A lot of “Argentine ideas” have been floated in Serbia of late. As Serbia looks at experiences of other countries, it must realize that the key to growth and development lies in generating the kind of economic competitiveness that allows the country to succeed in the global marketplace. Most importantly, it must realize that there is no global conspiracy led by international financial institutions, and that the blame for failure, as well as praise for success, should be directed towards domestic reformers, rather than anyone else.

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The differences between Argentina and Serbia are many, but a number of parallels exist as well. Having experienced political populism and economic mismanagement, both countries suffered from political and social instability during the transition to democracy. As the countries struggled to improve their economies and strengthen democratic institutions, both made a number of mistakes. An inability to curb expenditures and adherence to a strategy of isolationism eventually led to the collapse of Argentina’s economy in 2001 and the poor state of Serbia’s economy today.

Serbia is continuing to follow the path that led to Argentina’s default and may well suffer the same consequences of poor economic policies. As Serbia looks at experiences of other countries, it must realize that the key to growth and development lies in generating the kind of economic competitiveness that allows the country to succeed in the global marketplace. Most importantly, it must realize that the blame for failure, as well as praise for success, should be directed towards domestic reformers.

Commenting on the 2002 World Championships in basketball, a Serbian sports journalist could not help but notice that the two finalists—the national teams of Argentina and FR Yugoslavia (Serbia and Montenegro)—had more in common than being the best teams in the competition. The journalist was quick to point out the irony that the two best teams in the world represented countries crippled by the policies of the International Monetary Fund (IMF) and the World Bank.

The journalist may have been correct in highlighting similarities between these two countries in terms of the developmental challenges they face. The problem with his comment, however, was that it was based on perceptions, not on thorough analysis of economic and political institutions. In fact, he could have not been further away from the truth in blaming the World Bank and the IMF for the development challenges of the two countries. The differences and similarities between Argentina and Serbia deserve more attention. In fact, once one takes a closer look at the recent history of the two countries, market institutions, and political arrangements, it is much easier to say what really has crippled them so badly.

Not so long ago, Argentina used to be an economically successful and very rich country; it was once one of the five richest countries in the world. Its wealth was the result of exports—the competitiveness of its export products on the world market—and it had a sizable foreign trade and balance of payment surplus. To illustrate the extent of its economic success—in the 1930s, Argentina had more cars per 100 inhabitants than the U.S.

Serbia, on the other hand, had never been rich, and what little it had was evenly distributed among the population, in part due to the traditional egalitarian mentality of rural Serbia and in part due to communist ideology. The few wealthy Serbs lived in the U.S. and Western Europe, while the wealth of local businesspeople could not compare to that of businessmen in the rest of the world—or even in present-day Argentina.

Of course, there are other differences between the two countries, but the similarities are far more interesting. The most notable is widespread political and fiscal populism. In Argentina, Juan Domingo Perón, who saw the power of populism firsthand when he served as an Argentine military attaché in fascist Italy, preferred to communicate directly with the people. Thus, when Argentine citizens rallied in front of the Presidential Palace, the funds needed to meet their demands had to be located—even from the budget deficit, if necessary.

The general strategy that Perón adopted was simple: We don’t need the world, we don’t need foreign companies, and we don’t need foreign products: “Argentina— for the Argentines!” Such an attitude guided the development of economic policy, which inevitably resulted in very negative consequences for the country.

In Serbia, Slobodan Milošević’s politics were very similar to Perón’s. Like Perón, he did not see the need for institutions, he was no stranger to demagogy, and he liked to be addressed by the masses directly. His political strategy was based on isolationism and hopes that ultimately Communism would return throughout the world.

Perón’s wife Evita became a legend, and Perón himself was exiled to Spain. He left a legacy of Peronism, a strong and widespread movement without any solid ideology. He also left behind a firmly entrenched culture of maximizing personal gain from the political process. Argentina found itself dealing with widespread clientelism, deeply rooted in the federal system, and an unbelievable degree of income redistribution. Perón bequeathed to the country its new President, Isabelita Perón, and a good deal of political and social instability. Soon after, a military junta took power. And when the uniformed supporters of Peronism ran into problems on the home front, they focused on their strengths and resorted to starting a war in the Falklands/Malvinas.

Today, more than 30 years after the death of its founding father, Peronism is doing well. There is no serious opposition party in Argentina. In the last presidential election, there were three candidates from the Peronist Party, and the main competition was between two of them. In fact, it is no longer just a political party; Peronism has become the political system in Argentina. Th is is due primarily to a well developed clientelist network of those seeking favors in return for loyalty—favors that require rent redistribution, not value creation. Nothing of the kind has happened in Serbia. The entire clientele of the Socialist Party of Serbia immediately turned to the newly elected leadership and accepted the new political system. Less than three months after Milošević stepped down as President, his party suffered a crushing defeat in...
Parliamentary elections, and it has never fully recovered. Serbian socialists were able to be a viable political force only while they were in power, and when power was gone – the house of cards collapsed.

On the economic front, Perón devised strategies that, in his opinion, would secure Argentina’s future. He assessed that world trade following World War II would decline, and realized that Argentina would no longer be able to export enough of its products to pay for its imports. Furthermore, it was also necessary to protect those who brought Perón to power – the Argentine working class. So, his solution was to implement a strategy of import substitution. Import substitution demanded that, in addition to the substantial natural protection provided by high transport costs, Argentine industry be bolstered by extremely high tariff rates and import restrictions.

As such, domestic industry lost its incentive to be economically efficient because without competition, there can be no efficiency. State-owned companies ballooned in size, having such enormous costs and negligible revenue that they had to be subsidized by the government. Of course, the clientele liked to work in such companies because the positions were well paid and did not require a great deal of initiative or hard work.

In Serbia, the import substitution strategy had been glorified during socialism, and was comically revered when sanctions were imposed in the 1990s. With sanctions restricting international trade, the domestic industry, naturally, managed to supply all goods that had previously been imported. Even the modest level of foreign trade liberalization that took place in early 2001 provoked a collective outcry. People were worried that liberalization would ruin the domestic economy because it was “not yet ready to face the competition.”

When Argentina woke up from the nightmare of military rule, President Raúl Alfonsin managed to establish democracy and live to see a democratically elected President succeed him. However, he could not cope with the budget deficit, generated by huge and inefficient public enterprises and a vast Peronist clientele in the provinces, which had to be placated to maintain political peace. Of course, the quick yet ineffective method to finance a budget deficit, printing money, causes inflation. Serbia also fell prey to this terrible strategy.

The next Argentine President, Carlos Menem, devised a solution to the budget deficit problem: privatization of public enterprises. It would both cut spending and increase revenue. Unfortunately for Serbia, it is a reform that neither the ruling party nor the opposition wanted to implement. Menem conducted privatization through sales, albeit not always transparent, and scored a success. However, this success could not be sustained without budget cuts, but it was not possible to reduce expenditures because the government was under pressure to support the Peronists.

Argentina’s anti-inflation program of the early 1990s was based on a currency board, including pegging the peso to the dollar at an exchange rate of 1:1. The only problem was in the fact that following the initial success of curbing inflation, the only thing that was left of the currency board was the fixed exchange rate. Th is is meant that due to the budget deficit, domestic prices once again started to rise, and the peso appreciated in real terms, undermining the competitiveness of export products on the world market. Th is resulted in declining exports and rising imports, with a deficit in the balance of payments as the final outcome.

This process led to increased foreign borrowing, aimed at financing the deficits in the budget and in the balance of payments, and finally, to recession. This is when the economy essentially fell apart. Argentina declared the largest default of sovereign debt in history or, in popular terms, the most large-scale state bankruptcy!

The real point here is that the IMF did not push Argentina into recession. The recession occurred as a result of the policies of the President and his economic team, who adhered to the fixed exchange rate and the budget deficit, which is a well-tested recipe for disaster. If the IMF is to be blamed for anything, then it should be blamed for not exerting an effective influence on that government to change such disastrous policies. However, the root cause of Argentina’s collapse is in the above-mentioned strategic decision that Argentina does not need the world and that the domestic working class should be protected from international competition. The collapse is also rooted in clientelist policies and in the lack of accountability on the part of the Government, as well as in the absence of structural reform in an economy based on the wrong incentives for more than fifty years.

A lot of “Argentina ideas” have been floated in Serbia of late. One example is using the budget deficit as a means to deliver on the election campaign promises of lower taxes and higher subsidies. Critics of such an approach are often met with the argument that we cannot eliminate the budget deficit because public spending cannot be reduced. Th e reason given is simple – we have to keep public enterprises and other similar giants afloat, otherwise the employees of these companies, who often do nothing and are paid wages out of subsidies, would become political opponents. And under the current arrangements, they are clients!

If they turn to the opposition, they can strike and block roads, joining miners, raspberry growers, pilots, and truck drivers, which is certainly not good for the stability of the country. Proponents of the current status quo do not want to face foreign competition, particularly given the fact that they are hardly efficient even as domestic monopolists. There are also arguments made for having a strong dinar, which has been sliding more slowly than inflation, and thus appreciated quite strongly in real terms since the autumn of
2000. Th is, of course, is not very benefi cial for economy that is not competitive on the world market and has a large trade and balance of payment deficit. It is true that the incumbent Governor of the Central Bank is pursuing a policy that at least prevents further appreciation, but what has been missed? Th ose who think that Argentina’s situation is not so diff erent from Serbia’s are certainly on the right track. Th e key diff erence in relation to Serbia’s case, however, is that the IMF has taken a far tougher position. And, it has paid off, as the nominal budget defi cit has been declining, albeit slowly, and public enterprise restructuring has become a topic on the reform agenda.

As Serbia looks at experiences of other countries, it must realize that the key to growth and development lies in generating the kind of economic competitiveness that allows the country to succeed in the global marketplace. Most importantly, it must realize that there is no global conspiracy led by international fi nancial institutions, and that the blame for failure, as well as praise for success, should be directed towards domestic reformers, rather than anyone else.