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A PROJECT OF THE POLITICAL ECONOMY RESEARCH INSTITUTE ■ UNIVERSITY OF MASSACHUSETTS, AMHERST

May 22, 2012

Letter of support for the new central bank law in Argentina

The prevailing ideology over the last thirty years has been that the only legitimate task of central banks is to control inflation. This single-minded focus on inflation has frequently been implemented through the application of an “inflation target,” a maximum rate of increase, often in the low single digits, of some measure of aggregate price changes. The practical consequence of setting the “fight against inflation” as the primary objective has been to reduce substantially the policy options of central banks. Even more, this narrow approach prevents the coordination of monetary policy and fiscal policy, essential to successful countercyclical interventions. In Argentina in the 1990s economic policy operated under the burden of an extreme form of this narrow approach, a “currency board” regime, involving a fixed exchange rate to the dollar and a monetary base strictly linked to foreign exchange reserves. During 1997-2002 the weaknesses inherent in this monetary policy created disaster, economic collapse and high inflation. In March of this year, the Argentine government proposed a new central bank mandate that would repeal the currency board rules and broaden the institution’s mandate to multiple objectives including growth, more equitable income and wealth distribution, sectoral credit allocation, and price stability. The Congress passed and President Cristina Fernandez signed into law the new mandate. We applaud the Argentine government and the Congress for this farsighted approach to monetary policy which encourages the Central Bank of Argentina to promote broad based economic development.

*Gerald Epstein, Department of Economics and Political Economy Research Institute (PERI),
University of Massachusetts, Amherst*

*C.P. Chandrasekhar, Centre for Economic Studies and Planning, Jawaharlal Nehru University,
New Delhi, India*

Jane D’Arista, SAFER

Thomas Ferguson, Department of Political Science, University of Massachusetts, Boston

James Galbraith, Lyndon B. Johnson School of Public Affairs, University of Texas, Austin

Kevin Gallagher, Department of International Relations, Boston University

Teresa Ghilarducci, Department of Economics and Schwartz Center, New School

*Jayati Ghosh, Centre for Economic Studies and Planning, Jawaharlal Nehru University,
New Delhi, India*

Ilene Grabel, Josef Korbel School of International Studies, University of Denver

Arjun Jayadev, Department of Economics, University of Massachusetts, Boston

David Kotz, Department of Economics, University of Massachusetts, Amherst

Rick McGabey, Milano School of International Affairs, Management, and Urban Policy, New School

Michael Meeropol, Department of Economics, Western New England University

Thomas Palley, Economic Growth Program, New America Foundation

*Robert Pollin, Department of Economics and Political Economy Research Institute (PERI), University
of Massachusetts, Amherst*

Juliet Schor, Department of Sociology, Boston College

Erinc Yeldan, Department of Economics, Bilkent University, Turkey