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HOW TO END UP
AN UTTER FAILURE
AS MINISTER OF
THE ECONOMY

Juan Carlos de Pablo

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How To End Up An Utter Failure As Minister of the Economy

**Lessons that emerge from
20 years of Argentine
economic policy**

By Juan Carlos de Pablo

International Center
for Economic Growth



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PREFACE

We are pleased to publish this paper by Juan Carlos de Pablo as the twelfth in the Center's series of Occasional Papers. The series presents broad reflections by senior scholars and policymakers on major "lessons" produced by recent advances of knowledge.

Mr. de Pablo is the best-known economic journalist in Argentina and one of the most distinguished economic journalists in all of Latin America. Apart from his accomplishments as an economist, he is known in his country for his lively and witty writing style. Since economic analysis is not generally associated with wit, we are particularly pleased to be able to publish this paper, which features all of the wit for which Mr. de Pablo is famous.

Apart from his work as a journalist for both newspapers and television, he has written four widely read books on economic issues. He is also known for his television interviews.

Mr. de Pablo addresses development policy in an extremely broad fashion, but he does so in a manner that is rare in serious writing on development. In reviewing the "sins" of three decades of Ministers of the Economy in his country, he considers their principal mistakes by focusing on the most basic issues in the actual making of economic policy in a developing country. His conclusions are important for all Latin American countries—all developing countries, in fact. And perhaps most of the developed countries as well.

Nicolás Ardito-Barletta
General Director
International Center
for Economic Growth

Panama City, Panama
September 1988

ABOUT THE AUTHOR

Juan Carlos de Pablo is the best-known economic journalist in Argentina. He is especially well known for his intelligent and witty critiques of government economic policies. Among his formal professional positions, he is Executive Publisher of *El Cronista Comercial*, Co-director of *Carta Economica*, and Professor of Economics at the Centro de Estudios Macroeconomicos Argentinos. Mr. de Pablo received a graduate degree in economics from Harvard University in 1968. His books include *Politica Economica Argentina, 1967-70* (Argentine Economic Policy, 1967-70), *La Economia Politica del Peronismo* (Economic Policy under Peron), and *El Proceso Economico: Como Lo Vi y Como Lo Veo* (The Economic Process: How I Saw It Then, and How I See It Now).

JUAN CARLOS de PABLO

**How To End Up
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Economy
Lessons that emerge from
20 years of Argentine
economic policy**

For the past two decades my professional life has consisted of day-to-day monitoring of Argentine economic policy and, to a lesser degree, world economic affairs, and making them understandable to the business world and the public at large. The latter role I have performed in conferences, meetings, newspaper articles, and radio and television interviews.

Monetarily, the experience has been rewarding. Professionally, it has been at once exciting and distressing. From mid-1968 through the end of 1987, I have seen 19 Ministers of the Economy come and go—that's roughly a 375-day average term of office. By world

standards for "poor performance," a few statistics tell the story: in the last 20 years, prices in Argentina have risen 30 million times (equal to a monthly inflation rate of 8 percent), while in the same period per capita income has remained unchanged.

In this monograph, I want to consider the principal failures of the Ministers whose administrations I have analyzed. I shall organize their failures thematically, dealing with them in "checklist" fashion, one by one, in hopes that some future Minister of the Economy of Argentina—or, for that matter, of any other country—having been shown these, will endeavor to avoid the major errors committed by his predecessors. If this happens, and that Minister himself still fails, at least he will have made new errors. While this would make his own story of economic management equally unfortunate from the standpoint of desired results, at least it would be more entertaining for purposes of review.

I will approach my subject here differently than I have done in a never-ending list of newspaper articles and in a number of books.¹ The structure of this monograph, coupled with my own inherent impetuosity, might cause the reader to suspect that I view the responsibilities of a Minister of the Economy as being quite simple and that, consequently, Argentina has had the misfortune that this government position was systematically occupied by individuals incapable of carrying out simple tasks. Nothing could be further from the truth. From both the professional and personal standpoint, I have the greatest respect for those who have held economic positions in government. In fact, if it were someday my turn to serve—regrettable as that would be—I would very probably be guilty of committing some of the very same "sins" I can identify so clearly in others. It would be a great disservice to my purpose here if my own personal and professional feelings towards these Ministers caused me to ignore or misrepresent lessons that may enable better economic decision making in the future. It would be especially unfortunate for future leaders of economic taskforces if the significance of these lessons were lost.

For the eager beavers, let me get right to the point. The ideal Minister of the Economy is, fundamentally, a *balanced decision maker*, one who knows how to steer clear of the extreme opposites that exist in all aspects of life. (For example, he does not disregard statistics, but then he is not all that enamored of them either.) In the majority of cases, therefore, what we find are sins of insufficiency

(having done too little) or of excess (having gone too far). In addition, from the organizational standpoint, a Minister of the Economy must be, basically, a *consummate manager*.

Adhering to our checklist format, this monograph will show specifically that the Minister of the Economy is assuredly headed for problems if he believes:

- that the political power of the government of which he is a part, and his own political power within that government, are unlimited;
- that time is necessarily on his side;
- that there is time to think things over;
- that it is important for his advisors to understand economic issues, but not for him;
- that statistics tell the whole truth or that they tell only lies;
- that there are people who let opportunities slip away;
- everything the private sector tells him or does not believe anything that sector tells him;
- that legislation can regulate economic affairs and that implementation problems are merely problems of "enforcement;"
- that the implementation of economic policy can be delegated in its entirety to others;
- that what he says is said in a straightforward, unambiguous manner;
- that there is no need to explain policies or actions because, in the final analysis, the people won't understand;
- that he will be able to sell the program at once;
- that selling economic policies is the journalists' concern;
- that traditional ways of doing things do not count or that they are the be-all and end-all;
- that his efforts will possibly be applauded or that History will remember him with gratitude;
- that his predecessors failed because they were incompetent; and
- that there is nobody waiting in the wings to become Minister of the Economy.

This essay is divided into four major sections and six appendices. The opening section systematizes the aforementioned sins as they

relate to the formulation of economic policy; the second, those related to implementation and selling of economic policy. The third section deals with sins of a “personal” or personality-related nature, while the fourth and concluding section consists of the reactions to the preliminary draft of this monograph of Roberto T. Alemann and Jorge Wehbe, who are both ex-Ministers of the Economy for Argentina and who, consequently, are highly qualified to comment on its subject matter. The six short appendices deal with several other key issues, which anyone aspiring to the position of Minister of the Economy (or to an understanding of how a Minister of the Economy operates) must fully grasp.

Sins Related to the Formulation of Economic Policy

This first category of “sins” relates to the basic difficulties that anyone heading a team of economic professionals will sooner or later confront if he hasn’t come to understand the full dimensions of his job.

This is because beyond its technico-professional qualifications (a necessary but not sufficient requisite for success), an economic policy that won’t end in failure must be based on a) a sound understanding of the government’s political power and the power of the government’s Minister of the Economy, who must implement the policy and b) a solid understanding of the dynamics of the economic policy. Concurrently, the Minister who doesn’t want to end up a failure must correctly position himself with respect to lobbies and, to be sure, his constituents.

In this category the following sins particularly distinguish themselves:

1. *The belief that the political power of the government, and his own political power in that government, are unlimited.* Certain “inputs” are indispensable to the formulation of successful economic policy, namely, a solid technical foundation and the political power of the authorities intent on implementing the policy. No matter how valid a government’s economic goals are, without political power and credibility, even God as the Minister of the Economy cannot achieve those goals. Likewise, even the most credible of governments will fail if it attempts to implement an economic program that is techni-

cally inconsistent with or irrelevant to the goals it is pursuing.

The sin here consists in believing that political power and the sound technical foundation of an economic program are lasting substitutes for each other rather than complements, each needing the other. This results in the belief, which has great practical importance, that abundant political power can permanently compensate for a poor technical foundation in implementing economic policy.

This sin is committed by and large at the outset of new administrations, both those that have come about because of *coups d'état* and those democratically elected, because it is the time when, at least for the moment, there is a surplus of political power. This, it should be parenthetically observed, explains why, in all economic histories of Argentina, there are so many references to "missed opportunities."

Strictly speaking, this sin is peculiar to administrations in general rather than to Ministers *qua* Ministers: it is one of the prices paid for the institutional instability that suddenly puts power in the hands of those who have been removed from it for a long time. Initially, then, government posts are filled by individuals renowned for their rhetorical abilities, their formal exercise of gentlemanly qualities, etc.—virtues that flower *outside* the practical requirements of running a government. They are also virtues that, as a rule, have little bearing on the qualifications required for the position. (As this point implies, generally speaking the "technical qualifications" of Ministers of the Economy increase with the longevity of the administration.)

So far, so good, as concerns the analysis of the power relationship between government and society. We must also examine the power relationship between the Minister of the Economy and the rest of the government.

For a Minister of the Economy, the question of how his economic policies are "perceived" should start with the Chief Executive (in Argentina, the President). In general, however, the Chief Executive rarely knows anything at all about economic analysis and is innately disinclined to learn.

It is not a question of turning a President into an economist (just as it would be preposterous to aspire to making a doctor out of the Minister of Health, or to turning the Minister of Public Works and Services into an engineer). What is important here is that the Chief Executive understand the basic principles of economics, such as the scarcity principle, the principle of resource allocation, the role exer-

cised by individual judgment in the decisions reached by all agents of economic policy development and implementation, and the existence of alternative approaches.

It is important, therefore, for the Minister to incorporate these basic principles into the President's thought processes. To do this, of course, the Minister must himself believe they are valid. For if he does not, the President will react like Don José, who says in the film-opera to a listless Carmen, perfunctorily executing her dance: "If even you don't believe you're Carmen, who else, then, is going to believe you are?!" To the extent his Minister makes no effort to communicate these principles, the President's foundation in economics will consist, on the one hand, of all the imaginary reasonings that result from his emotions, and, on the other, of the incessant assault waged against this foundation by the hodgepodge of imaginings and interests of those who interact with him. Either way, the policy will not be adequately or objectively thought out. The result is a fatal sin.

2. *The belief that time is necessarily on his side.* Let us define the neutrality of time as that condition of the economy, and of an economic policy in particular, which, in the absence of future modifications thereto, would imply perpetuation *ad infinitum* of results currently derived from economic management. Using this definition, the crucial question a Minister of the Economy should at all times ask himself is this: What role does the element of time play in current economic policy—is it with us, against us, or neutral?

In an essay like this, which concerns itself with sins, the situation we are specifically interested in analyzing is that in which economic policymakers conclude that time is working against them. If they do not act, the economic situation will deteriorate. In such a case, the sin consists in not acting—primarily in fear of the expected political fallout.

This sin produces an obvious consequence, similar to that of having to call out the fire department in the afternoon because no one had courage enough to turn a seltzer bottle on the early morning signs of fire. Where the issue is economic policy, the cumulating problem results not only from the normal, "technical" worsening of the imbalance (unless it is transitory), but also from predictable responses from the private sector. As an imbalance increases, the private sector, seeking to protect itself, responds in a manner that usually exacer-

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bates the imbalance. Such compensatory reactions include rushing to fill gas tanks when it is feared gasoline supplies will dwindle, hoarding dollars at precisely the moment when they are least available, and so on.

We recommend a dual approach to combat this sin: if the imbalance already exists, act as soon as possible, without giving a thought to political consequences and expectations. This will always be cheaper than delaying the cure. Along with this, preventive action is also essential: the economic program must itself be devoid of any imbalances. An incident in the Watergate affair clearly illustrates the reason. One of the individuals involved in the break-in traded information for his freedom. When queried about what motivated his decision to be an informer, he replied: "My father taught me that whenever you've got your back to the wall you should tell the truth!" This prompted the response: "My father taught me that if I always tell the truth, I will never end up with my back to the wall!"

The history of the Argentine economy is filled with examples of the sin of failing to appreciate the crucial role of time, and for these sins policymakers have paid a very high price indeed.

3. *The belief that there is time to think things over.* This point, unlike the rest, contains a message that is directed more to those who will reach decision-making levels in government at some point in the future, than to those who are already working within the Ministry of the Economy. Any Minister who postpones the task of laying out a plan of action until after he is in office will ordinarily end up delivering all control over policy to the least desirable of hands, such as those of the bureaucracy or of lobbies. It is one thing to "sharpen one's aim" based on more specific data, which is often unavailable to those not yet in office. It is another to believe that there will be time to think things out during the discharge of governmental duties.

Henry Kissinger made this point brilliantly in his memoirs when he distinguished between knowing how to make decisions and knowing what decisions to make. Kissinger himself knew at the moment he assumed national office the content of the decisions he wanted to make, having already learned in government the "tactical" aspects involved in the decision-making process.

4. *The belief that it is enough for his advisors to understand economic issues—that it is not important for him.* “The Minister of the Economy should be a politician, not a technician.” “The economy is too important to be left to economists.” Such statements, often repeated, may express not only a great truth but a great fallacy as well.

If such statements mean that political decisions require application of political criteria—that selection of the best economic policy among feasible alternatives is an essentially political act—then they express a great truth. But if these statements mean that we professional economists, goodness knows in the name of what, should give technically poor advice to accommodate our judgment of political reality, then they express a great fallacy. If this happens, the Minister of the Economy will spend all of his time trying politically to overcome technical limitations, if not ignoring them altogether.

The sin here is one of excessive delegation. A good Minister of the Economy will adopt a managerial approach and attitude toward the decisions entrusted to him, and he will work to see that they come about in a practical sense. He will thus consult with people who know about particular aspects of the economy and can advise him what reforms are necessary to accomplish the changes he wants. At the same time, he must know enough at a technical level to understand how to solve practical problems.

A Minister of the Economy can also commit sins of excess or of insufficiency vis-a-vis professional economists. He sins on the side of insufficiency when, as Keynes put it, he unwittingly but slavishly adheres to the precepts of some deceased economist and avoids dialogue with flesh-and-blood professional economists whom he considers too “theoretical.” His sins of excess are incurred in subserviently following current advice, especially when given by economists who fail to temper their technical understanding with an appreciation of economic history and history in general.

5. *The belief that statistics tell the whole truth or that they tell only lies.* Statistics, especially those relating to the macroeconomy, are indispensable in shaping the ideas that members of the economic policy staff have acquired from their personal, intimate, and micro-economic experiences in general. In the last analysis, statistics make it easier for policymakers to understand problems objectively—to understand, that is, the differences between what is happening to me,

what is happening to another, and what is happening period.

Nevertheless, for both theoretical and practical reasons, statistics do not reflect reality in its entirety. Conceptual difficulties may arise in quantifying an idea. How, for instance, is the well-being of a person or a community to be measured? This problem is aggravated by the multiplicity of indices. At a practical level, the costs associated with statistical data gathering, processing, and dissemination may be prohibitive.

The sin of omission, therefore, lies in ignoring statistics and in making decisions based on direct, and not always representative, microeconomic observations. The sin of excess consists in basing decisions literally on statistical data, without adjusting them to reflect qualitative concerns.

The proper middle road is suggested by an appreciation of statistics' similarity to bikinis: what they reveal is important, but what they cover up is fundamental. In the presence of a statistics "basher," however, this saying must be completed by adding "because even though what they cover up is fundamental, what they reveal is important."

6. *The belief that there are men—and women—who let opportunities slip away.* Toys that are not made to be "child-proof" won't last; neither will programs that haven't been "man- and woman-proofed."

It is a real pity that humans are not angels. Did you ever consider the huge reallocation of resources that would result if we were angels? Defense expenditures, penal institutions, security measures, locks, guards—all these resources go to service the needs of human beings!

However, man is what he is, and each of us personally tries, as moralists and religious people do professionally, to reform and improve him. In all spheres of endeavor, however, professional responsibility requires accepting man as he is. This means laying out plans—in this instance, economic plans—that are operatively valid because they are based on this acceptance. A few hundred years later, the reason Adam Smith's basic message retains its validity is that it is based on a realistic appreciation of human nature.

The Minister's sin consists here in depending on human behavior as the wild card he needs for his policy to succeed, depending on people to ignore policy changes and to let opportunities to circumvent them to slip away. As history teaches us, however, such hopes are fulfilled only on paper and in animated cartoons.

In this context, we must insist on the fundamental distinction between the role and the person. The Minister who develops economic policy will understand both the concrete operation of the economy and consequently the real responses to a prospective policy much better if he thinks of behavior in terms of roles rather than in personal terms. That is, he should remember that "butchers, taxi drivers and property owners will do what I would do if I were a butcher, a taxi driver or a property owner."

According to this approach, the civil servant who draws up economic policy should reason as follows: I cannot "sell" others on a plan that I myself, at the microeconomic level (i.e., at the level of personal decisions), don't "buy" either. For example, how many apartments for rent belong to public officials who institute rent-freezes? What percentage of their total assets do those officials of the Central Bank who freeze interest rates far below the rate of inflation keep in a savings account?

7. *The belief that there's no need to explain policies or actions because, in the final analysis, the people won't understand.* One of the most important sins likely to be committed by a Minister of the Economy is to think he is more on top of things, or is reacting faster, than his fellow citizens. This attitude leads him to practice a kind of consistent policy-related activism, by withholding information, for example, or by delaying its publication until other news is available to neutralize its effects. Or he can do this by prohibiting outright the release of certain data, such as the black-market pricing of the dollar or price indices. This attitude also induces him to approve legislation that attempts to "sell" the nation on economic plans that he himself, at the microeconomic level, doesn't even "buy." (Recall the example asking whether those who draft rent-control legislation are willing to rent out their own apartments.) Finally, such an attitude is related to the preceding sin. It leads him to dismiss as irrational and unusual the public's reactions to his economic policies, whenever those reactions deviate from those anticipated by those who draft them. An example of the latter was the anger expressed by Argentine authorities at people who rushed out to fill up their gas tanks precisely at the moment of a gas shortage.

Circumstances have turned countries like Argentina into a giant Living School of Economics. It's quite possible that the average

participant in the economic arena isn't familiar with economic terminology, but because he is a survivor, he is proof positive that he is indeed familiar with basic economic principles. He may experience perception-related problems, especially in a confusing environment, but he won't suffer from any monetary illusions. And, from the moment of the public's awareness of some factor that forces a change in behavior, the speed of adjustment in countries like Argentina is matched by few in the world.

In the case of Argentina, I believe, there are not only rational expectations at work, but *superrational* ones as well. There, people anticipate the technical infeasibility of the government's economic policies; they have already discounted the change in policy, taking refuge, as a result, in the application of what could be called models of the "Noah's Ark" type (Appendix A). In countries like Argentina, the Minister of the Economy who thinks he's got "a leg up" on his nation's people is, in reality, more stupid than that nation's people.

Now, as with the other sins, the Minister of the Economy must not go to the other extreme, which in this instance would consist of believing that "dialogue" is a perfect substitute for rigorous analysis.

One of the most egregious sins of all Argentine Ministers of the Economy is a belief in voluntarism, and its preferred instrument, "dialogue." Voluntarism involves a belief that the people of the nation will not exploit for their own purposes every opportunity available to them individually, eschewing such actions in the name of values such as social solidarity, patriotism, and defense of the system. This belief appears to make it possible to achieve economic policy goals by applying instruments that according to economic analysis are, in the best of hypotheses, devoid of merit, and in the worst, simply ineffective. It is particularly instructive to compare the differences in approach used by those Ministers who believe in voluntarism with those Ministers in countries whose economic policies succeed.

Voluntaristic approaches bring no results. They are, however, quite costly: they divert human and material resources, always scarce, away from productive tasks to talk. For the Minister of the Economy, this means diversion away from the planning and implementation of his economic policy; for the private sector, it means diversion from productive competitive activities within the framework of the policy. The futility of "dialogue" is apparent from considering the contrasting roles of the Minister and the private sector he is trying to persuade.

In dialogue, the Minister endeavors to persuade. The private sector, on the other hand, rarely considers confronting the Minister with opposing arguments, fearing that the Minister himself will respond with, for example, a tax or preliminary audit. Instead, the private sector listens to him, applauds him, and only later does what economic analysis predicts it will do—namely, maximizes its individual costs and benefits.

Only someone who has had firsthand experience or witnessed the efforts associated with implementing an economic policy along these lines can know how time-consuming, how wasteful of creative human energies and, finally, how frustrating the experience can be.

8. *The belief in everything the private sector tells him or disbelief in anything that sector tells him.* On Earth, as we have said, each and every economic actor maximizes his individual welfare. In an economy like that of Argentina, characterized by heavy state control, which is normally discriminatory in nature, the welfare of the private sector is to a great extent a function of economic policies. The policies are, in turn, a function of how economic policymakers perceive economic problems and possible solutions. In this context, logically, information becomes a negotiating tool, as the private sector, to maximize its interests, communicates to economic authorities only what it wants the authorities to know.

As with the information provided by statistics, Ministers of the Economy also commit sins of excess as well as insufficiency in regard to information received from private sources. The problem, however, is different. One involves technical limitations that are inevitable with information; the other involves the deliberate politicization of information.

Faced with this reality, the Minister of Economy may commit a few transgressions: he may totally ignore what the private sector represents to him, believing that all signals from this source are biased, or he may accept them without reservation, believing that distorted information is better than no information at all. The first sin consists in dismissing even worthwhile information provided by the private sector, while the second fails to consider how the information is biased by self-interest. The government official who consults the private sector through its representative organs must be aware, too, that he is thereby tending to “oligopolize,” if not monopolize, that

private sector. The reason is that when a government official convenes competing members of a sector for consultation, they will bury their differences to form a united front (as far as lobbies go, demand creates its own supply).

9. *The belief that legislation can regulate economic affairs and that implementation problems are merely "enforcement" problems.* This sin manifests itself at two levels, one at the level of legality, the other, of illegality. For purposes of analysis, the terminology of the incidence theory of taxation is useful. This theory, in studying the effects of introducing or abolishing a tax, examines who ultimately bears the burden of the tax. One aspect of the theory is the distinction between escaping and evading a tax. For instance, when a tax is imposed on the consumption of custard cream desserts, whoever switches to eating chocolate because of the tax will *escape* the tax, while whoever continues eating custard cream but does not pay the tax will be *evading* it.

The sin committed at the level of legality lies in forgetting the substitutive and complementary relationships that exist between goods and economic factors. As a rule, those who create regulations come up with legislation that implicitly assumes that every good and every factor exists in an airtight compartment. When they discover that this is not the case, they try to resolve the problem by enlarging the scope of the regulation. An example is the sequence of actions and reactions that frequently attends the institution of price controls. If the government sets price controls on bread for instance, bakers will tend to bake new kinds of bread, not subject to the controls. The government will then respond by extending the regulations, prohibiting the introduction of new kinds of bread.

At the level of illegality, the sin lies in assuming that the constituent components of the economy unit will not make cost-benefit assessments about whether to comply with economic legislation or regulation. Rather, the assumption is that everyone will faithfully comply with the legislation, even though the price of scoffing at such legislation may be much lower than benefits to be derived from compliance.

An important question concerns the extent of regulation, for this will determine the potential benefits associated with evasion: the more extensive the regulation, the greater the benefits of evasion, and

the greater its likelihood.

Particularly conspicuous among those predisposed to commit this sin are those who draft tax systems, because they usually begin with the premise that control and verification matters are "enforcement problems." Plans perfectly executed to deal with tax dodging, or escaping, are thus put down on paper, but only at the expense of encouraging tax evasion. The approach most in the interest of the community is that which maximizes welfare while simultaneously accommodating the differences that exist in reality between tax dodging and tax evasion.

Sins Related to the Implementation and Diffusion of Economic Policy

This second category of sins relates primarily to the difficulties which, sooner or later, will confront anyone directing a team of economic professionals if he thinks he is cut out for more important matters than the implementation and diffusion of economic policies.

Just as we saw earlier that technical coherence alone is no guarantee for formulating successful economic policy, we now shall see that neither is successful formulation a guarantee that results will be achieved. We don't mean to imply that the Minister of the Economy should slip off his coat and take up residence behind the tax collection window if the cashier employed by the Treasury Department doesn't show up (though, by all accounts, John Maynard Keynes himself did just that when the ticket seller failed to show up at the theater Keynes had built in Cambridge for his wife). It is, rather, a question of the Minister, with managerial concern, becoming personally involved in tasks associated with implementation, follow-up and diffusion of economic policy as though they were his own.

Some particularly noteworthy sins belonging to this category are the following:

10. The belief that implementation of economic policy can be delegated in its entirety to others.

The President of a National Bank, particularly in Latin America, who believes that his job consists in making a few key decisions on the Board of Directors, only to withdraw to

his office and await History's praise, will surely be a failure. Monetary policy is being made each and every minute; it is made, most assuredly, when reserve requirements, interest rates, and the number of institutions making up the system are determined; it is, however, also made whenever the main-frame at the Central Bank is up and operating, whenever an effort is made to determine employee attitude, whenever the pulse of the financial market is taken, etc.

This meritorious statement comes from a past president of a Central Bank of a Latin American country. As we have said, the issue is not whether the Minister of the Economy of a country should replace the bank teller, stamp forms in the Internal Revenue Service or inspect cargo containers in Customs. What is necessary is that his mind be effectively oriented to process. By this we mean that at the very moment he is involved in planning economic policy, he has a clear and concrete understanding of just how his proposals will work, and of what their practical consequences will be.

By definition, a successful Minister is, from his first endeavor, obsessed with results and with visualizing how his goals will concretely manifest themselves in this economic policy he is forging.

11. *The belief that what he says is said in a straightforward, unambiguous manner.* When you were a child, did you ever play the following game? The first player whispers a message to the second player; the second player must whisper what he heard to the third player, and so on for all the players. The whispered message finally reaches the last participant, who has to say out loud what he thinks he has heard; at this point in the game, the first player tells the group what the original whispered message was. The usual disparity in what the first person said and what the last person repeated made us laugh as children.

Now, when we are no longer children, and especially in the case of a Minister who thinks he's communicating clearly, it provokes something other than laughter. In Argentina, the frequency with which government officials accuse journalists *en bloc* of misinterpreting them makes it impossible that this could represent a conspiracy on the part of the press. It is, rather, an example of the sin being considered—a failure to understand the difficulties inherent in the communication of information and ideas.

Why should the Minister of the Economy tell it like it is? Let's take a look.

12. *The belief that he will be able to sell the program at once.* Applying the rational expectations hypothesis to the Argentine experience should highlight the asymmetry that exists between the speed with which the private sector incorporates the government's *erroneous* economic policies into their decisions and the speed with which the private sector incorporates *appropriate* economic policies into their decisions.

Let me explain. The same Argentine-on-the-street who takes only hours to conclude that the government's technically inadequate economic program will force a change in policy, and who often assumes a corresponding defensive posture (see Appendix A of this paper, dealing with economic models à la "Noah's Ark"), this same Argentine is capable of waiting several years to be convinced that the government is going to institute a technically adequate program, and that therefore it is in his best interest to align himself with that program instead of opposing it. For decades the Argentine people have perceived the enormous advantages to be gained from wagering that any economic policy intent on correcting certain economic distortions will itself, in the end, be thrown over. In countries like Argentina, therefore, instituting a program to reduce inflation or improve resource allocation, for example, involves serious problems of convincing the nation that these goals go beyond their mere announcement.

In judging human motivations, economists place more stock in actions than in words. What people do and don't do tells us far more about what they are thinking than what they say. In this case, mere speeches alone will not persuade anyone; the only way to persuade the nation is by the systematic application of policy, clearly laid out before all.

13. *The belief that selling economic policies to the public is the journalist's concern.* The everyday economic aspects of a country's individual lives, affected very much by government policy, are the grist for many an Argentine's mill. Under these circumstances, except for official speeches and statements, the mass media inevitably intermediate between the Minister of the Economy and all economic actors in the society.

Maintaining the distinction between role and person, it is essential to remember that “journalists do what we ourselves would do if we were journalists” and, more important, that “the masters of the mass media do what we would do if we were masters.” The press czars in the Ministry of the Economy are no different.

The sin here lies in believing that the Minister of the Economy need not concern himself with disseminating economic policy to the public, because journalists will do it. On the contrary, the Minister must understand that he has primary responsibility to sell his program through the mass media and to maintain a dialogue with journalists. This function is essential because the success of his program depends on the public’s understanding of it, just as it depends on the understanding of the President and the Cabinet. The better informed the citizenry is, the more informed its choices will be in regard to economic policy and the economy as a whole. As they get used to this task, Ministers will find that it is easier than they thought.

1-4. The belief that traditional ways of doing things don't count or that they are the be-all and end-all. To have any chance of success, an economic policy must create and sustain a sense of predictability. It must encourage confidence, so that when people turn out the lights at night, they know they will not wake up and have to figure out everything from scratch the next morning. Rituals—procedures, rules, and timetables, for example—are extremely important in influencing the expectations of the private sector. Publishing regular statistics can help a great deal to create predictability, especially when variables are adjusted promptly to avoid major surprises. The Central Bank, for instance, does not publish a weekly balance sheet, and this creates problems throughout the financial system.

The Minister fails when he belittles the benefits of ritual and of traditional ways, not appreciating that these are means for accomplishing larger purposes and are not ends in themselves. The Minister also fails who is considered “out of his mind,” who is perceived as “raw energy,” or who drives everyone crazy, starting with his own staff, which becomes functionally paralyzed when faced with the boss’s apparently unpredictable outbursts. While these indications of failure may seem obvious to people in many parts of the world, they have been serious problems for Ministers in Argentina.

“Personal” and Personality-related Sins

Conventional economic policy wisdom, which derives from the necessary but insufficient analyses of Jan Tinbergen, Robert Mundell, Richard Lipsey and Kelvin Lancaster, implicitly assumes that the head of the economic team knows it all and is incorruptible, anxious to achieve the greatest possible economic good for the community regardless of what happens to him personally and to his family. In short, the theory assumes that he is not human.

For better or worse, those who are responsible for economic policy are indeed human, and therefore we must add to the sins committed in planning and implementation, those deriving from the Minister *qua* “fallen angel” or, if you will, “upright ape.”

Particularly conspicuous in this category are the following transgressions:

15. *The belief that his efforts will possibly be applauded or that History will remember him with gratitude.* Every time I analyze this topic I cannot refrain from quoting the words of Federico Pinedo, uttered in 1962, upon assuming his duties as Minister of the Economy:

When you’re 67 years old and have had a political career spanning more than 50 years, it is impossible to take up one’s duties in the Ministry—and for the third time, almost 30 years after having been named to that lofty post for the first time—with any illusions that in the discharge of one’s ministerial duties great satisfaction awaits one.

The sin here is not so much that an incumbent Minister of the Economy believes his efforts may be applauded as that he consciously curries such recognition from the community or, more accurately, the private sector. This is a sin because such private applause is biased, coming from the special interests of the hands that applaud him. The weight of the concentrated interests of some members of the private sector (slipper manufacturers, let’s say) versus the diffused interests of others (slipper consumers) results in more applause for the Minister when he raises import taxes on the product than when he lowers them.

The applause-related sin has its origin in the present, related as it is to “what is currently going on.” The sin of posterity, on the other

hand—the sin of believing History will honor him—is related to the future. To introduce this transgression, we might ask what ex-Minister of the Economy do we remember with respect and admiration?

An extensive relationship exists between these sins, but there is a point at which they conflict. Because, while the longing for current applause means sacrificing professional responsibilities in order to satisfy the aspirations of the applauding audience, the sin of “playing to” History consists, paradoxically, in the failure to work for History. Or, to put it another way, the sin consists in failing to understand that, in matters economic, one can work to garner the applause of either the present or the future, but not both.

Time unflatteringly separates that which has lasting value from that which has only the appearance of lasting value. What do Aristotle, Bach, Adam Smith, Pythagoras, and Shakespeare have in common? All of them produced, each in his own field, something of lasting value. We all know about musicians who are today famous, but who labored during their lifetimes unappreciated by their peers.

16. *The belief that his predecessors failed because they were incompetent.* I went to college during the first half of the 1960s. In macroeconomics courses they explained to me that the Great Depression lasted a full decade (1930–1940) because economists of the Classic School and Ministers of the Economy assumed that since full employment was the norm, employment was nothing to worry about, even though unemployment rates were at 25 percent. That is, until Keynes came on the scene. And I, as a student of economics, thought that all this had happened because the economists and Ministers of the Economy of the time were incompetent. Therefore, I believed this would never happen to me. (This feeling arose from a combination of my superiority complex and from the way professors presented historical analyses—painting the actors as utter simpletons, while forgetting that it is only after a war that everyone is a general).

We have had five years now of the debt crisis, and I ask myself what those who will be studying economics at the turn of the century will think of me. For my part, I gave up the simplistic approach of trying to explain the events of 50 years ago in terms of any one individual’s incompetence.

It is not that such incompetence does not exist; it just does not explain enough. The perceptions of the moment and the restrictions

of power, along with the factor of luck (as Roberto T. Alemann points out in the following section of this monograph) also play a role.

17. *The belief that there's nobody waiting in the wings to become Minister of the Economy.* Deep down I have the feeling that, once in the job, one of the thoughts going through the minds of Ministers of the Economy is the following: "How can anyone in his right mind be interested in this job, for which the pay is so poor and the insults so many, while all you do is lose friends in the process?" The question, in and of itself correct, overlooks the fact that by definition the incumbent Minister was himself a candidate for the position of Minister; therefore, his questioning of this would raise doubts about his judgment.

Because power is a human passion, an end in and of itself (as are fame, fortune, sex and gambling), it can mobilize energies even in the face of conflicting "objective" indicators. Thus it happens that the incumbent Minister of the Economy, feeling the burden of his position and believing that with his accession to the post there are no further pretenders to the job, commits a sin which in the end could well cost him his post.

Finally, it bears mentioning that all Ministers suffer from unfair competition perpetrated by candidates anxious to succeed them. Politicians often see that Gresham's Law applies to economists as well as to currency: the inferior economists will replace the better. If a politician consults two economists, one of whom tells him something cannot be done, while the other says it can, the pressure is intense on the one who says it cannot. As a rule, the naysayer is the incumbent Minister, who better appreciates the inherent costs of folly than does the candidate for the Minister's job.

Some Married Couples Discuss Their Marital Problems

Two former Ministers of the Economy of Argentina, after reading a preliminary version of this monograph, were kind enough to provide me their comments thereon in writing. I include both letters in their entirety because in both cases I wouldn't presume to summarize them for fear of taking away from the forcefulness of their original texts.

My esteemed friend, de Pablo:

I read your "How to End Up an Utter Failure as the Minister of the Economy" with interest. I detect your characteristic sarcasm, which blunts the seriousness of the subject matter.

But why does he have to fail? Why don't you rigorously adhere to that middle course between two extremes which you, in such dialectical fashion, delineate for each topic? Failures and successes, in politics, aren't measured so easily. For example, you don't mention at all that share of luck all Ministers must have who achieve any kind of success. If bad luck is riding with him, even if he avoids all the errors of commission or omission you describe, not even the best of individuals will be able to conduct his policies to a successful conclusion. As Napoleon said of his field marshals, he wanted those with whom luck was riding. If they didn't have any luck, they weren't of any use to him.

As for the rest, success or failure depends on a Minister's goals, reasonably quantified goals. If his aim is growth, what was the increase in allocation of capital? If he wants to moderate unbridled expansion, how does he do it? If he wants to come out of a recession, when and how will he do it? If he's fighting inflation, he will measure inflation by monetary and price indices. And so on. All of which generally has little to do with the daily vicissitudes of the players playing the economic game, as far as the incumbent Minister is concerned.

I believe accurate information is a guarantee for success. The Minister must look for his sources of information wherever they are available. The Central Bank and INDEC provide quite a bit; the Treasury, some more, and so on down the line for the remaining government departments. Outside the Administration, a Minister must seek information through those with whom he speaks, those who visit with him, or those he himself seeks out. International information, which today is as vital as information from national sources, must be sought without. The same goes for the reading of newspapers and magazines. Only a Minister who is better informed than

general public and government staffs will be able to conduct his policies skillfully, providing luck is with him.

And don't forget the political context: a Minister of the Economy is just as political as any other member of the Cabinet; he's just more subject to the criticisms of those who importune him to allocate already scarce resources, who seek, in general, tax relief, public expenditures, subsidies, credits, protectionist favors, incentives, and who go through sundry other subtle or not-so-subtle motions to finagle funding sources without having to earn them themselves in business. Political manipulation of public opinion and the political power factor are not a science but an art, from which it follows that a successful Minister also needs a certain artistic bent, though not necessarily one of histrionics. Some qualities are learned; others are the product of heredity: the timbre of the voice, personal magnetism or instantaneous antipathy, appearance, a smile or a scowl, the quick comeback, the ability to improvise in the presence of one's listeners, etc.

I could continue my comments *ad infinitum*. For today, let these suffice. Regards,

Roberto T. Alemann
Minister of the Economy, 1961 and 1982

and

Dear friend:

I have received your draft...and, as requested in the accompanying note, I herewith provide you with my comments:

In the first place, I must congratulate you on your title which should sell quite well...it's "catchy," as you journalists say, and, additionally, it's written with your characteristic witty insightfulness and humor.

I have nothing bad to say about your efforts. What I would like to do, however, is pass on some thoughts that might prove useful to you. For example, your manuscript seems to urge on us the conclusion that everything could be resolved if we could only set things up in such a way that

Ministers of the Economy would finish some prep academy with the "Minister of the Economy degree" already in hand, the way admirals, generals or brigadiers do.

I believe it is crucial to point out that a Minister is not someone who can bring off a perfect performance if he is merely prepared for such, because what is crucial are the circumstances under which he must perform, which circumstances fundamentally shape him.

The promulgation of an economic policy and even the backing of the President may not be enough in times of great upheaval like those we are presently witnessing. These are times when powerful sectarian interests struggle for supremacy, creating ideologies that acquire a life of their own, and work to mislead public opinion.

The diabolical proliferation of opinions and their purveyors, in general ill-prepared for the task, creates a veritable hell in the midst of which the more reasoned voices seem like cries in the desert.

The choice, then, is not the promulgation of an economic plan or its adequate communication. Rather, it comes down to re-establishing an official agency designed to create that confidence which is indispensable and which enables the harmonious development of activities, not only economic activities but cultural and political as well.

There is another point, of lesser importance, but one that deserves explanation. I believe that a dehumanizing effect afflicts Ministers in the discharge of their ministerial duties, especially those who gain access for the first time to the pomp and circumstance associated with the position. This dehumanization takes away greatly from the effectiveness of job performance and, as a rule, this ministerial bearing lingers on long after the position has been relinquished.

I confess having needed to resist the allure of power in an attempt to retain my personality. I can't say to what extent I was successful, but I must have had some success because, only a few days ago, an associate of yours, I can't say whether with admiration or pity, told me that as Minister I was too humble.

Of course, this doesn't bother me, nor does the abiding lack of regard those of us must face who, thank God, have little arrogance in ourselves because, as a rule, mediocrity would sooner respect the petulant than the virtuous.

Not so long ago Ministers went to their offices in coat and tails. There are many who still do so, at least in a sort of mental coat and tails. This has its advantages and drawbacks, like the suits of armor worn by medieval knights, for whom they were more of a nuisance than a protection.

You'll forgive the fact that I give vent to these trifling feelings of bitterness although, in the end, when the final verdict is in, they will be cause for pride and not for mortification.

This closing comment may seem trivial to you but, in my vast experience, I have seen many officials fail, having been enveloped by those of lesser stature in the trappings of the position, and I think this is germane to the title of your work.

Very cordially yours,

Jorge Wehbe

Minister of the Economy, 1962, 1972 and 1982

APPENDICES

A. The End of the World, the Deluge or the System?

When do you think the world will end? If you stop to think about it, it's quite likely you've never given this important question serious thought. The fact that you've not stopped to give it a thought, however, doesn't mean that, based on what you've done or failed to do, it could not be concluded that you are absolutely convinced that you'll depart from this Earth before it explodes, freezes over or is covered over with water.

Let's assume for a moment that the world were to end in, say, a couple of hours and that you knew it (this bit of information, obviously, is crucial to our exercise). Would you do the same things you intended doing before you learned of this momentous event? Assuredly, you would not. From the economic point of view, we ought to phrase the question in the following way: from the moment you learn about its imminent destruction, how much are a house, a car, a dollar, an ice-cream cone and a kiss worth to you?

Now, let's slightly modify our exercise. The world is going to end, and as before, you are aware of that fact; but now, instead of ending in the next two hours, it will end in a couple of months. I will wager, again, that, vis-a-vis your current belief that the world will never end, you will modify your behavior, but not as much as in the conditions described in the preceding paragraph. Again, how much are a house, a car, a dollar, an ice-cream cone and a kiss worth to you? Shift the moment at which that you feel the world will come to an end, and you'll see how the relative values of goods are changed.

If your powers of imagination are weak or your anxiety great, I propose to you a hypothesis superficially different but essentially the same as my Doomsday hypothesis above. A foreign tourist is about to leave a country that has a high inflation rate. He has already passed the passenger exit counter and the preboarding of his flight is being announced over the P.A. system. At that precise moment, he puts his hand into his pocket and comes up with some bills from the country he is about to leave. The only thing available is a concession stand. What difference does it make what they sell or at what prices (in local

currency) if, under the circumstances described, the issue at hand is not laying his hands on goods but, rather, getting rid of money? (Doesn't this explain some of those incredible "souvenirs" we have seen at the houses of friends who have come back from trips abroad?)

Let's imagine a different setting now. Assume that in a few hours another Universal Flood will break loose, and, of course, you know about it. Under these circumstances, how much are a house, a car, an ice-cream cone, a kiss, an umbrella, and an admission ticket to Noah's Ark worth to you?

Comparing the results with those for the foregoing exercise are quite interesting. As before, the cost of homes will certainly decline immediately. Now, however, new choices enter the picture (for example, the admission tickets to Noah's Ark) such that, along with the intermediate choices (the kiss, for example), the question might not be so cut and dried.

The essential difference between the Doomsday and Noah's Ark models is that, though both signify a profound discontinuity in evolution (a catastrophe, to use the terminology of modern mathematical research, which has some rather interesting applications in economics), while models of the Doomsday kind enlighten us concerning permanent and ineluctable conditions, models of the Noah's Ark type do so with respect to transitory and (at least partially) avoidable situations. And this explains why, in Doomsday-type models, the relative cost of consumer goods only increases while, in models of the Noah's Ark type, the relative price of anything enabling one to escape the difficult situation—here defined as the admission ticket to the Ark—goes up. The seemingly most innocuous but in reality most dangerous version of Noah's Ark-type models, so widespread in countries like Argentina, is that which goes "one more flood and it'll be the last." This is the macroeconomic version of "bring on the *crème caramel*, I'll go on my diet tomorrow," and "give me a light—I'll finish this packet of cigarettes and then give up smoking," not to mention their parallels in extramarital affairs.

Opposite the Doomsday and Noah's Ark models is a system that links what occurs in a market during one period and in the next. In the Doomsday and Noah's Ark models, the sum of the funds collected on credits already granted is an almost arbitrary number, while in a system a relationship exists between funds taken in at the window where people pay off credits already granted and funds paid out where

new credits are accorded. In models of the Noah's Ark type, the price of goods is almost arbitrary, while in a system, price (that is, the number that's there today and will be there tomorrow and next week) is the number that makes it possible, both today and in the future, for the simultaneous gathering of borrowers and lenders to exist at the window.

The contrasting of the Doomsday and Noah's Ark models on the one hand and of a system on the other helps to explain why economists (good economists, that is) make statements so different from the rest of society. (Did you know that there are two definitions of the "collective wealth," one provided by those who have already made it to the top, the other offered by those still fighting to get there?) The economist thinks about today; he thinks about tomorrow; but, above all, he is not ignorant of the relationship that exists between what happens today and what will happen tomorrow, which explains our insistence on the perspective provided by the system.

A system is, then, a synonym for discipline; a synonym for the responsibility to honor obligations that have been contracted, by accepting the discrepancy between what was believed would happen and what actually did (and, sometimes, between what is being said now, what was believed would occur then, and what actually occurred). A system is synonymous with eradicating from one's heart and mind and, consequently, from the world of speeches, the specter of Universal Disaster as a magic wand of economic policy. It is synonymous with understanding a heartrending but nevertheless real aspect of life: namely, that from the standpoint of material necessity, life is tough, and that efforts bring results. Finally, a system is synonymous with intelligence, as opposed to opportunistic improvisation, to use Victor Massuh's apt terminology.

To be in favor of a system is to begin to develop different attitudes. A system gives rise to new modes of behavior, unilaterally disbands special interests, aids in disbanding other special interests, and encourages political leaders to come up with a government plan that permanently improves the situation.

B. Identification

With apologies to Saint Thomas Aquinas, the case for the existence of God is the most perfect example of identification (or its lack thereof).

The matter of identification is dealt with in econometrics textbooks in the chapter devoted to simultaneous equations. That is to say, it is contained in a chapter the student normally gets to when he's tired, in a subject matter he normally approaches with dread. The result can be anticipated: most economics graduates do not master the subject, which is unfortunate given the importance that identification holds in the analysis of economic policy.

It is impossible to fully grasp the subject of identification in the context of economic policy without at least a superficial understanding of how one proceeds in economic policy. In economic policy one follows these steps: 1) collection of facts; 2) classification of the facts, with particular attention to those which, as far as economic policy goals are concerned, are identified as problems; 3) causal explanation of the aforesaid problems; and 4) elimination and/or mitigation of those problems, to the extent possible.

This order is not fortuitous. It starts with the collection of the facts. It would be difficult to exaggerate the need for adequate clarification of facts prior to proceeding with their analysis. The number of debates that would not have taken place, wasting already scarce resources, if the facts had been adequately set forth is noteworthy.

Once the facts have been sorted out (the inflation rate, for example), they must be qualified and classified from the standpoint of economic policy goals. Again, given the paucity of resources, what purpose is served in dealing with that part of the economic reality that, in terms of these goals, "is doing fine"? One need focus attention only on those sectors that have problems.

Having sorted out the facts and focused on those that reveal problems, one must explain said facts (their identification), and, among the possible causes, determine which cause is operative in the problem under consideration. It should be noted that in economic analysis, the investigation proceeds from causes to effects, while in economic policy, we proceed in inverse order, from effects, or problems, to causes. For example, there is unemployment and this

constitutes a problem; why is there unemployment, here and now?

The final step consists of determining whether the means to remedy the problem present themselves from the causal explanation of that which has been judged to be a problem. For example, there is unemployment because there is a crisis in the balance of payments; therefore, let us resolve the crisis in the balance of payments.

Those devoted to analyzing economic policies will find it useful to ask, in the order presented, three questions: 1) what is the problem? 2) is it my problem (or that of the authorities)? and 3) what can be done about it? Obviously, the order of these questions is not fortuitous; moreover, each of them can render the rest superfluous (something that isn't a problem, for example, doesn't require solving), thus freeing the economist to consider another case.

Identification is concerned with being sure that observations in real life coincide with a model or theory; it is being sure that one has identified the real problem. To illustrate the subject of identification, we will resort to what we hope will be an entertaining situation unrelated to economics. We will keep the setting in its original Spanish context, providing the English equivalents, as necessary. The story goes that a little rascal of a boy, Omar Ramo, chanced upon the written word CASO (case) and with exceeding meticulousness, proceeded to cut up the word, letter by letter. What group of letters did Ramo form with the word CASO (case)? That's an easy question: that group which is composed of the letters "C-A-S-O" (because two groups are the same if they are composed of the same elements; merely changing the order of the letters won't create a different group). Bored by it all, little Ramo left everything lying on the table.

Ester Retes, Omar's mother, found an "O", a "C", an "S" and an "A" on the table. After she had pointed out to Omar that he shouldn't have left everything in such a mess, she asked herself: what word could he have cut up to come up with this group of letters? She easily identified the word COSA (thing). She liked the game and went on with it. And then she identified the words SACO (jacket), CAOS (chaos), OCAS (geese), CASO (case), ASCO (disgust), SOCA (sugarcane, as a young plant) and ACOS (the plural form of the name of a small plant).

Omar's question, that is, the passing from the word to the letters, was easy to answer. As we will see in a moment, on the other hand, Ester's question may even turn out not to have any answer. Let's see.

Ester examined the edges of each one of the letters, looking for irregularities that might enable her to recognize—if only in part—some order in the letters. (For example, if by the shape of the cut marks she had been able to discover that the word had a “C,” followed by an “A,” she would have immediately kept the words CASO, CAOS, OCAS, and SOCA, eliminating the words SACO, ASCO, COSA and ACOS. Having additional information which matched other information, she would be able to make progress in her identification process.)

But, no. As bad luck would have it, Omar had cut up the letters in such a meticulous fashion that it wasn't possible to make any headway with that approach. So Ester gave up. “What word did you cut up, son, to produce that group of letters?” “Ah...” replied Omar in a tone of voice that seemed to make fun of his mother. “Guess! Want a clue? The word begins with ‘C.’” Ester immediately eliminated the possibilities that didn't satisfy that requirement. That left her with the words CASO, COSA and CAOS. “Want another one? Only if we have crepes with custard cream for dessert tonight!” “You're on!” she replied. “OK, the word that produced this group of letters alternates consonants on vowels.” This new bit of information, important in that it enabled Ester to make progress in her identification, narrowed the group of possible words down to the following pair: CASO and COSA. “How about a final clue?” Ester asked. “No, Mama, that's enough for me,” said Omar, a little piqued. “The word is CASO.”

By the time Ester had concluded her process of identification, her suspicions that her son was himself a real “case” were confirmed! However, in the process she was performing a function that is crucial in economics—identifying what the four scrambled letters really meant—just as economists must be careful to interpret complicated information to understand real problems, not just problems perceived by individuals in the economy.

C. Error Type I, Error Type II

The Error Type I, Error Type II approach systematizes factors that are relevant in making decisions under uncertainty. No method, as good

as it may be, can eliminate uncertainty completely. A certain amount of uncertainty is normal and unavoidable.

As an example of Error Type I, Error Type II, consider the story of Pepe Ratonés. Pepe dreams of being able to kiss the woman who lives next door to him, whose name, at her request, we shall not divulge. He cannot make up his mind to “go for it,” however, because he doesn’t know how she would react—and of course he doesn’t dare ask her!

Pepe, who is very thorough in everything he does, senses that his problem is double-edged. On the one side is the issue of his own decision (to kiss or not to kiss) and, on the other, his neighbor’s reaction (she’ll like it or she’ll give him a royal slap—he makes no provision for her indifference, which he finds unimaginable). Pepe also senses that both edges of this sword are independent of each other and that therefore, strictly speaking, the case he’s contemplating gives rise to four possible scenarios. These are, 1) he kisses her and she likes it; 2) he does not kiss her and she would not have liked being kissed by him; 3) he kisses her and she does not like it; and 4) he does not kiss her and she would have liked it.

As the reader will appreciate, possibilities 1 and 2 are completely

<p>Does he kiss her?</p> <p>Would she like to be kissed?</p>	<p>YES</p>	<p>NO</p>
<p>YES</p>		<p>ERROR TYPE I</p>
<p>NO</p>	<p>ERROR TYPE II</p>	

different—you won't pretend to tell me that the participants' welfare is equal whether they kiss or not—but they do have in common the fact that there is no conflict between them, because whatever he does that is the choice she prefers. Possibilities 3 and 4, on the other hand, both present conflict: in these cases, she prefers the opposite of either choice he makes.

When making decisions under conditions where there are unknowns, then, a couple of logical errors are possible. On the one hand, the Error Type I consists in rejecting the hypothesis when actually it is correct (in our example, choosing not to kiss his neighbor, because he thinks she would object, when in reality she would not). The Error Type II, on the other hand, involves the opposite mistake—accepting the hypothesis when it is false (in our example, trying to kiss his neighbor, assuming she would like it, while, in reality, she would not).

The diagram graphically illustrates the arrangement or layout of information when decisions involving unknowns are to be made based on the Error Type I, Error Type II approach. (This version of the diagram incorporates a useful suggestion made by Roque Fernandez to use different expressions on the circle faces to illustrate the different degrees of well-being achieved in each of the situations where there is no conflict).

Anyone who observes reality carefully will see that the world is full of men and women with smiling, happy faces (the stars of scenario No. 1); men with bored faces and women with happy faces (scenario No. 2); men with women's handprints indelicately imprinted on their faces and women with faces distorted by anger (our No. 3); and men with smiling faces and women with bored expressions (No. 4). How can we account for the simultaneous existence of differing scenarios?

The answer is that several considerations enter into the decision-making mechanism that will lead a man to opt for one of the two possible columns; for example, there is the subjective probability, on the man's part, that he will or will not make a mistake. There is also the cost associated with each of those probabilities. The man who thinks he is irresistible, the one who does not mind getting slapped in the face every now and then as long as he gets a little kiss, will both go ahead and kiss, and put up with the consequences. On the other hand, the man who judges his being repulsed highly probable and who, independent of his judgment of that probability, will not take a chance on being rebuffed by a woman, will opt not to kiss—also, of course, putting up with the consequences.

Let's come now to the rescue of the reader shocked by the sensuality of our reasonings by illustrating how the Error Type I, Error Type II approach is applied to the area of our real concern, economic policy. In economics, a distinction is made between *ex-ante* and *ex-post* values of variables, concepts that are involved in a lottery, for example. Whoever buys a lottery ticket believes *ex-ante* that his is going to be the winning jackpot ticket (gambling, in the last analysis, consists in selling the illusion that all the numbers sold will be the jackpot ticket), while *ex-post* (i.e., after the drawing is over) it is clear there was only one winning jackpot number. In all expressions of life and consequently in economic policy matters as well, decisions are based on *ex-ante* considerations—that is, in the presence of unknowns. Consequently, anyone outside of government who must imagine how the government will react to a particular fact must conduct his reasoning along the guidelines of the Error Type I, Error Type II approach.

An example: a company calls in a financial analyst because it is preparing a sales program and strategy for the next period, and management must commit itself now in terms of production plans, sales terms, etc. The company wants to know whether the government intends to make any important decision during the period in question. For example, is it likely to double the official exchange rate? Faced with the impossibility of taking out an insurance policy guaranteeing the rate of exchange, the decision has to be made based on unknowns, on uncertainty. In this regard, whoever makes the decision could make a couple of mistakes. For instance, he could base his decision on the assumption the government will devalue currency, and it turns out the government authorities maintain the rate of exchange at a fixed level. Or he could assume that the government will not carry out any devaluation, and it turns out that the authorities do change the exchange rate. The company's options, as was stated before, are a function of the probability assigned by it to each of the alternatives as well as of the cost to the company associated with each of the two different kinds of errors.

I hope that this intuitive presentation of the Error Type I, Error Type II approach helps improve decision making as well as the analysis of economic policy as regards the dimension of conjecture involved in decision making by economic policy planners.

D. One and Only One Minister Isn't More Than Enough

In many Latin countries, it is said to be expedient to de-emphasize the importance of matters dealing with the economy, which are considered to be lowly concerns, and deal instead, with more exalted affairs (in Argentina, this point is often made in terms of its current ease of "acute economy-itis"). It is also said that, to avoid a conflict of personalities, it is important to avoid a situation in which a Minister of the Economy makes the President look as if he were taking a back seat. Such thinking is seconded by those in the private sector who think there ought to be someone in the government who has as much clout equivalent to that of the Minister of the Economy, but who serves as defender of private sector interests. Examples of this kind of thinking include the belief that if there had been a Minister of Industries alongside the Minister of the Economy, no recourse would have been made to exchange-rate policies to reduce inflation, or the belief that the existence of a Ministry of the Agriculture alongside the Ministry of the Economy would guarantee that no future export taxes would be proposed.

Recent experiences, both national and international, illustrate the point. At the national level, we are reminded of the abolition in May 1971 of the position of the Minister of the Economy, occupied at the time by Aldo Ferrer—an occasion which appeared to reduce the number of Ministers from one to none. What in fact happened, however, is that the real number increased from one to two as the Minister's responsibilities were discharged by the Minister of the Treasury and Finance and the President of the Central Bank.

In the United States, President Richard Nixon at one point had one man as Secretary of State, performing the ceremonial roles associated with foreign policy, while another in the White House ran his foreign policy. In his memoirs Kissinger brilliantly chronicled this regrettable experience, in which two people maneuvered to perform the country's foreign policy responsibilities. In the early 1980s Brazil actually had *three* different people doing the Minister of the Economy's job: Delfim Netto, who was Minister of Agriculture; Mario Henrique Simonsen, Minister of the Treasury; and someone else with a hard-to-pronounce name, who was head of the Central Bank. Brazil's experience resulted in a Cabinet crisis and in the concentration of economic power in Netto's hands.

What do the three related experiences have in common? They have in common the failure of the belief that the ideal number of Ministers of the Economy is other than one and the mistaken belief that the duties of the office can be discharged by anyone who is not formally charged with the position of Minister of the Economy.

The key to the issue derives from the need to distinguish between responsibilities and position. What is the primary function of the Minister of the Economy? His primary responsibility is to apply the Principle of Scarcity, which in practice means saying no to government officials who want to erect yet another bridge, no to corporate officials who want yet another tax reduction, no to exporters who want higher exchange rates, no to renters who want lower rents, no to property owners who want higher rents, etc. This function, it is clear, must exist, and it cannot be shared.

Without any disrespect to the head of the current economic administration (this paper was originally written in 1980), I would suggest that both national and international attitudes toward him are a function of his official duties, not his personality. In recent weeks I have asked audiences in a dozen or so different places if they knew the name of the current Minister of Defense. Only once did anyone give the right answer. When I asked how he knew who it was, he replied, "We live in the same building." I'll bet you good money that if Martinez de Hoz gave up his post as Minister of the Economy to become Minister of Defense, no one would remember who he was. The public's ignorance of the identity of important government ministers highlights how little difference it makes who occupies those positions. What matters is the country and its policies. Let's make it known in Argentina who the minister will be for the next few years, and if we do it with the same sense of support that was given to Martinez de Hoz, we'll find the doors as open as ever. For I am convinced that beyond initial differences in response to personalities, international doors are not opened or closed to Martinez de Hoz, but to Argentina.

I believe that the duties of a Minister of the Economy should be discharged by one person alone, and furthermore that the individual discharging those duties should hold the office of Minister of the Economy. Deferring, however, to the maxim that the best defense is a good offense, I will advance my proposal by showing that all competing proposals, following a period of confusion and missed opportunities, will necessarily lead to mine.

Why should there be one Minister of the Economy and not none? Because if we retain the duties of the Minister but eliminate his office, the only thing gained is that those duties will be discharged by some government official who is formally entrusted with another office. And who would be the likely candidates? Another minister, the General Secretary of the Office of the Presidency, or, worse yet, the Chief Executive himself. Can you picture the nation's President discharging, in addition to his already demanding mandate, the debilitating job that is today performed by the Minister of the Economy? There is little love shown to the President who puts the scarcity principle—fewer is best—into practice.

Why then one and not more than one Minister of the Economy? I am not an expert in decision making, but I am my own employer; I am married and the father of children. In short, I am used to making decisions in different spheres of life, and experience tells me that it isn't difficult to abstract some rules that are common to the successful decision-making process in general. One of the most basic is that that process is enveloped by an inevitable loneliness and by a clear principle of unity. In terms of the case at hand, what will a government do when its Minister of the Economy, or its Minister of Agriculture, concludes that the rate of exchange must be doubled, while an advisor to the Office of the Presidency counsels that exchange rates must be maintained as they are? No one can seriously contemplate splitting the difference—averaging out the proposals—and even less flipping a coin or choosing one course on even days of the month and the other on the odd days.

This example shows that multiple candidates aspiring to carry out the Minister's duties will produce an unstable system. Even if everyone is thinking the same way, it doesn't follow that the number of posts should multiply; the time will come when they disagree, and then what? You will only have to wait out the first real crisis to see who is in charge. In the meantime, we will invent a new profession in Argentina, that of the econocratologist, or the expert in figuring out who is really running the economic show. I know of no examples in which experiments to find out who has authority have been successful.

We cannot avoid the conclusion that the optimum number of Ministers of the Economy cannot be less than one nor can it be greater than one.

E. Economic Journalism and Government

Ask a high-ranking government official to describe a journalist (on any day except Journalists' Day), and you will get a description something like the following: "Very rare exceptions notwithstanding, they are an insufferable lot, insistent, who call on us just when we are in the middle of work, who make things up like crazy, who distort information, who put statements in our mouths that we could not possibly have said," etc.

Now let's reverse the situation, and ask the journalist to describe a government official (on any day except the day he takes office), and you will get something like this:

Very rare exceptions notwithstanding, they're an inconsistent bunch, saying one thing today, doing another tomorrow. They seek you out when they want you to write something favorable about them, but then they refuse your calls; they think they have said one thing; and when you publish what they actually said, they get angry and deny ever having said it. They conduct important meetings from which result absurd communiques ("The National Cabinet met to consider matters of national concern.") or that elicit laughter ("The Ministers of the Economy and Labor met with the President: the wage issue was not discussed."), etc.

This antagonism is intrinsic to the process because, as I will demonstrate shortly, journalism is dedicated to informing and analyzing contemporary economic events. Let's begin by considering the subject from the government's standpoint.

An important incident from 1982 will take us to the heart of the issue. Instead of doubling prices while interest rates on capital assets remained the same, why didn't Dagnino Pastore-Cavallo order existing debt levels in the financial system and the total amount of savings deposited in that system to be cut in half? The answer is that from one day to the next you can literally legislate the Central Bank's administrative order, liquidating assets and liabilities by the former procedure, but you cannot accomplish the same result through the latter procedures.

And why is it important in economic matters to be able to legislate from one day to the next? The answer is: to preclude, as much as possible, individual behavior and practices designed to circumvent such economic policy interventions. (In this context, it is important to keep in mind the distinction between eluding taxes, which is legal, and evading them, which is not.) The less an intervention encourages either eluding or evading of taxes, the greater its overall impact, and the broader the distribution of its burden. For example, to raise a given amount of revenue, the more people who pay, the less each must pay; and vice versa. For this reason government officials are logical when they seek as much as possible to hide their policy interventions in an attempt to minimize dodging. Of course, from the standpoint of the honest government official, what difference is there between savers who get wind of "something" about to happen that will affect them and all other savers?

Analyzing the issue from the standpoint of the government official clarifies for us the logic controlling the opposite point of view, that of the journalist. Why does the journalist try to sneak a peek inside that economic policy "kitchen"? (I am here limiting my analysis to ploys that are legal, like the well-known game of "lying to get to the truth," and excluding outright buying of information or the like.)

Again, if none of the economic players who must shoulder the effects of a changed policy change their behavior and all paid the price, the impact of the change on each of them would be minimized. From the standpoint of these economic players, however, no burden at all is preferable to some burden; and it is even conceivable that advance knowledge of such changes itself offers opportunities to make money. (Who hasn't dreamed of getting advance information on a new major traffic artery in order to rush out and either buy up or sell off property?)

For this reason, each player in the economic arena has just as great an interest in getting advance news of changes in economic policy to avoid their effects as the government official I described a moment ago has in keeping it from him.

While the price people will pay for this information depends on its value to them in different circumstances, the point is that nobody behaves in the way portrayed in simplistic models of economic policy theory, which posit the complete passivity of the private sector. Some people work to get "their man" inside the Ministry. Others invite their government official friends, these friends' friends and presumed or

actual “knowledgeable insiders” out to dinner. Professional lobbyists, of course, make their living opening doors for officials. Finally, there are people who do no more than read newspapers and magazines, listen to the radio and watch television.

While this problem has always been around, in Argentina its intensity seems to have increased. In early 1967, for instance, Krieger Vasena, who had seventy days to draft his economic program, reported that no one bothered him because everyone was at the beach. Regrettably, more and more, we Argentines, instead of thinking about growth, think only about saving ourselves. The pie (the “dough” as some of my colleagues put it) keeps getting smaller, and as a result we increasingly view personal salvation in terms of the transfer of income or wealth to our own column. Getting wind of a change in policy before the rest find out about it is one way to bring about that transfer.

Attuned to the public’s needs and demands, owners of newspapers, magazines, and TV and radio stations divert resources from focusing on the informative trappings of the decisions adopted and allocate them to “squeezing” government officials for advance information. This pursuit involves all kinds of distortions and ranges from activities that are, in principle, accepted—such as assuming that when an official said this or that, it’s because, in his code language, that’s what he meant—to practices that are patently unacceptable, like a newspaper writer making up a story whole cloth because he has to deliver a 40-line story within half an hour and must say *something*.

These distortions pose a major problem in a country as turbulent as Argentina, where, particularly with regard to matters dealing with future changes in economic policy, one cannot ignore *a priori* any reported change, no matter how outrageous. (Argentina is a country where, if someone says, “the cows are flying,” everyone within earshot will look up.) The result is enormous human and material efforts to verify the accuracy of each and every leak made to the media—after all, our economic livelihood rides on every last one of them!

No matter how I look at the problem, I can see no solution to it. The problem would disappear, of course, in a world without time lags. There would be no problem if one could ensure that not even one second elapsed between the moment somebody came up with an idea for policy change and the moment it was implemented. The problem would also disappear the moment each of us stopped feathering his own nest with the advance knowledge of future reforms to economic policy. But neither of these will happen.

So, let us government officials and journalists get used to getting along with each other. The former must recall that men of the press are nothing more than representatives of the population at large—a population that wants to avoid the negative impact of any change in economic policy. The latter must keep in mind that government officials who cut and trim information are just doing their job when they try to ensure that the government is not shortchanged by leaks to the media. Finally, it is to be hoped that we never allow the understandable distancing that occurs in professional roles to cause distancing on the human, personal level.

F. Come Up with Your Own Version of the Conspiracy Theory

It is quite popular in Argentina, in both public and private circles, to explain away events by attributing them to some kind of conspiracy. If you'll pardon my slight exaggeration, comments made by government officials about its public actions fall into two categories: constructive criticism (a euphemism designed to demonstrate unconditional approval) and comments like "you figure out what's behind these remarks." We in the media are no less biting when we see conspiracies in many actions of public officials: Martinez de Hoz, who worked for Rockefeller, for proposing that our country be included in the machinery of the Trilateral Agreement; Jose Gelbard, for advocating in 1973 that our economy be "Sovietized," etc. (thus, from this vantage point, each one of them succeeded and were not the failures the technocrats judged them to be).

Then there is the attitude that "the government is doing this to divert people's attention from the real problems," a response applied to situations ranging from the recurring sightings of Russian submarines on the Atlantic Coast to floods along the Argentine coastline. It even surfaced in connection with the Falklands: both Galtieri's attempt to recover the Falkland Islands and Thatcher's invasion were said to be motivated by "internal problems." Since I don't know of any country that doesn't have internal problems, I suggest, except in a case in which its importance is not very, very clear, that the above-mentioned causal explanation be banished from all interpretations of international policy.

Before I explain why I think the conspiracy explanation for events is so popular in my country, I must make it clear that, depend-

ing on the poor or terrible taste of whoever is making the assertion, some conspiracies are punished to the letter by the Penal Code—which reduces the need to worry about the really serious conspiracies.

The same thing happens to us professional economists when we hear these conspiratorial explanations of matters as happens to psychologists when they go to films: we never come off well for it. At the international level, it turns out that those of us who found opportunity abroad were considered “brainwashed” (especially those of the Chicago School). At the regional level, it is said that the bustle of the “city” keeps us from seeing the real problems, problems that can only be accurately diagnosed and corrected from the heartland of the country.

In my opinion, the fundamental reason that conspiratorial explanations are so popular in Argentina stems from the fact the average Argentine will put up with quite a lot, but not with being taken for a fool. Because it implies a deeper cause than the obvious one, the conspiratorial explanation invariably comes across as much more subtle than the normal explanation. For example, in analyzing the cost of public garbage collection, to start by taking into consideration the cost of the trucks, the salaries of the garbage collectors, and other such factors is to come off as an idiot. The smart, shrewd approach is to start by considering how much money is being pocketed by the incumbent government contracts administrator.

Another reason why explanations based on a conspiracy theory are attractive is that the individual who smells a conspiracy behind everything that happens rarely comes off other than well, a fact which, in the “game” of providing explanations, is no mean feat. And this happens because you can prove that a conspiratorial explanation is right even when, in reality, the explanation itself is but a part of the conspiracy in question. Moreover, a conspiracy theory can never be proven false. You don’t believe me? Try proving that of any of the conspiracy theories previously suggested is false.

The purpose of this discussion is to provide help in resisting the temptation to get hooked on conspiracy theories of reality as well as to expose people who push them. I will now show you how to fabricate conspiratorial explanations by using the same example that is used in any graduate microeconomics course to analyze this topic.

Microeconomic analysis teaches us that when a product or service is unavailable, demand increases for substitute products and services. We also know that this translates to increased profits for

those providing the substitutes. We are thus provided with all the elements we need to create a conspiratorial explanation for the shortage suffered. The only constraint placed on the degree of detail in the explanation is that provided by our imagination. Take, as an example, the subway workers' strike. How shall we provide a conspiratorial explanation for the strike? When the subway is not running, some people will travel by cab, others will hoof it, while still others will stay at home and fix a door, the plumbing or some other household item. The conspiratorial explanation for the subway workers' strike, therefore, will take root from a conspiracy forged by taxi drivers, shoemakers, and hardware store owners. Is there anyone who says it's not possible? Now the second phase of the conspiratorial explanation gets underway. It consists of isolating and portraying a fool anyone who raises any objections to the premises alleged, adding, for example, that the meeting where the conspiracy was hatched was secret and that, consequently, only a handful have any knowledge of it. No one raises any more objections; there is no third phase, and the conspirator (you yourself, perhaps) ends up looking like the King of Theorists.

One example does not explain; it merely illustrates. However, based on the foregoing example and the following rule, you are in a position to learn how to fabricate conspiratorial explanations for yourself. The rule is quite simple: the sole restriction is that the explanation being fabricated must be consistent with events (or none of your questioners must be able to recognize the explanation as inconsistent with the facts; see Appendix B for a discussion of identification-related concerns). It is worthwhile to point out that the correct explanation is, of necessity, consistent with events, but that the inverse thereof is not necessarily valid. (How will you prove that the following statement is false: "I go to concerts because my left ear loves music; my right ear goes along because it hasn't any other choice in the matter"?)

That's enough instruction in learning to fabricate conspiratorial explanations, because I want to devote the remainder of these observations to explaining why I have no use for conspiracy theories as explanations for economic reality. There are three reasons: one is a matter of taste; another, of intellectual integrity; and the third, of probabilities.

The reason related to taste is that the conspiracy theory always spills over into the personal sphere, which for me is sacred. It is one

thing to suggest that the fool made a mistake and another, quite different thing to lose your voice going around saying that, by pursuing his own unspeakable aims, the scheister took us for a ride. For its part, the reason related to intellectual integrity arises from the fact that the habit of explaining away reality by conspiracy degenerates into intellectual laziness. This is because conspiracy theories, from the standpoint of a causality-based inquiry into events, are, above all else, facile.

The third and final reason has to do with potentialities and probabilities. I do not participate in conspiracies and, therefore, the question for me consists in the essentially impossible task of determining the certainty or falseness of the conspiracies of others. In this regard, one must unfailingly apply some principle or approach (for example, Error Type I, Error Type II, discussed in Appendix C of this paper). My own goes like this: in the complete absence of any information, I have no choice but to assume a position at one of two extremes: either I believe in all conspiracies, or I don't believe in any. Without giving up one iota of my Argentine identity, I am prepared to pass in your estimation for naive, but given the alternatives, I choose to believe that no conspiracies exist.

So far so good with regard to the analysis at the personal level. When we move to the general level, which is concerned with the quality of the national economic debate, I find that conspiracy theories are a strong retarding factor in understanding and, above all, in solving concrete problems. They make us grow dull, pushing us over to an all-too-convenient intellectualism, a vice according to which the only thing better than a repaired water tap is a good explanation for why the tap cannot be repaired (or better, for why they won't let us repair it). They provide, finally, an excuse for our passivity—letting us rationalize our unwillingness to address economic problems seriously. I am convinced that Argentina will make progress when the debate centering around those everyday economic aspects of reality lets go of, among other things, the conspiratorial “balloon” it so cherishes.

I will close with the conspiratorial version of my ideas about conspiracy theories: the machinery put in place by our internal and external enemies is so perfect that it has made us believe that they rule over us, when in reality we are free. But they have spared us the effort of proving to ourselves it is so.

Note

1. My views concerning the running of an economy which, being an economist, I have studied and which, as a man-in-the-street, I have been obliged to ride out, have been memorialized—in addition to a never-ending list of newspaper articles penned “during and after the fact”—in the following books: *Política Económica Argentina 1967–70* (Argentine Economic Policy: 1967–70), Amorrortu, Buenos Aires, 1972; *La Economía Política del Peronismo* (Economic Policy Under Peron), El Cid, Editor, Buenos Aires, 1980; *El Proceso Económico: Como Lo Vi y Como Lo Veo* (The Economic Process: How I Saw It Then and How I See It Now), *El Cronista Comercial*, Buenos Aires, 1981; and *Thirty Years of Argentine Economic Policy* (in English, in collaboration with A. Martínez, to be published by the World Bank). At the same time, I have been able, through interviews, to provide the story of Argentine economic policy as it was lived by the majority of its protagonists in *La Economía Que Yo Hice* (The Economy I Made), Ediciones El Cronista Comercial, 1980, and in *La Economía Que Yo Hice, Vol. II*, Ediciones El Cronista Comercial, 1986.

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