

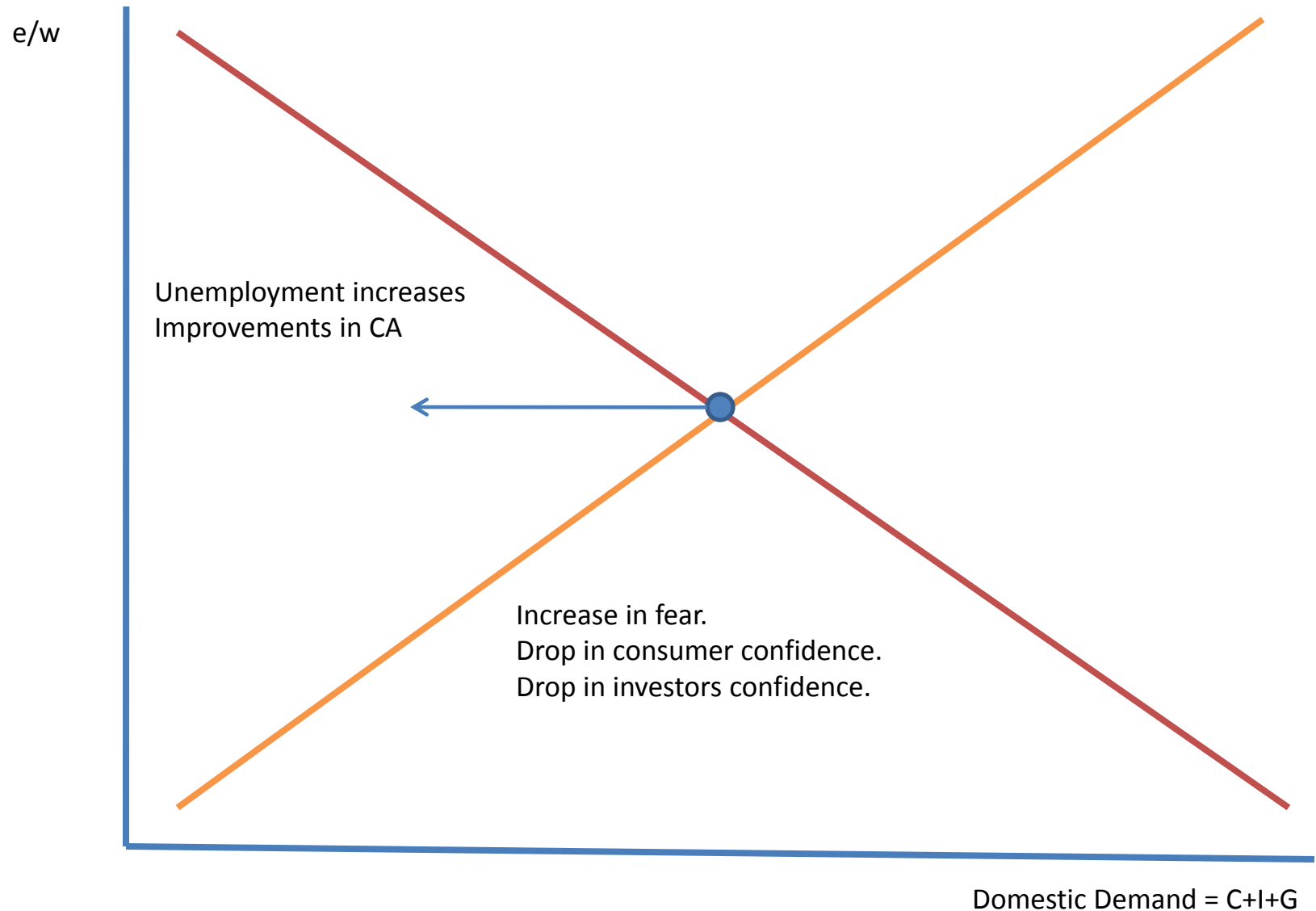
	Principles	Policy	Management	Institutions
P				
R				
O				
M	<ul style="list-style-type: none"> External Accounts (BB) Internal Accounts (NN) 	<ul style="list-style-type: none"> Automatic Adjustment Active Adjustment (Fiscal, Monetary, Exchange, Wage) Structural Reforms 	<ul style="list-style-type: none"> BBNN at the industry level Automatic and Active Adjustment Restructuring 	<ul style="list-style-type: none"> Product Markets Financial System Macro Prudential Regulation Fiscal and Monetary Institutions
I				
S				
E				

BBNN: Shocks

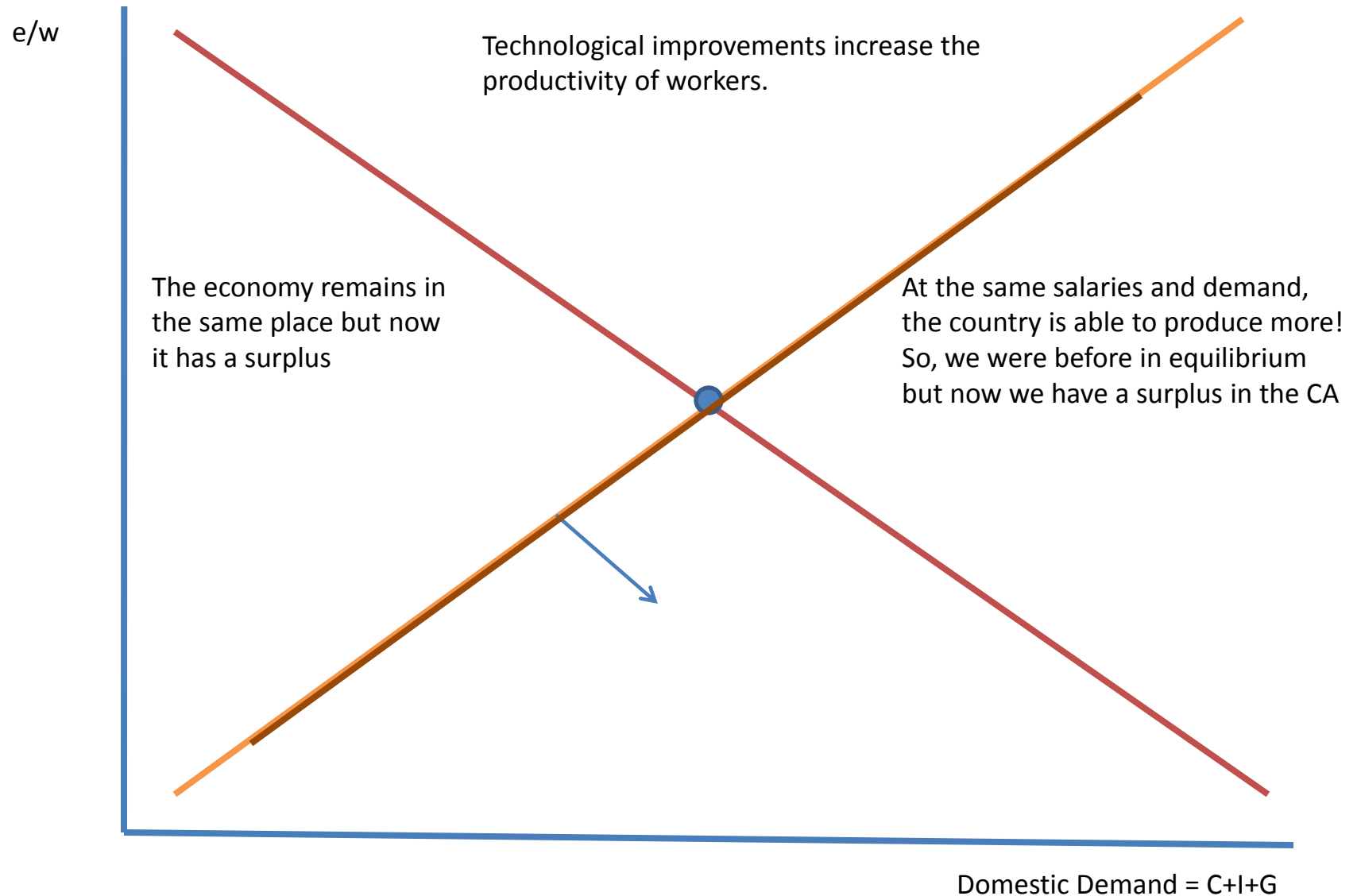
Shocks

- Shocks to the controls
 - Especially aggregate demand.
 - Consumer confidence and Fear
 - Investors confidence
- Shocks to the BB schedule
 - Productivity and growth
 - New technologies, Education, Health, Managerial Improvements
 - Prices
 - Change in the price of our exports or imports
 - External Shocks
 - Natural Disasters
 - Drop of international demand for our products
- Shocks to the NN schedule
 - Labor market reforms
 - Immigration

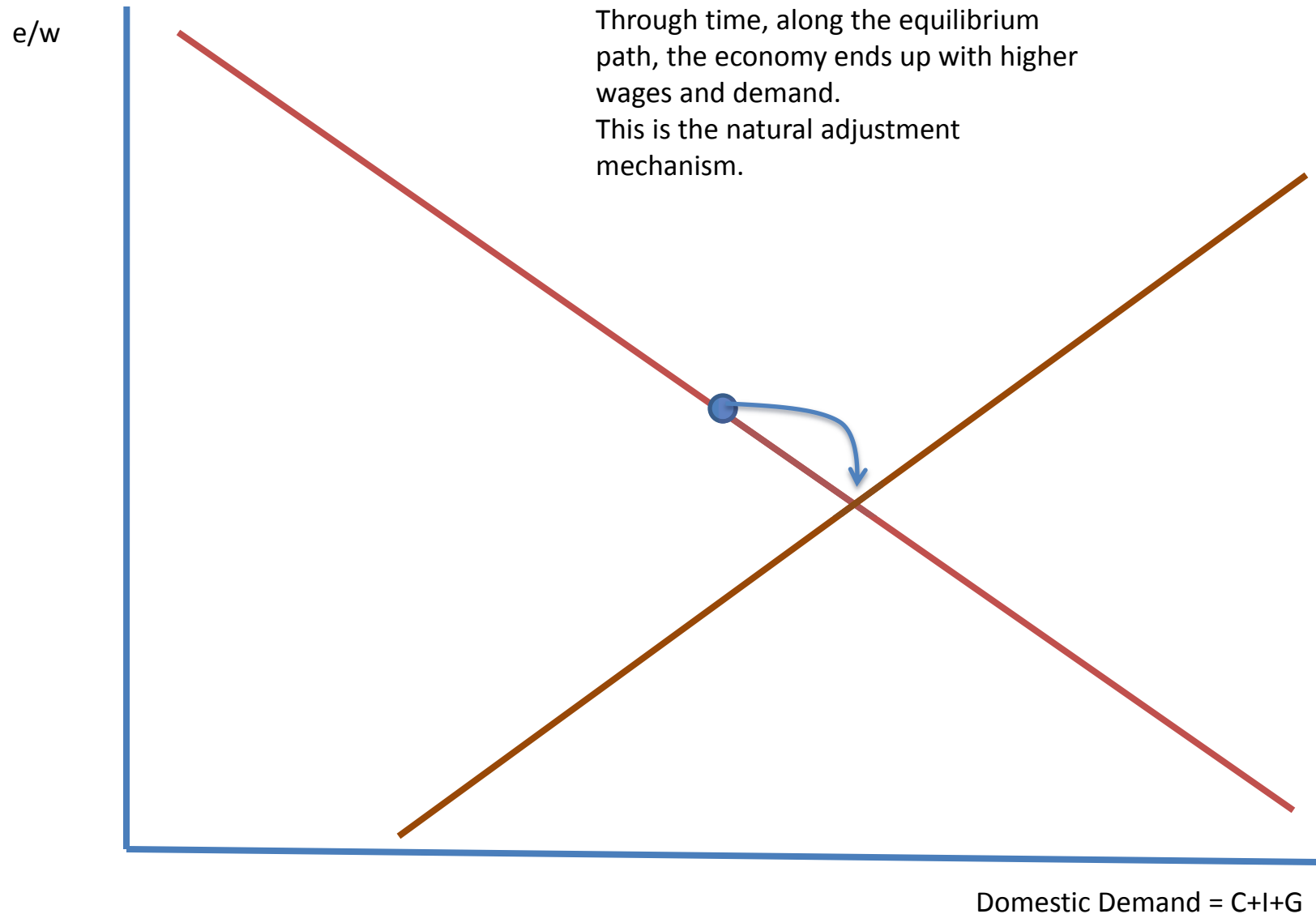
BBNN: Negative Demand Shock



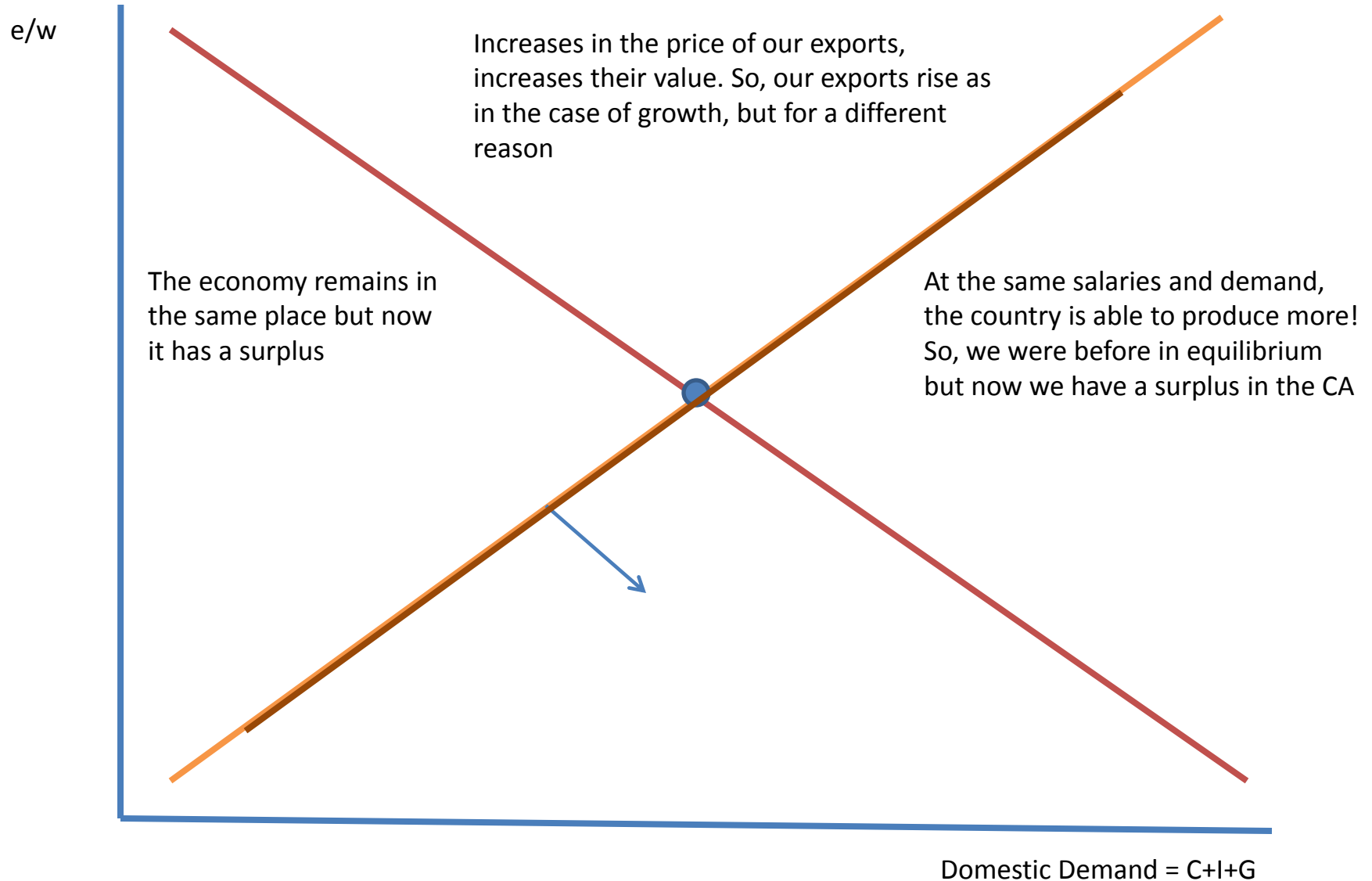
BBNN: Increases in productivity



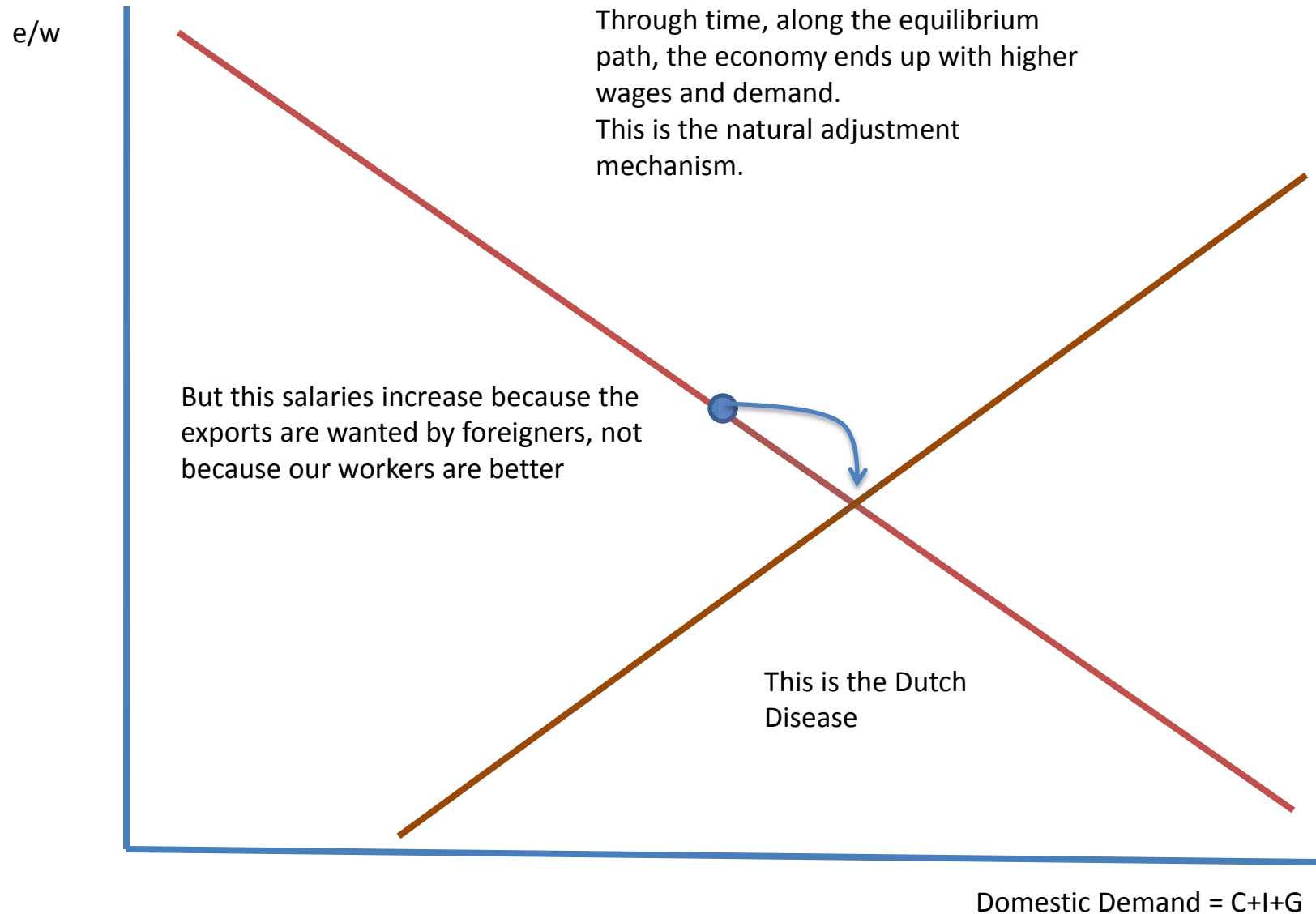
BBNN: Increases in productivity



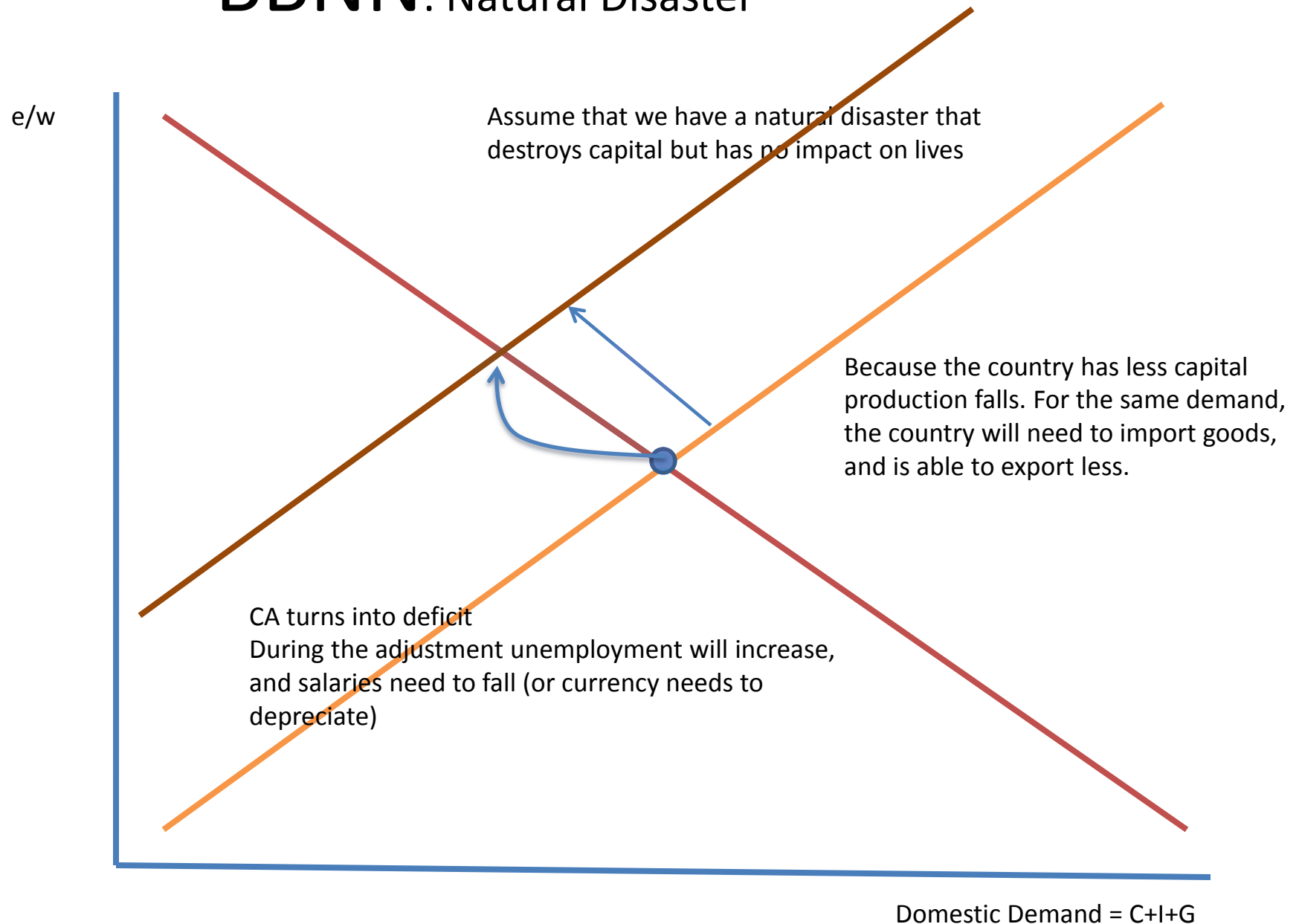
BBNN: Increases in price of exports



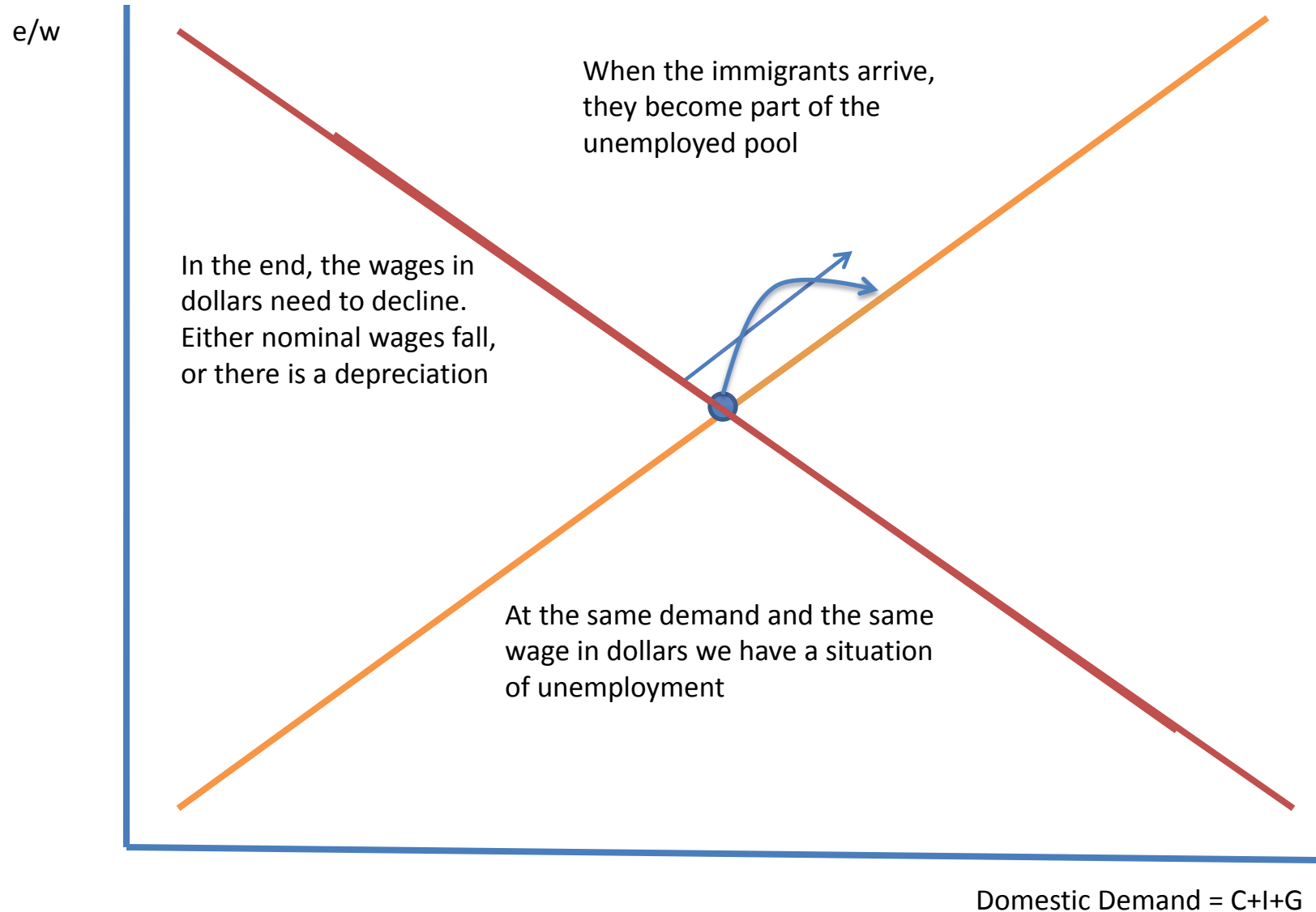
BBNN: Increases in price of exports



BBNN: Natural Disaster



BBNN: Immigration of workers

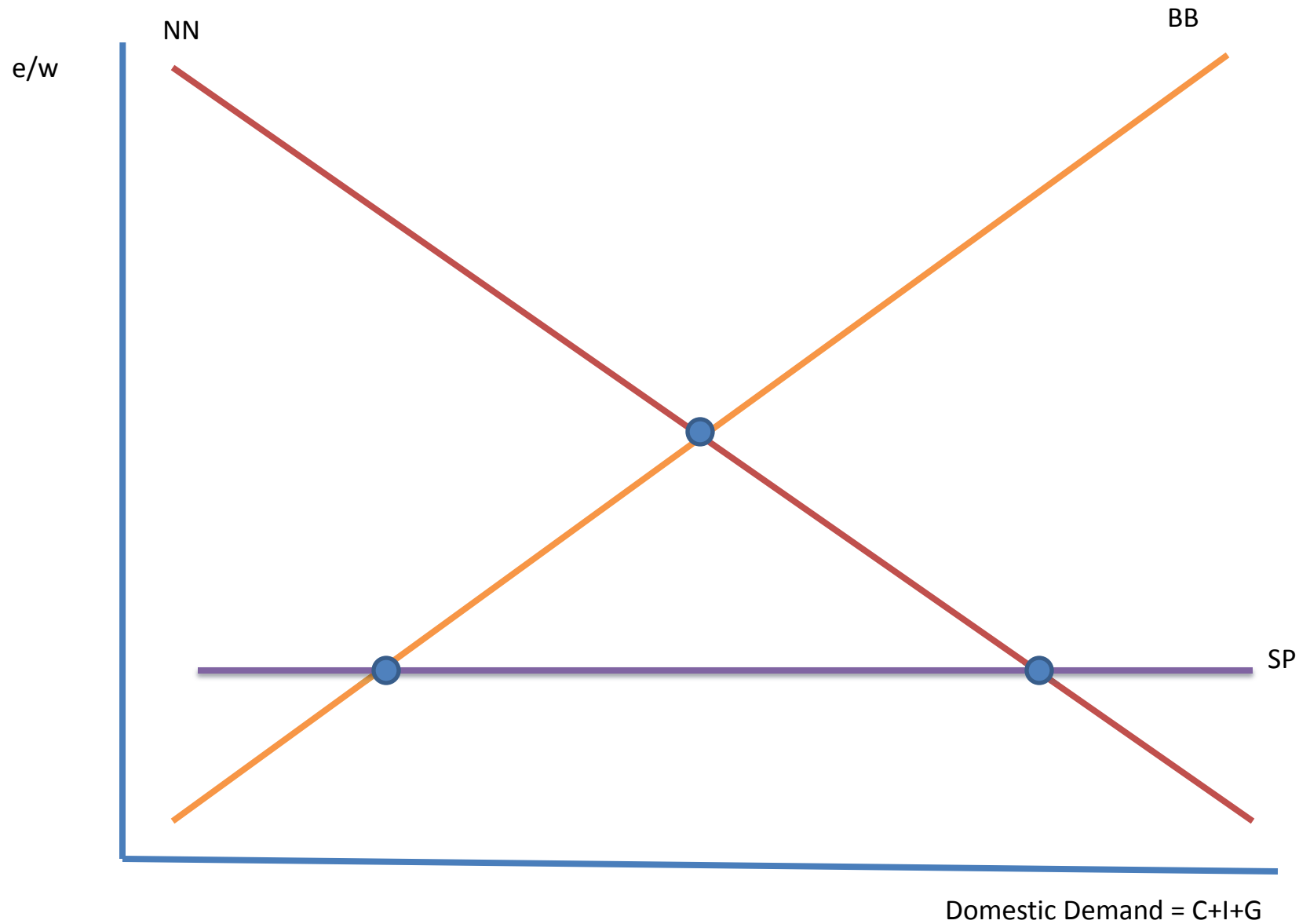


Sustainability

- Social and political sustainability
 - The probability of social unrest, or political tensions, is associated with the standard of living.
 - Higher wages in dollars in general produce higher standards of living.
- Environmental sustainability
 - The idea of this restriction is to highlight that higher consumption in general tends to increase its negative environmental impact

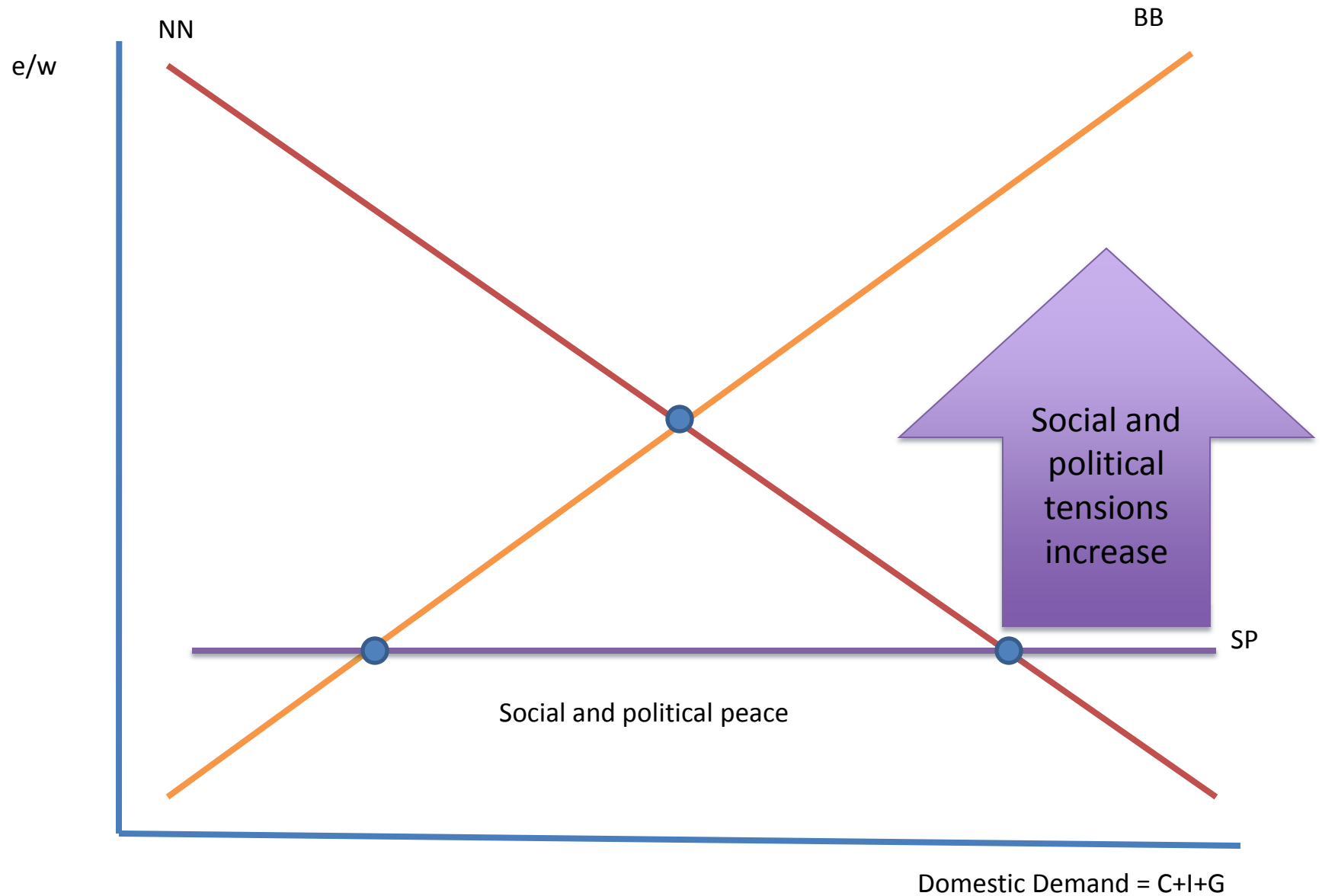
BBNN

Sustainability



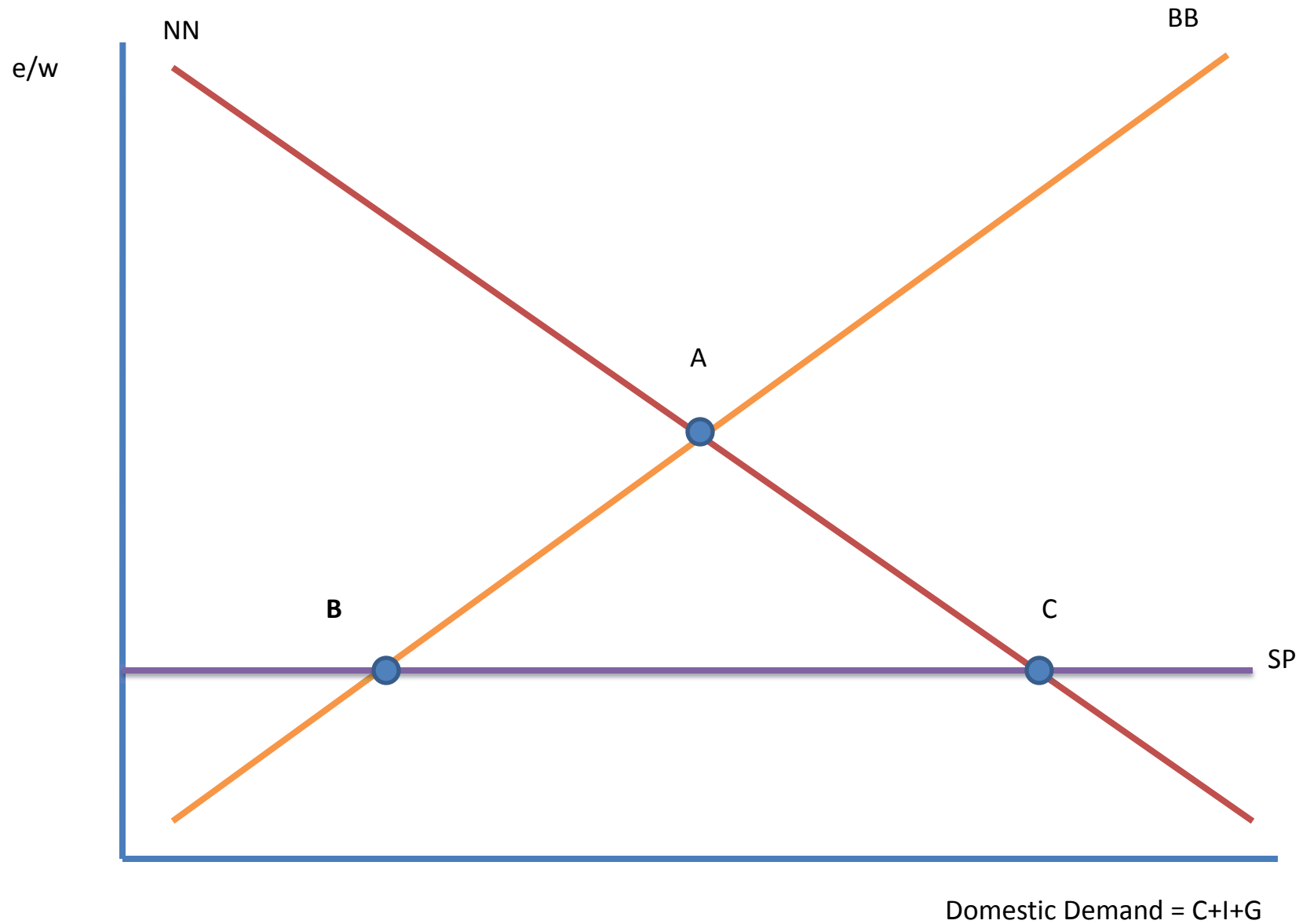
BBNN

Sustainability



BBNN

Sustainability



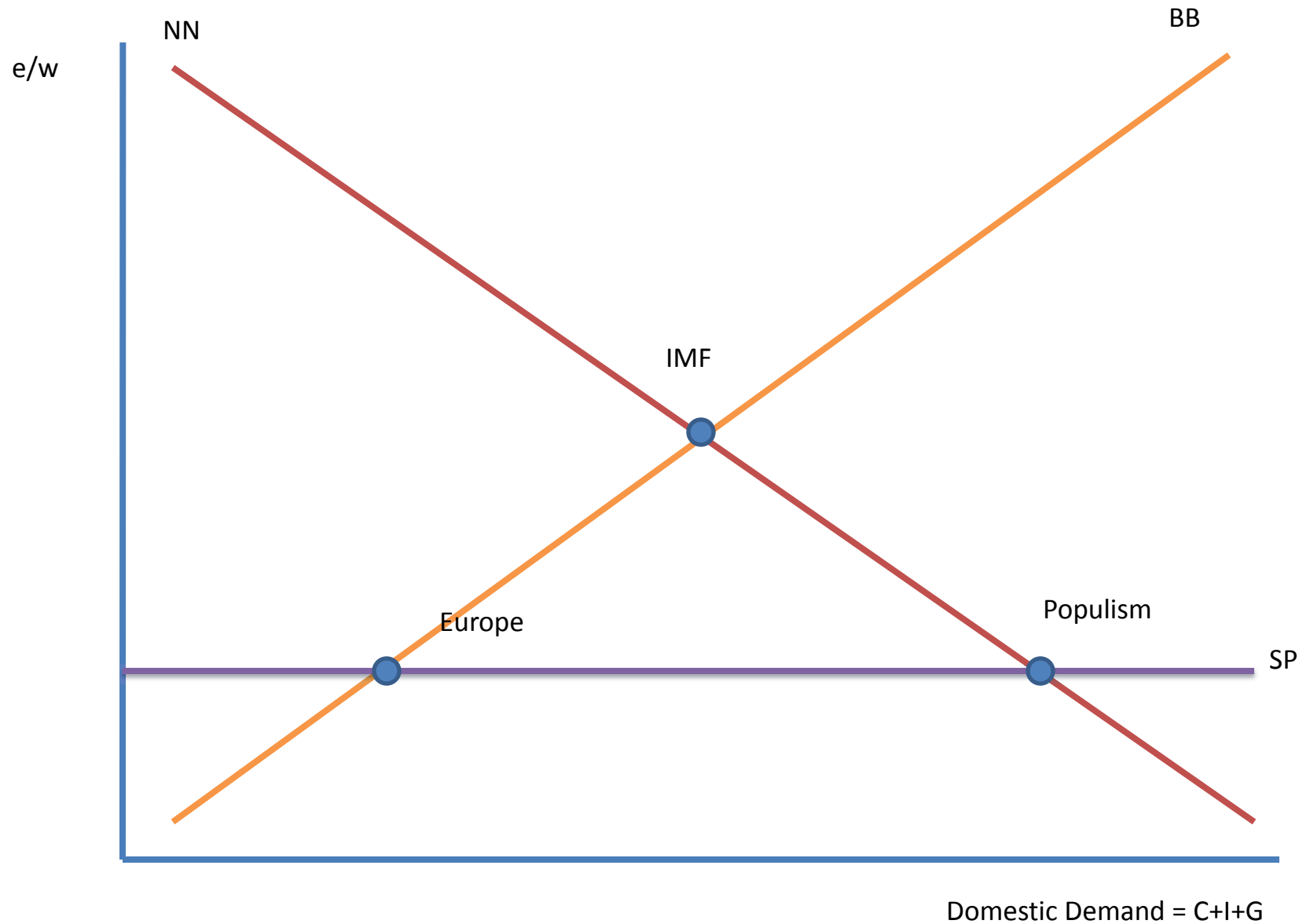
What happens in each of the equilibria?

Equilibria	CA	Unemployment	Social Peace
A			
B			
C			

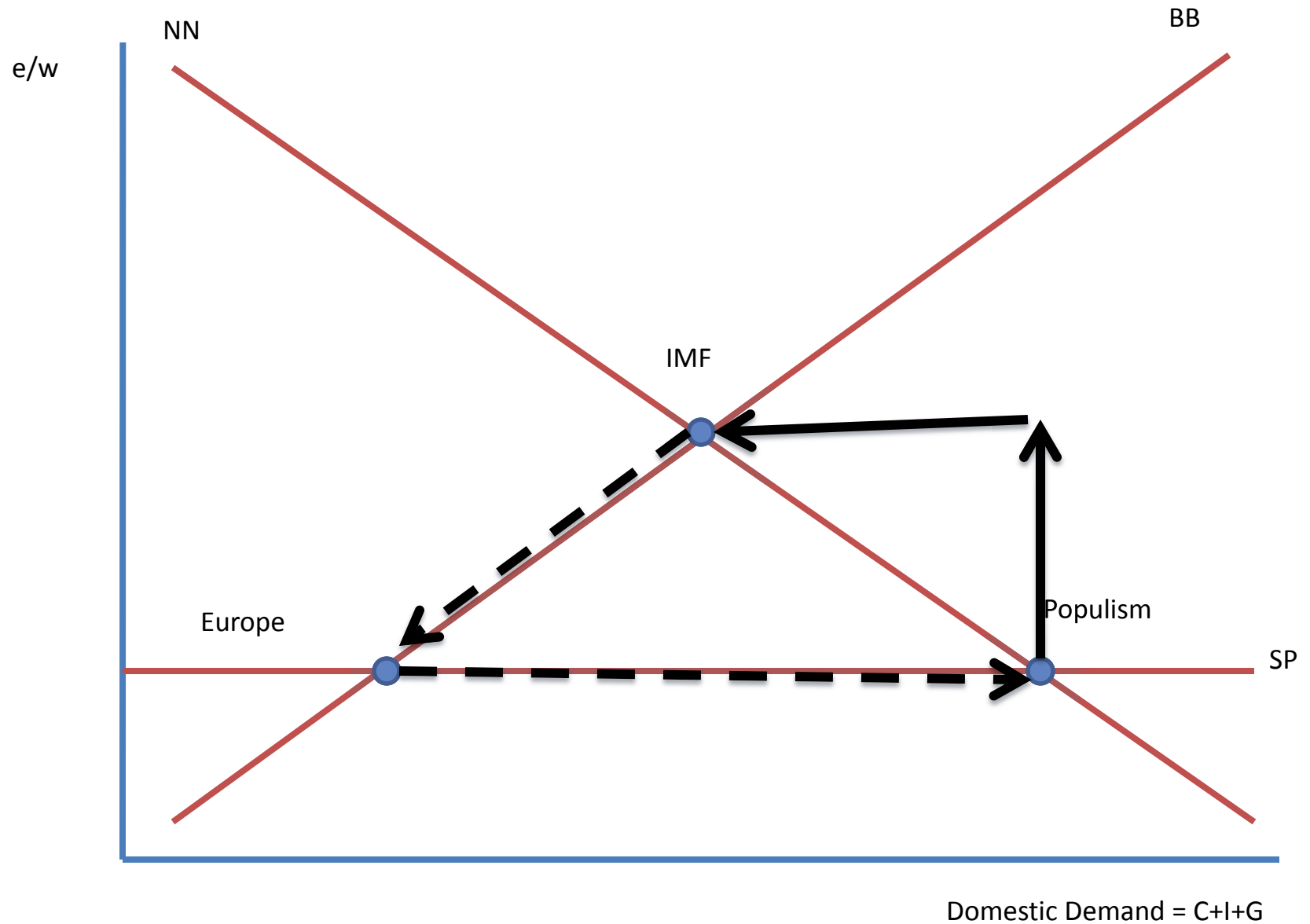
What happens in each of the equilibria?

Equilibria	CA	Unemployment	Social Peace
A	✓	✓	X
B	✓	X	✓
C	X	✓	✓

BBNN: Sustainability



BBNN: Sustainability



How to solve the conflicts?

- What do I like about this model?
 - In a very simple framework we highlight how social, political, environmental, and economic equilibriums might not agree with each other.
 - What are the solutions?

Moving the social peace

- In general the social peace shifts upward for two reasons
 - Getting used to Misery
 - If the individuals are subject to misery during a prolonged period of time, they will tend to accept it as “normal”
 - Coordinating Device
 - “What is the reason why would you be willing to sacrifice something that is yours for the good of the country”.

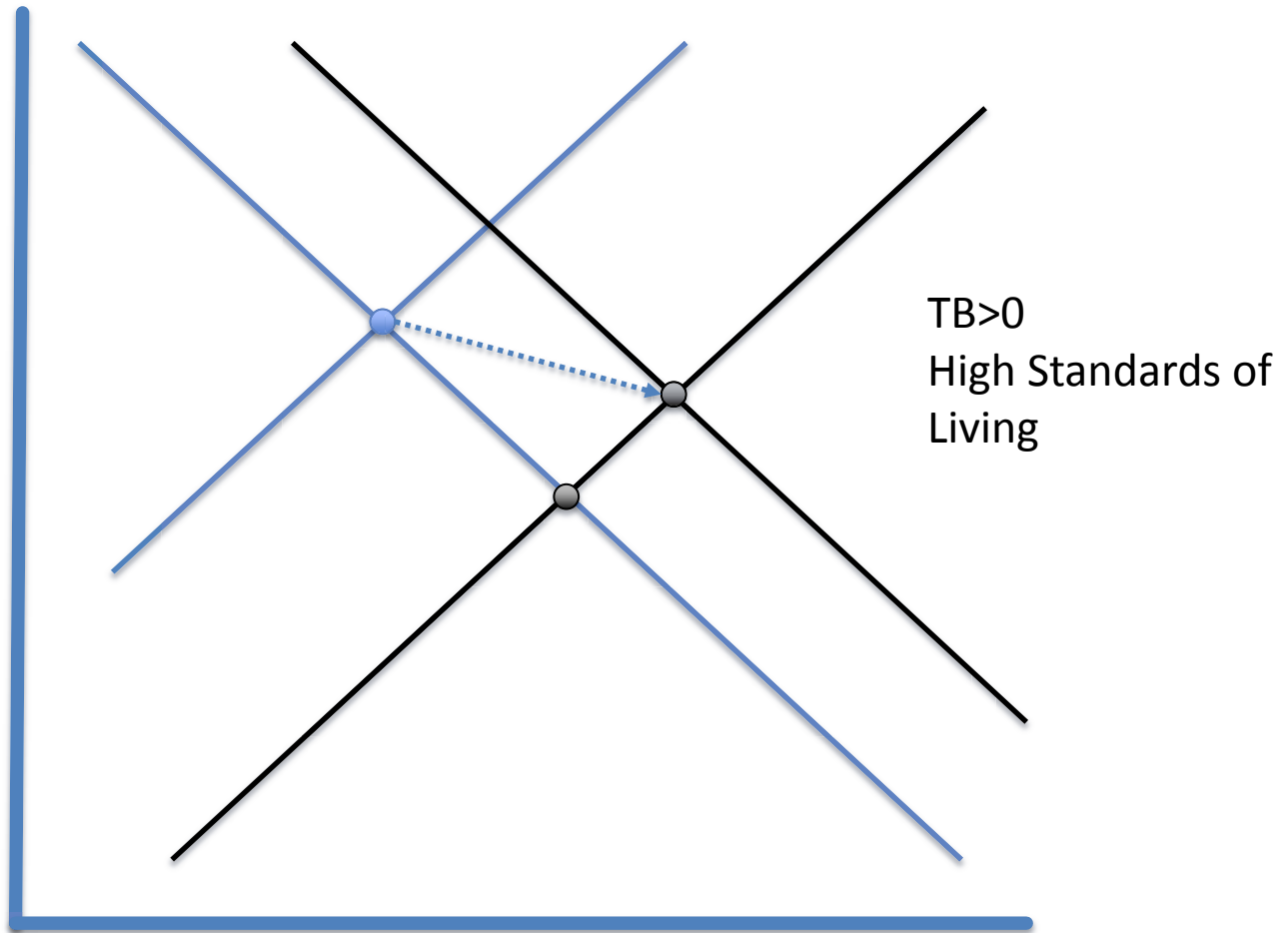
Argentina's BBNN

Annotations from case HBS9702001

1816-1930

- Tremendous economic performance
 - Significant Growth
 - Low inflation
 - Massive immigration
- Significantly “good” standards of living
 - 6th economy in the world
 - One of the best education systems
- 1919-1929
 - Growth accelerated (6+)
 - Improvements in political representation

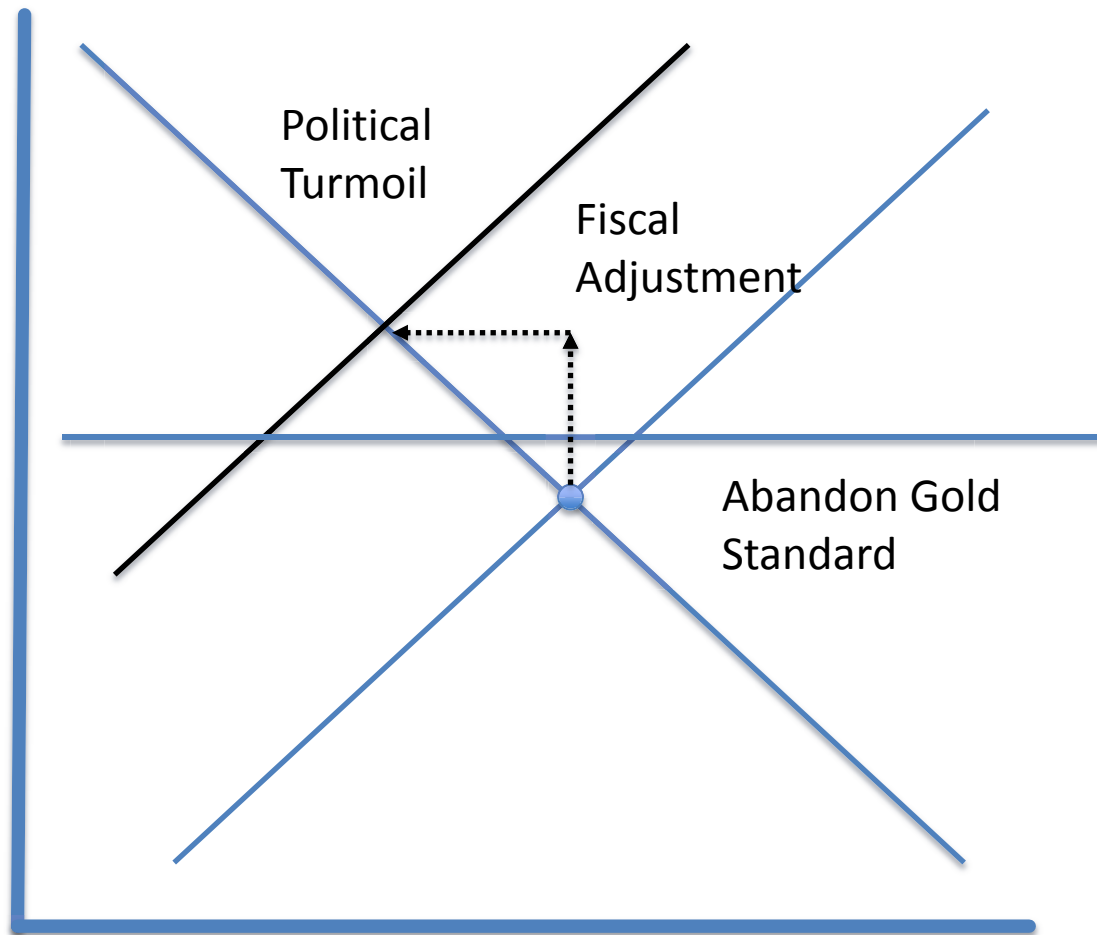
1816-1930



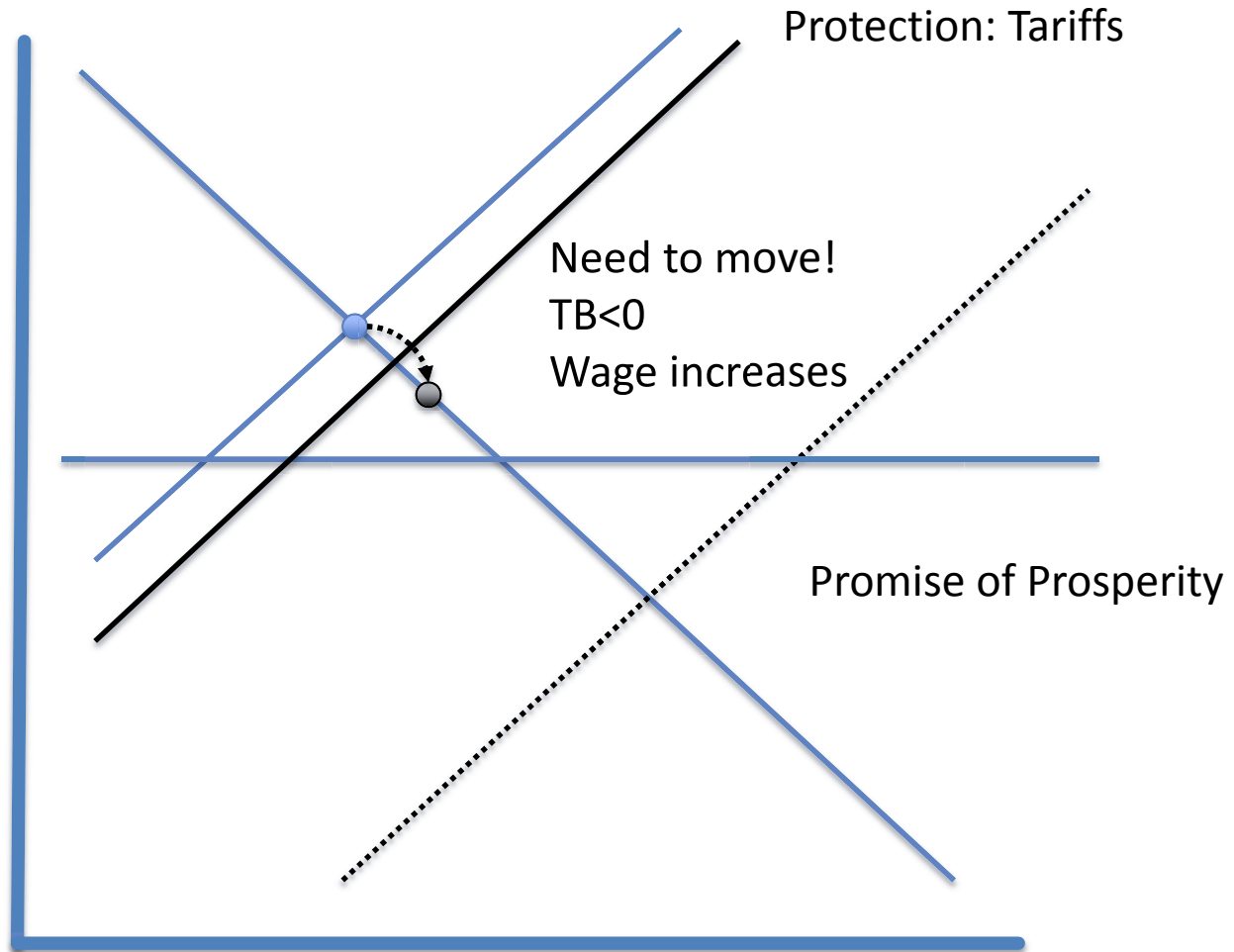
Crisis: 1930

- External shocks
 - Great Depression: drop in US demand.
 - Protectionism: increase in tariffs.

Crisis: 1930



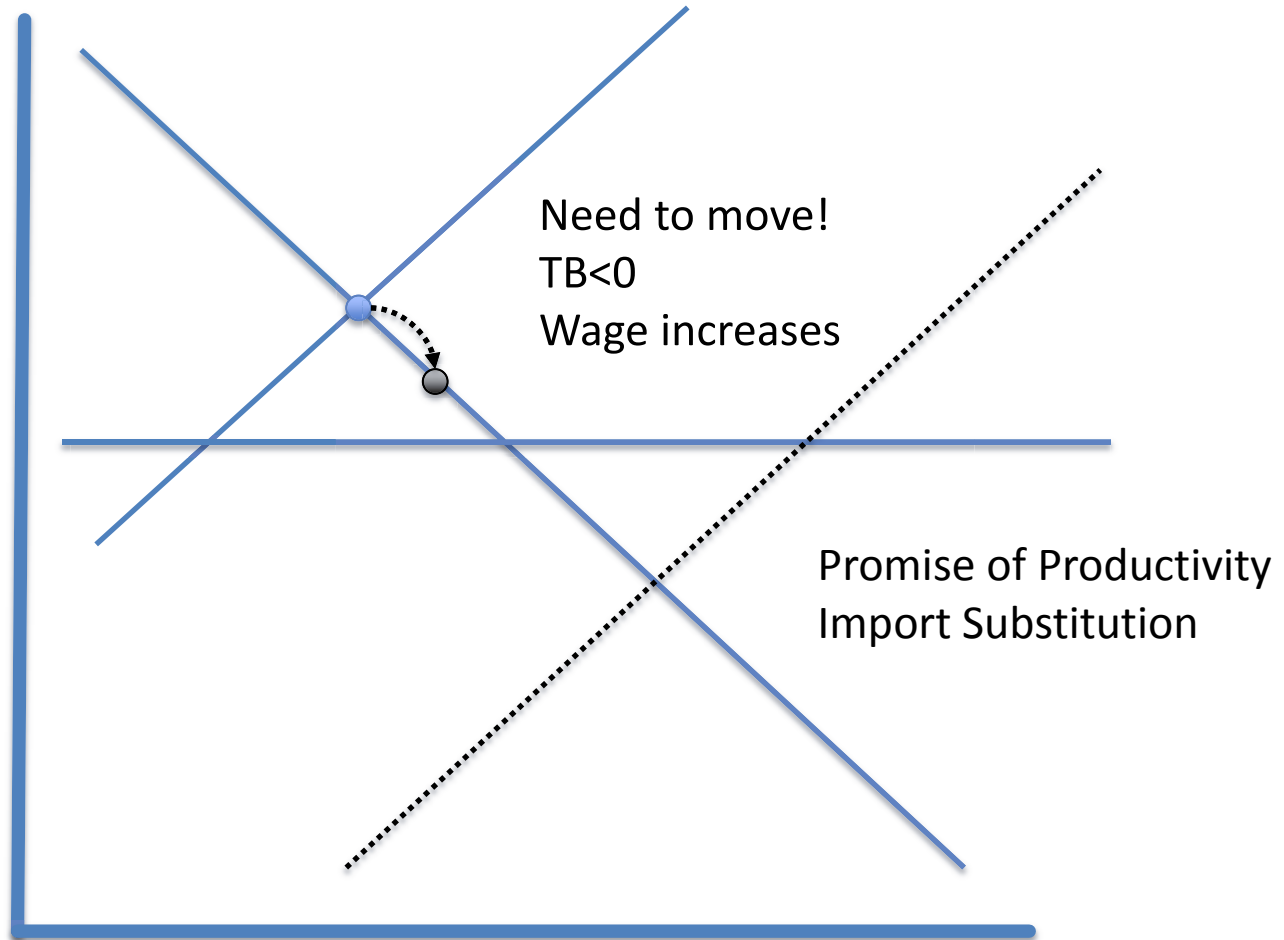
1930-1943



1943-1946

- Political and social turmoil was unattended
- What were the problems? (according to them)
 - Excessive dependence on exports
 - Excessive dependence on Agriculture
 - Need to solve the Latin Triangle problem
- What was decided?
 - Import Substitution
 - Tax Agriculture, and subsidize Manufacturing
 - Protection by raising tariffs
 - Significant increase in wages

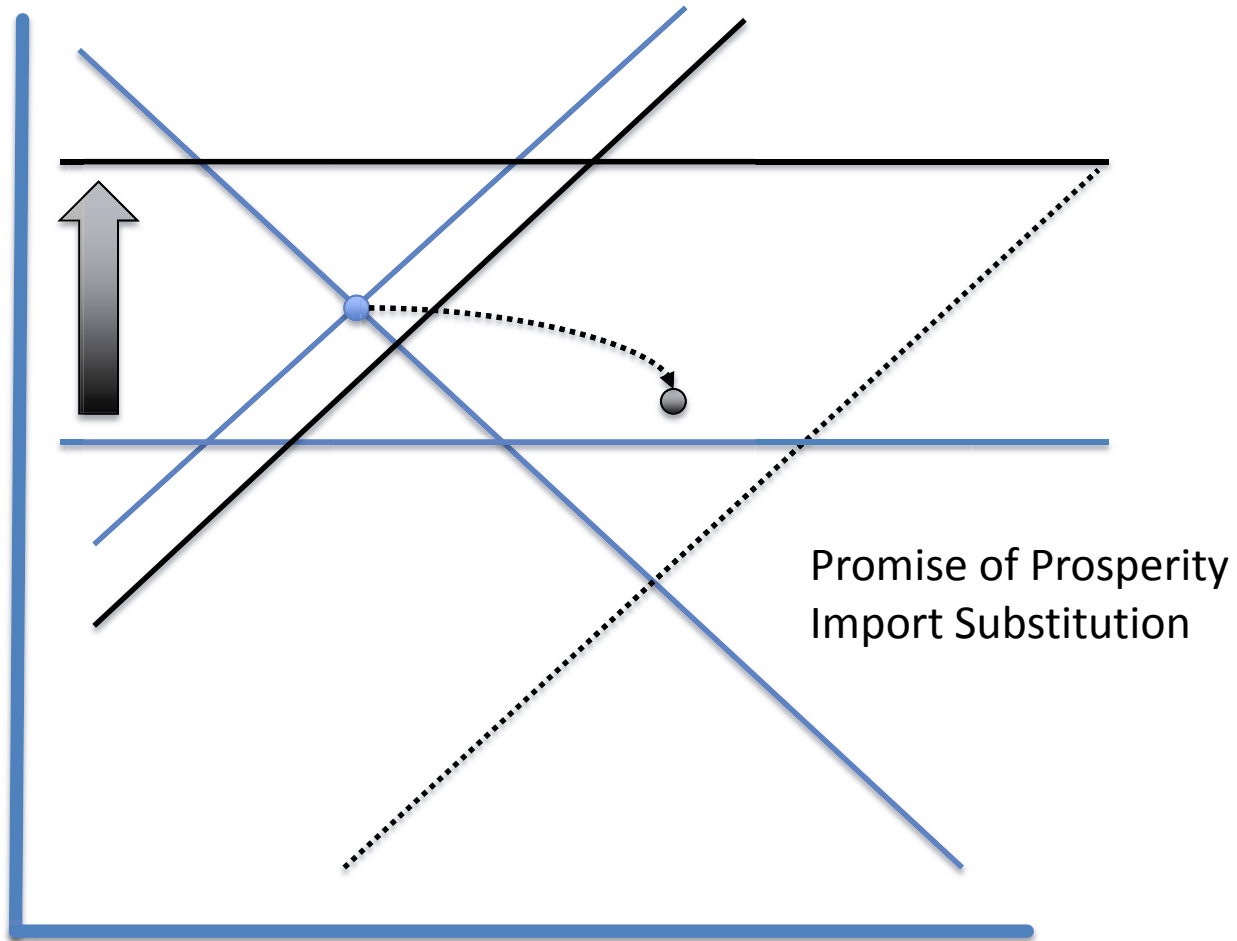
1943-1946



Peron 1946-1955

- Most important development
 - Creation of the first “Mini-me” (4.2.2)
- Political Capital
 - Peron provided the wage/labor concessions (4.4.x)
- Economic Policy
 - Expansion of expenditures (16.e7.3)
 - Large fiscal deficits (18.e9)
 - TB deficits (14.e5.1)
 - Real wages increase (16.e7.1)

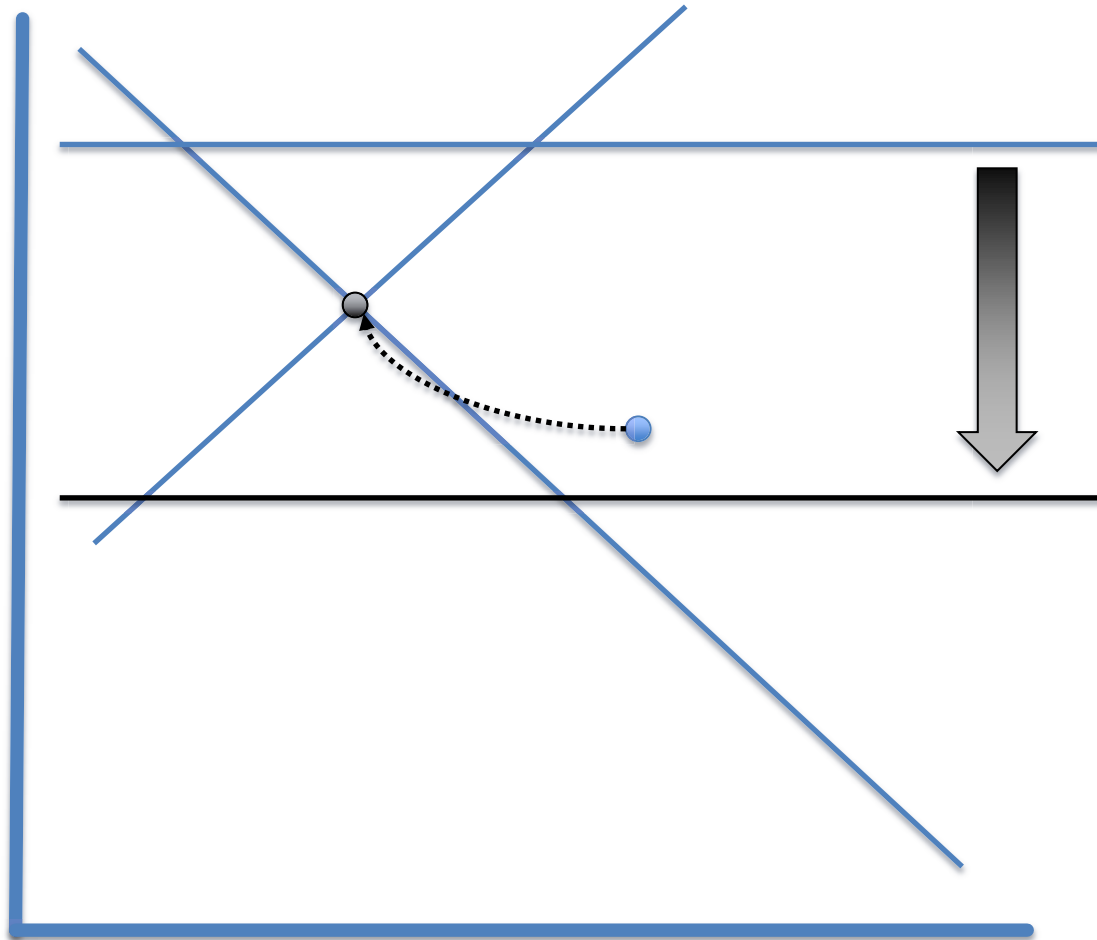
Peron 1946-1955



Peron 1946-1955

- Wages outpaced productivity increases (6.6.1)
- Large expenditure expansion produced overheating and inflation (6.6.3, 17.e8.1)
- Trade Balance Deficit were large (14.e5.2)
- Control of inflation
 - Adjustment of fiscal expenditures

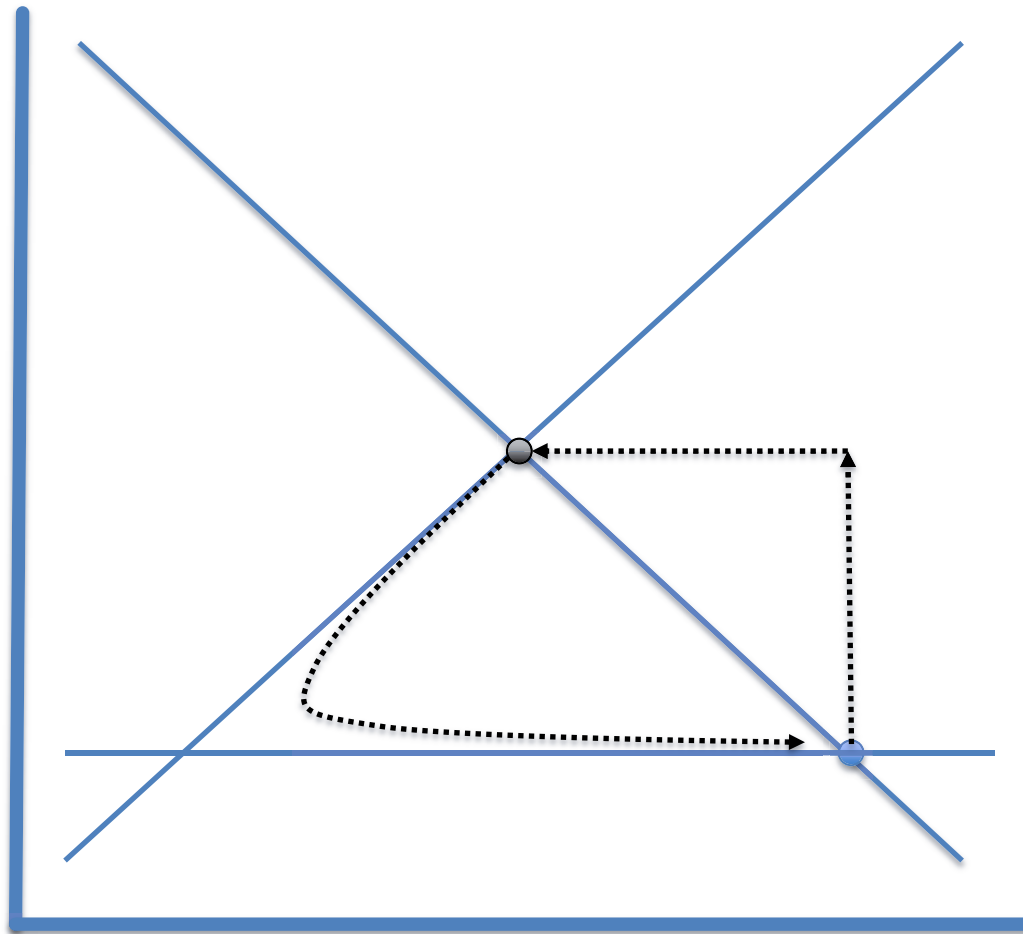
Crisis: 1954-1955



Ghost of Peron: 1955-1973

- Full Latin Triangle Dynamics
 - Adjustment: devaluation and cut demand
 - Real wages drop by 26% (7.5.1)
 - Political pressures
 - Strikes
 - Political turnover
 - Conspiracies and coups
 - Control of the demand and Wage concessions (7.6.x)
 - Populism before elections

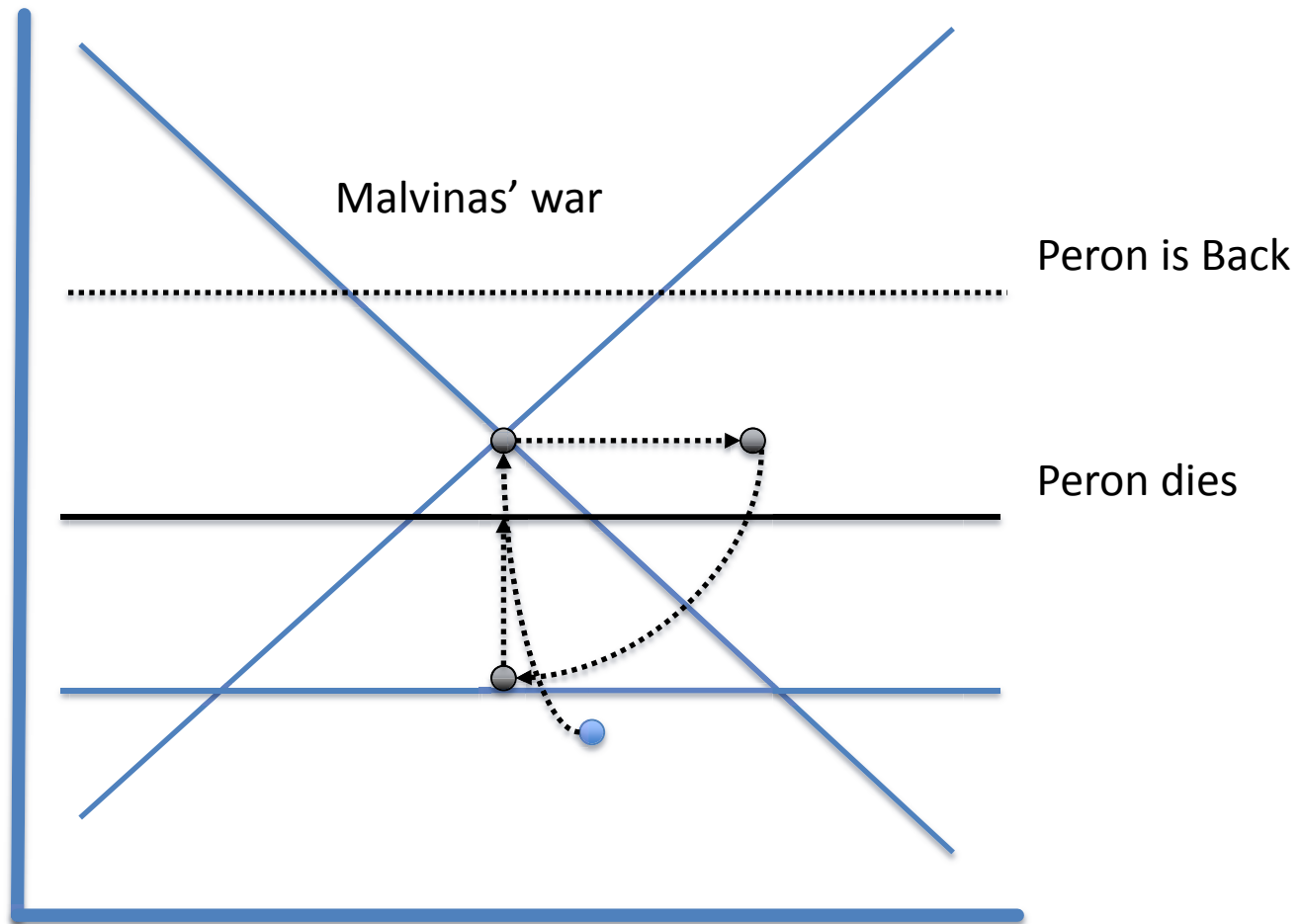
Ghost of Peron: 1955-1973



Peron II: 1973-1983

- Social Peace: Peron is Back
 - Popular support for Peron
 - Peron's "Social Pact"
- Economic Policies
 - "Conservative Measures" (8.5.1)
 - Devaluations
- Military Government
 - Social Peace: "Malvinas' war"
 - Demand increase (9.1.1)
 - Appreciation of real exchange rate

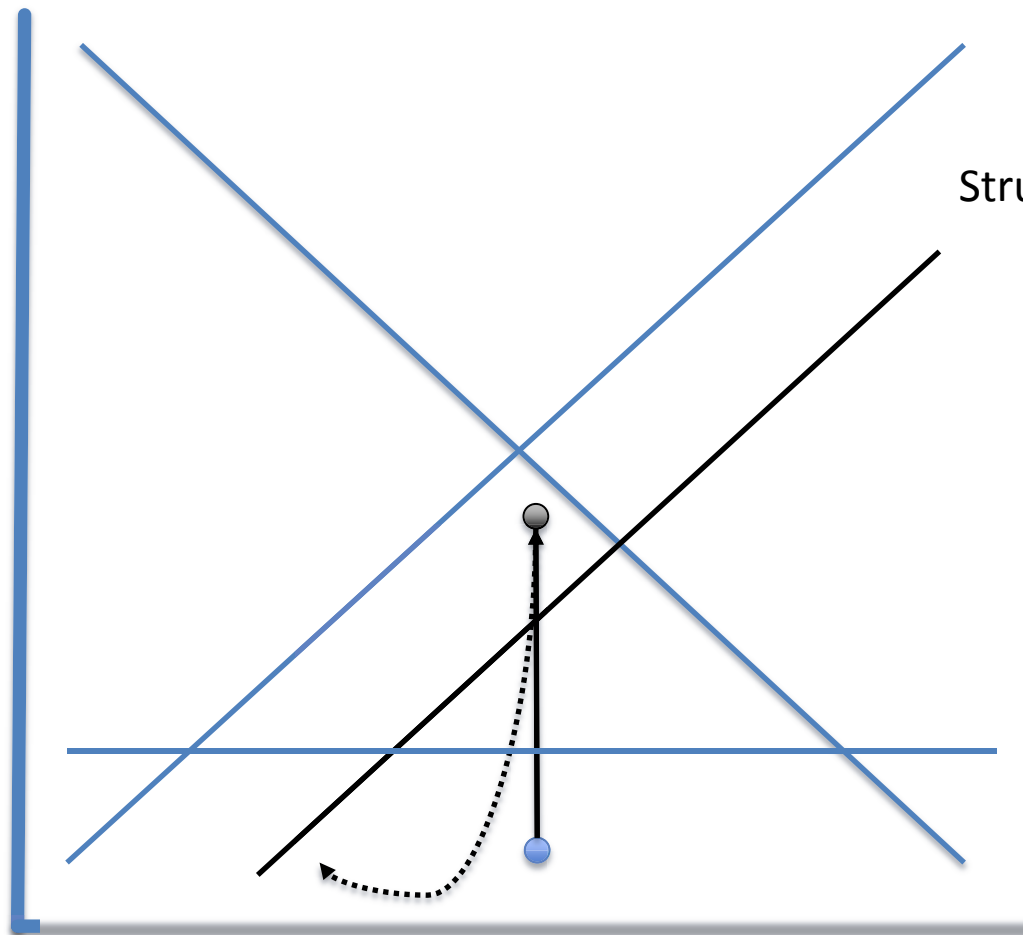
Peron II: 1973-1983



Austral: 1983-1989

- Policy Actions (9.5.x)
 - Structural Reforms
 - Privatization
 - Economic Liberalization
 - Reduction of protectionism
 - Debt Renegotiation
- What is missing?
 - Coordinating Device (the SP line)

Austral: 1983-1989



Structural Reforms

The increase in wages happens because there are inflation expectations that affect wages, but the exchange rate is fixed!

Convertibility 1991-2001

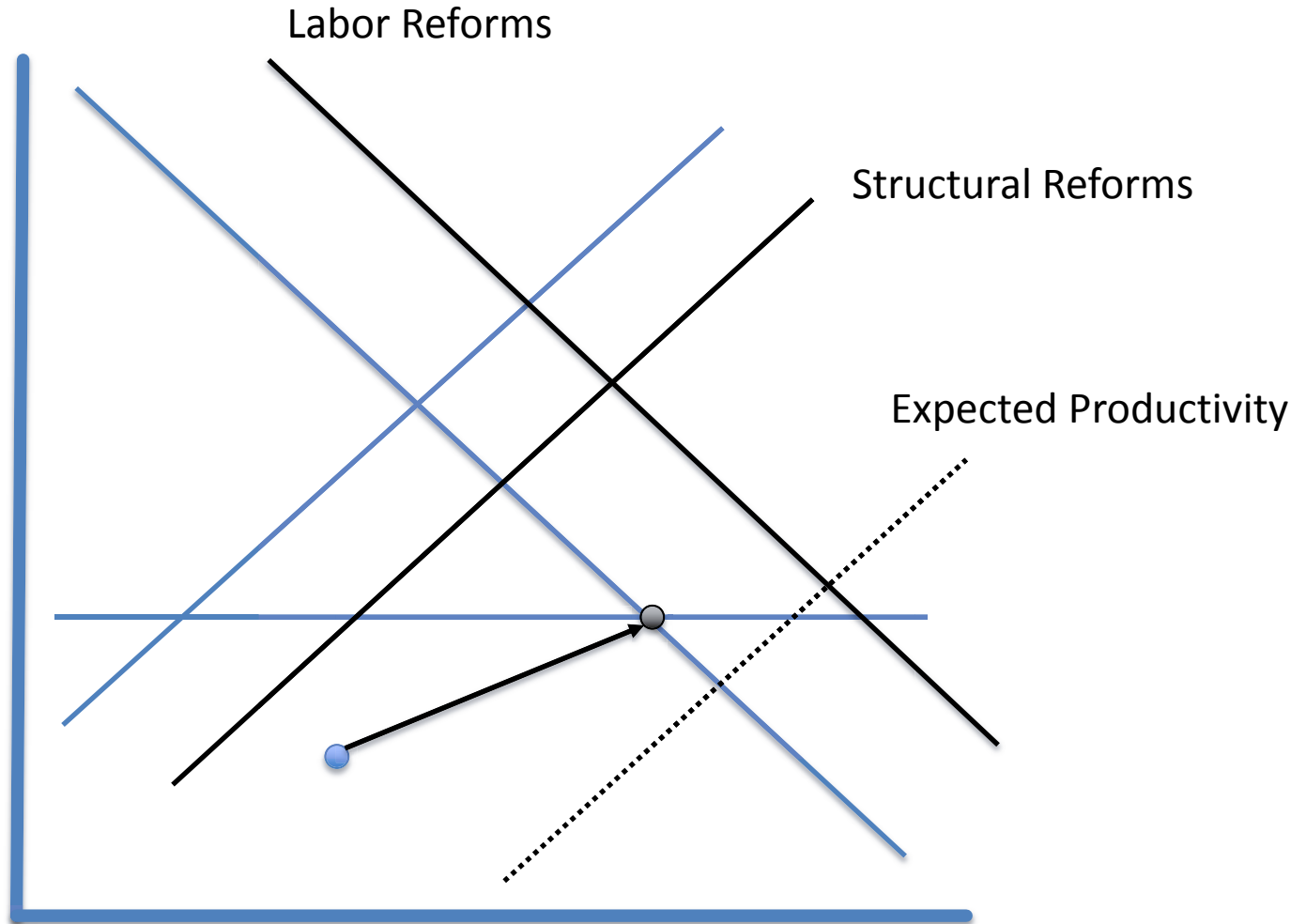
- Structural Reforms
 - Privatizations
 - Deregulation
 - Trade reform
 - Pension fund reforms
 - Labor reforms
 - Tax reform (VAT)
 - Administrative reform
- Debt Restructuring
- Currency Reform
 - Currency Board
 - Credibility in currency
 - Change of inflation expectations
- Coordinating device
 - Social Pact

Convertibility 1991-2001

- Outcomes
 - Inflation slow down significantly (10.e1.1)
 - Growth Reappeared (10.e1.1)
 - Negative CA and TB (11.e3)

 - Unemployment increased significantly
 - Fiscal deficit remained high

Convertibility 1991-2001



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S	<ul style="list-style-type: none"> Social Aspirations Political Aspirations Standards of Living (SP) 	<ul style="list-style-type: none"> Message Representation Transparency Accountability 	<ul style="list-style-type: none"> Political Influence Community Reach Corruption Commitment versus Involvement 	<ul style="list-style-type: none"> Social & Personal needs Political Voice & Representation Justice & equality Individual & Civil rights
E				

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15.014 Applied Macro- and International Economics II
Spring 2016

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