Americans reluctant to invest in Argentina
  - low domestic investment due to low savings capacity

# great depression, WWII

- 1930-1946 : great depression & WWII
  - ▣ import substitution industrialization & gov't control
    - increase import taxes
    - nationalizing industries & creation of regulatory boards
  - ▣ WWII → increases export prices, lowers import volume
- 1956-1980
  - ▣ return to production of consumer goods for Europe & US – cereals, oil-based & manufactured goods
  - ▣ capital accumulation limited by Import Substitution Policies

Import Restriction + Expensive Capital Goods = Slow Economic Growth .6%

# financial crisis

- early 1990s
  - ▣ 1991: peso pegged to USD
    - convertibility law
  - ▣ high % of foreign \$ in argentina
    - mexico
    - russia
    - OPEC
- 1998 international crisis → 1999 GDP fell by 3%,
- 2001: capital flight, can't meet debt payments
  - ▣ Corralito (freezing of bank deposits) → crisis and protests
  - ▣ December 23rd: Argentina defaults on 93 billion in debt



# post crisis

- January 2002 convertibility plan eliminated, peso floated
  - ▣ poverty grew from 35.9% in 2001 to 57.5% in oct 2002
  - ▣ high unemployment: peaked at 18.3% in dec. 2001, 8.7% in 2006
  - ▣ in 2002 GNP lowered by 10.9% from previous year.
    - Soon returned to growth 8.9% growth in 2003
- 2005 Argentina pays 10 billion to IMF
- debt restructuring and IMF
  - ▣ December 2005 Kirchner liquidated argentine debt to IMF

# argentinean economic system

- Corporate Governance
  - ▣ Problems with property rights, rule of law, corruption
- Capital Markets
  - ▣ Dominated by state-owned banks
  - ▣ Deposits have been increasing since 2003
  - ▣ FDI is hindered by corruption and lack of property rights
- Labor Market
  - ▣ Labor Markets are strong
  - ▣ Workers get an extra pay check every year
  - ▣ Result of Peron and his strong connection with labor unions
- Economic Security
  - ▣ Laws regarding unemployment and retirement payments

# economic breakdown

- agriculture 10.5% of GDP and nearly 1/3 of exports
  - ▣ livestock, grains
  - ▣ world's largest sources of tannin and linseed oil
- industry 35.8%
  - ▣ domestic oil and gas production has made the nation self-sufficient in energy
  - ▣ exports hydroelectric resources
  - ▣ food processing (meatpacking, flour milling, and canning) is the chief manufacturing industry, along with motor vehicles, textiles, chemicals, petrochemicals, and steel.
- services 53.7%
  - ▣ telecommunications

# HDI

- Human Development Index = .853
  - ▣ Ranked 27<sup>th</sup> in the world
- Life Expectancy
  - ▣ At Birth (M/F) : 72/78 years
- Education Index
  - ▣ Net Secondary School Enrollment, 1997-1999 {c}
    - Female 76%
    - Male 71%
- Adult Literacy Rate, 2002
  - ▣ Female 97%
  - ▣ Male 97%
- GNP Per Capita (ppp international): \$13,920

# performance of economic system

- economic growth
  - ▣ since 2003 average over 8% RGDP growth per year
  - ▣ net trade surplus-exports(46B) Imports(32B)
- efficiency
  - ▣ unemployment is high 8.6%
  - ▣ high inflation rate-government stated 9.8% -other estimates between 12-15%
- income distribution
  - ▣ high Gini coefficient 52.8%
  - ▣ high poverty rate 26.7 up from 48% in 2003

# performance of economic system

## □ stability

- confidence is a problem
  - capital flight is a huge problem
  - amount of FDI is low-
- Government buys dollar

## □ viability

- not very “free”—world rank 95
- huge debt \$US 124,000 million (62.2% of GDP) (January 2006)
- Argentina remained the most development countries in Latin American, defined by GDP per capita and HDI