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How Argentina and Scandinavian countries are dealing with inflation

Inflation-ridden Argentina is suffering another blow from rising energy and food prices, while Scandinavian countries are worried about shortages

Argentina

Single-digit inflation rates have been rare in Argentina in the twentieth and twenty-first centuries, and most Argentinians would probably be thankful for an inflation rate of seven per cent like Germany's. With its gross domestic product (GDP) of the past hundred years resembling a very disturbed heartbeat, the Argentinian economy fits no clear explanatory model. Once the world's breadbasket, Argentina can still feed ten times its population — but has also recently lived through nine state bankruptcies.

In 2021, the country's 48.4 per cent inflation rate was the world's sixth highest; in August 2022, it is 64 per cent year-on-year. High inflation cannot only be traced to rising energy and food prices on the world market. Price trends in Argentina have always been extreme: Between 1980 and 2019, annual average inflation was a staggering 215.4 per cent.

Economic crises, state bankruptcies, the decline in savings and real wage losses are everyday matters. Even children know the meaning of inflation and the current exchange rate. Daily news reports the official dollar and the 'dollar blue' (the unofficial rate exchange) like the weather or numbers of Covid-19 cases. That's because as soon as the dollar blue rises, everything becomes more expensive: bread, petrol, and Argentinians' beloved *asado* or grilled meat that, like football, is a national cultural treasure. Now, incredibly, the largest banknote – 1000 Argentinian pesos — is worth just €3.44 (€7.6 officially)!

In July 2022 alone, there were enormous fluctuations in prices and exchange rates. The dramatic departure of the Minister of Economy and

Finance Martín Guzmán, a follower of Joseph Stiglitz, created chaos for the Peronist government. Before he stepped down, $100 got you 25,000 Argentinian pesos at a currency exchange; a week or two later almost 34,000. Another finance minister came and went, then it was time for the new 'super minister' Sergio Massa, who is already being hyped as a future presidential candidate. Because Massa is more kindly regarded by the markets, you can now get around 29,000 pesos for $100.

Everything in Argentina revolves around the US dollar and how to get your hands on it. The black market is flourishing. There's no point in saving Argentinian pesos because inflation destroys the value. But necessity begets creativity: Discounts in supermarkets are scrutinised, people pay on instalment for even small outlays and schoolchildren are investing in cryptocurrencies. Vegetable patches on tiny city balconies are no longer unusual and since the last time the state went bust — in 2001 — barter markets have been revived.

That is because inflation is gobbling up wages and social assistance. Collective agreements are adjusted monthly, the government has introduced price controls for specific foodstuffs, keeps raising the minimum wage and, for a while, even stopped exporting beef to calm prices. But inflation continues apace. Now more than a third of the once prosperous Argentinians rely on neighbourhood networks and soup kitchens. Inflation has caused a humanitarian catastrophe in Argentina.

Who's to blame is a perennial issue. These days, the political left attack those who borrow billions from the International Monetary Fund (IMF), making Argentinians dependent on international financial institutions of the Global North. Liberals and conservatives hold populist Peronism responsible, while rightwing libertarians find that it's the Peronists' bloated state apparatus that is driving inflation.

Unfortunately, inflation has been uncontrollable under more progressive *and* more conservative, Peronist *and* non-Peronist, civilian *and* military governments. Since March 2022, besides the pandemic, there's another factor causing Argentinian inflation: The global rise in energy and food prices due to the war in Ukraine, which is noticeable throughout Latin America.

The budget deficit will either be financed with debt or by printing money. The lack of political consensus and abrupt changes of direction create an unstable institutional and political framework. The gap between the unofficial and the official dollar, pegged at 130 pesos by the central bank, is now more than 100 per cent, which creates all kinds of macro-economic distortions in import/export. An IMF programme to

refinance the $44bn loan from 2018 has further reduced Argentina's room to manoeuvre.

Government goals are reaching a balanced budget by 2024, accumulating currency reserves and reducing inflation. All hopes are pinned on the new economy minister, who is also in charge of the ⊠— previously independent ⊠— Economy, Agriculture, and Productive Development Ministries. He has already announced his plan to reduce public spending to keep the budget below 2.5 per cent of GDP. In addition, no more money is to be printed. If Massa manages to push inflation down to 30 per cent by the next presidential elections without impoverishing more of the population, his programme will be hailed as a success.

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Scandinavia

When journalists speculate with passersby in pedestrian zones about how much butter costs these days, it's clear that ordinary people in Nordic countries are also being hit by rising costs. Not just for food, but also energy. But Scandinavians have a range of tools to relieve households of the price increases.

Countries are partly using automatic mechanisms to compensate for the effects of inflation, among them Sweden's 'Prisbasbelopp', which roughly means 'price base amount'. That is regularly calculated by Statistics Sweden on the basis of a consumer price index to help control state benefits, such as student grants, guaranteed pensions, and tax deductions. The sum is calculated according to the change in the price basis amount, with this year's increase the largest for 40 years.

But not all government allowances are automatically adjusted. For example, the amount of child support does not rise in tandem with inflation, which means relief does not equally benefit all Swedes. The country has also adopted various ad hoc measures, such as tax cuts. In September, Swedish elections and the subsequent budget negotiations will determine what other help will be offered.

Opinions are divided over the subject of real wages. While the Swedish business community warns against compensating for inflation by raising salaries, the Swedish Trade Union Confederation (LO) fears that real wages could plunge. Besides the current uncertain economic situation, many collective agreements expire next year ⊠— another reason why the National Mediation Office, *Medlingsinstitutets*, expects negotiations to be especially difficult.

Are some in Scandinavia benefittingfrom inflation? Since the Russian invasion of Ukraine, the stable democracy of Norway has become a particularly important oil and gas supplier to European countries. Although its semi-national oil and gas companies and the state are definitely earning well from higher market prices, not all Norwegians are jumping for joy. The relatively small and open economies of Nordic countries are exposed to strong external effects.

Besides various domestic Norwegian causes, consumer energy prices have also risen sharply. Another aspect is also important: Like Sweden, Norway is divided into various electricity regions with their own rates. Southern electricity prices are much higher than those in the north, which exacerbates political tensions.

Unlike Germany, Nordic countries do not risk the supply problems closely linked to energy prices. Oil- and gas-producing Norway is largely self-sufficient, while the other Scandinavian countries rely on a limited amount of fossil fuel from Russia: Even when most of the gas comes from Russia, as in Finland, it represents only a small fraction of the national energy mix.

Many Nordic countries use renewable or nuclear energy. Although Russia halted gas deliveries to Finland and Denmark in May and June, it has not created any major supply shortages. However, in late June Denmark and Sweden warned that could still happen. Contingency plans are in place and other ways to substitute gas are being worked out. These could be especially critical for Denmark, which had been planning to resume extracting natural gas in its large Tyra field in the North Sea next year: The operating company has warned that, against expectations, extraction will not restart before winter 2023/24. Alternatives are desperately being sought.

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