

Macro policy induced diseases and Entrepreneurship

Written by Domingo Cavallo for the session on "Entrepreneurship in the Global Economy", Astana Economic Forum 2011

During the last two centuries the market economic system has improved the standard of living of billions of people and has helped to reduce poverty in most countries of the world that adopted it. The contribution of the market economic system to increase people's welfare came mainly from a particular kind of entrepreneurship that flourishes under its reign: an entrepreneurship that pushes the adoption of efficient innovations and helps to spread them in all productive activities across all corners of the world.

Unfortunately my country, Argentina, is one of the few exceptions in the general successful experience of capitalism as a social system that stimulates Entrepreneurial Spirits. But it was so due to macro policy induced deceases that had a very destructive effect on Entrepreneurship. This is the subject I can present in this panel based on my Argentinean experience.

Argentina was an early capitalist success story which together with that of the United States, Canada, Australia and New Zealand followed the steps of the process that started in Great Britain in the nineteenth century and generated the first big wave of globalization. But from the mid forties of the Twentieth Century, Argentine market economy started a long term decline that, even with all the aggressive economic market oriented reforms of the nineties has not yet been reversed.

Why did it happen? Why did a country in which efficient and innovative entrepreneurship had previously flourished and transformed its agriculture into a world power failed to build on its success?

The answer is simple: macro policy induced diseases, mainly excessive indebtedness of the public sector and inflation had a destructive effect on Entrepreneurial Spirits.

In Argentina, since the mid forties until now (with the only exception of the nineties) equity capital was eroded by arbitrary taxation and expropriation; and debts were, most of the time, not paid but inflated away. Even in 2002, after 10 years of successful stabilization and renewed growth, the recession that was caused by very unfavorable terms of trade since 1999 and excessive leverage of the provinces, was "resolved" by abandoning monetary discipline, inflating away domestic debts and defaulting on the foreign debt. That is why today -after eight years of very favorable external conditions the Argentine economy is suffering again from persistent inflation. This is a clear signal that its rapid growth of the last eight years is non-sustainable and poverty is aggravating.

Excessive indebtedness of the Public Sector which is financed by domestic or foreign markets crowds out credit and restricts access to equity capital by the young entrepreneurs that are starting to develop their ability to develop and implement new business ideas.

When excessive indebtedness creates a debt crisis which is solved by inflating away debts, the outcome is inflation, the same as when big deficits are financed by printing money to avoid the indebtedness. Inflation is the worst of the macro policy induced diseases, both in terms of its effect on the working of global capitalism and also on the effect of the working of the market system in an individual country or region of the world.

Inflation makes ample room for unethical behavior, corruption and widespread inefficiency. Inflation destroys entrepreneurial spirits and feeds destabilizing speculation.