

Argentina: Is the Pendulum Swinging, Again?

When Argentina entered the 20th Century, its prospects looked bright. On a per person basis, its economy was on par with Canada and Sweden and about two-thirds of the United States.

This all changed in 1946 when the country elected Juan Peron to the presidency. Peron launched plans to foster social justice through economic redistribution. The government sector grew rapidly (spending and money printing) and very high inflation (300%+) became the norm. Standards of living plummeted.

Without a change in policies, inflation could not be eradicated. Then, in the 1990s, Argentina tried a currency board arrangement where each Argentine peso was backed by one American dollar. Like the old-fashioned gold standard before the creation of the Federal Reserve, each unit of Argentine currency was backed by something that held its value. That currency board system worked for about a decade, bringing inflation down to US levels and spurring a decade of solid economic growth.

However, it broke down in 2001-02, largely because government spending never really subsided. When the government couldn't print new money, it borrowed. Investors (correctly) thought politicians would abandon the currency board and let the value of the peso fall at the first sign of economic trouble. And that's exactly what happened.

Now Argentina finds itself with another lost decade of growth and hyper-inflation. Recently, Argentina's per person GDP stood less than 20% of US levels, and below even Russia.

But last month brought a political earthquake: the presidential election was won in a landslide by Javier Milei, a libertarian economist, and an unbridled and outspoken critic of socialism and supporter of free-market capitalism.

Milei wants to end the Argentine peso and central bank completely and just use the US dollar as the country's currency. That way, re-introducing the peso would be very hard, so Argentines could be confident the government wouldn't devalue again. He wants to slash government spending, including spending on the social safety net and get rid of lots of government agencies.

Unfortunately, he has his work cut out for him. Although he's popular with voters he doesn't come from a political party with widespread support in the legislative branch. As a result, it remains to be seen how much Milei can accomplish.

And yet this isn't the only big shift at the polls in recent months, with voters in New Zealand and the Netherlands swinging toward leaders seeking some major changes.

The long historic battle between those who support wealth creation and those who support wealth redistribution, continues. The pendulum is starting to swing. We think much of this recent pattern is due to voters getting fed up with governments that are too big. Even the election of Geert Wilders in the Netherlands, ostensibly about immigration has a big government component, due to taxpayer-funded resources that, right or wrong, voters think recent immigrants' demand.

When governments are already very large, and inflation rises while growth suffers, it's harder for the left to make bigger government appealing to voters, and easier for the right to make trimming government look attractive.

The pendulum is swinging toward smaller government. If leaders fulfill this desire, investors around the globe will have reason to cheer. While Argentina has followed a different rhythm than many Western countries, the elections of Margaret Thatcher and Ronald Reagan changed the direction of global economic growth. Is it happening again?

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|--------------------------------|-----------|------------------|------------------|-----------|
| 11-27 / 9:00 am | New Home Sales – Oct | 0.721 Mil | 0.745 Mil | 0.679 Mil | 0.759 Mil |
| 11-29 / 7:30 am | Q3 GDP Second Report | +5.0% | +5.0% | | +4.9% |
| 7:30 am | Q3 GDP Chain Price Index | +3.5% | +3.5% | | +3.5% |
| 11-30 / 7:30 am | Initial Claims – Nov 25 | 220K | 215K | | 209K |
| 7:30 am | Personal Income – Oct | +0.2% | +0.2% | | +0.3% |
| 7:30 am | Personal Spending – Oct | +0.2% | +0.2% | | +0.7% |
| 8:45 am | Chicago PMI – Nov | 46.0 | 43.6 | | 44.0 |
| 12-1 / 9:00 am | ISM Index – Nov | 47.8 | 47.6 | | 46.7 |
| 9:00 am | Construction Spending – Oct | +0.3% | +0.4% | | +0.4% |
| afternoon | Total Car/Truck Sales – Nov | 15.5 Mil | 15.5 Mil | | 15.5 Mil |
| afternoon | Domestic Car/Truck Sales – Nov | 11.9 Mil | 12.0 Mil | | 12.0 Mil |