Buenos Aires, the capital of Argentina, is the most visited city in South America. Tourists enjoy Argentina’s quaint streets, the old European feel, and the rich culture. Little do many know that the country is in crisis.

The Argentine peso has lost half of its value in 2018. The Argentine equities and bonds lost value significantly. And the country has been in extended talks with the IMF to secure a $57 billion deal that is the largest in IMF history. According to the country’s central bank, it is striving to “re-establish confidence in the fiscal, financial, monetary, and exchange rate situation.” But such reform may come at a price Argentines are unwilling to pay.

Workers regularly strike against attempts to curb on salary increases, and the people protest the austerity measures that have been presented. However, in recent years people have become increasingly skeptical of the country’s path, voicing their concerns by electing President Mauricio Macri in 2015, a business veteran and the first non-radical and non-Peronist president since 1932.

What happens to the country is yet to be seen, but one organization is not content to sit on the sidelines waiting. Fundación Libertad y Progreso (LyP), a goal-oriented free-market minded think tank located in Buenos Aires, has been actively engaging the disenchanted public with programs targeting policy reform.

Recently, LyP partnered with the Fraser Institute and Atlas Network to launch a bold new project: an Economic Freedom Audit (EFA). EFAs provide a robust and in-depth evaluation of what exactly is pulling a country’s economy down. A key element of the project is that many of the resulting policy recommendations are generated by the country’s very own leaders, top experts in the fields of law, media, government, and academia.

The homegrown nature of LyP’s audit produced concrete examples of policies’ direct impact on Argentines, capturing exactly what’s wrong and honing in on specific elements that can affect real change. The results of the EFA serve as a roadmap for building a path out of the country’s economic implosion. There have already been a few successes to emerge from the audit, and LyP’s experience is instructive for other think tanks striving to motivate their own countries to escape stagnancy.
Country Background

To capture the gravity of the situation in Argentina, it is helpful to appraise just how far it has fallen. The future for Argentina was once quite bright. In the early years of the 20th century, Argentina was one of the most promising nations on the globe, with one of the highest levels of prosperity and potential equivalent to the other rapidly developing nations at the time, like Australia, Canada, New Zealand, and the United States. In fact, many European immigrants debated whether to move to New York or Buenos Aires.

Now, those countries vie for the top 20 spots in the Fraser Institute’s Economic Freedom of the World (EFW) Report, while Argentina has fallen almost to the bottom. The country has fallen with respect to GDP per capita, as well, falling well below the world average, while its former peers all exceed 200 percent of the world average. In its latest edition, Argentina is one of the middle to low ranked countries.
About LyP

Fundación Libertad y Progreso (LyP) is a non-profit think tank based in Buenos Aires, Argentina. LyP fights for deep change in Argentina by working on the development of public policies, engaging in the national political discussion, and promoting participation by civil society in the debates surrounding the role of government in the economy. It strives to develop and advocate for public policies that will improve the quality of life in Argentina and the rest of Latin America in the long run. LyP was formed through the merger of three like-minded think tanks that decided to unite to more effectively advance the common goals of respect towards individual rights, limited government, private property, free enterprise, and peace.

LyP’s activism has taken many forms. In 2017, its video about Argentina’s high tariffs on laptops and tablets received 80,000 views and significant media coverage. As a result, the tariffs were repealed. LyP’s tariff abolishment campaign came out of a report titled “An Open Argentina,” which examined the state of Argentina’s international trade and argued for trade liberalization. LyP also publishes its annual Institutional Quality Index (IQI), which lists and ranks countries according to the strength of their political institutions and level of corruption. (Argentina is ranked 119 out of 183 on the 2018 IQI.)

This downward trend in Argentina began in 1943, when Colonel Juan Perón came to power after a military coup. Perón pursued the protectionist policies and economic nationalism of both Italian fascism and Latin American populism. Peronism, as the ideology of Perón and his successors became known, is characterized by corporatism, a focus on organized labor, and direct control and regulation of the economy. Perón was defeated in a coup in 1955, but the movement he started continued to develop, and populism persisted amidst regular flares of social tensions.

Argentinian populism created high demand for social services and fostered a skepticism towards the benefits of trade. In the 1960s, tariffs averaged 84 percent and the state significantly taxed exports, shrinking them to 2 percent of national income. Government spending as a percentage of GDP more than doubled, from less than 10 percent in the 1930s to 30 percent in 2000 and 45 percent in 2015. Between 2003 and 2015, the number of public employees grew 77 percent.

Populist policies sound appealing because they promise to provide for daily needs. As an example, one policy is that widows receive not only their own pensions, but also the pension of their deceased spouse. But these policies tend to continue expanding. If two widows who each receive two pensions move in together and claim “coexistence” with each other and then one of them dies, the other is eligible to claim all four pensions for the rest of her life. These populist policies do not come cheap. In the decade between 2006-2015, Argentines paid $694 billion more in taxes than they did during the 1990s.

Many Argentinians recognize the economic troubles that prevent prosperity, but they have learned that it is more difficult to put the genie back in the bottle; once a government bureaucracy begins to expand, momentum is difficult to restrain. In 2015, the newly elected government, led by President Macri, aimed to reduce the fiscal deficit and government expenditures. Yet that effort has stunted.

With the terms of the new IMF bailout reinforcing stronger fiscal responsibility, including a prohibition on deficit spending and restrictions on currency manipulation, there’s a chance Argentina will have enough motivation and accountability to stay the course. But simply meeting the loan requirements will have no permanent effect on the economy or daily Argentine life if not partnered with real, transformative, liberating policy change.
The Project

LyP wants to make the most out of the opportunity the crisis presents. Because people may finally be interested in true reform, LyP wants to have solid policy recommendations prepared. To pursue this goal, they decided to conduct an Economic Freedom Audit (EFA), in conjunction with the Fraser Institute and Atlas Network. The purpose was to identify tangible obstacles to a healthy, thriving economy and develop solutions for moving forward — solutions that will be persuasive enough to urge their compatriots out of the compounded rut of bad policies and stagnant performance.

“We believe increasing economic freedom in our country will lead to a new era of prosperity, reduced poverty, job creation, and growth.”

Candelaria de Elizalde, the general coordinator of LyP

Together, the three organizations assembled a group of Argentinian stakeholders and top leaders to work on the project. Participants comprised a broad group of industry experts, including former government officials like the former Minister of the Economy, the Vice President of the Central Bank, the Secretary of Political Economy, the General Manager of the Central Bank, the Secretary of Trade, and others. This level of involvement reveals a tacit acknowledgement that Argentina’s leaders know there’s a problem, that they are unsatisfied with the status quo, and are at least open to being involved in change. These are the building blocks of social change, and LyP wanted to make sure to capitalize on the opportunity.

In advance of the audit, LyP first contacted other organizations that had completed successful EFAs. Representatives at two other think tanks — the Samriddhi Foundation, a free-market think tank in Nepal, and Centro de Estudios para el Desarrollo (CED), a think tank based in Uruguay — shared in detail their previous experience conducting an EFA. They also shared advice for conducting a successful EFA.
An Economic Freedom Audit is more than just a report or a ranking; it is an opportunity to gather experts, propose solutions, and reach a broad audience to enact policy changes. Local think tanks spearhead audits and leverage their contacts and expertise to bring together media, businesses, government officials, and academic communities, usually totaling at least 100 participants. After multiple meetings between important national stakeholders and the think tank, a final report is drafted.

A trained facilitator works with the various groups to engage feedback from diverse participants in a way that stirs ideas together while staying focused on the specific goals of the audit. Involving locals creates ownership, and ensures the audit accurately captures reality because it is designed by people in the nation who understand the situation far better than outsiders do. The deep dive into each category provides real time data on what is truly happening in the country.

The report ranks the target country in seven categories: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally, and Regulation, which consists of three different types (Credit, Labor, and Business). Each category has constituent parts, and each factor is scored. The report also lists policy recommendations for improvement, which are produced through discussion in workshops on each category, drawing on cross-disciplinary perspectives to hone in on key metrics with keen accuracy. The intensive treatment provides a robustness that is unattainable in the broader EFW report.

The final report is not the sole product of the EFA process. Policy change and sustained progress are the goals, and the results in the report are leveraged to garner media attention to impact public opinion and advance which policy options are possible in the target country. Media are engaged throughout the process, including pre-audit news releases and interviews, coverage at the audit, a post-audit press release and more focused interviews, a final report that is full of detailed analysis and policy recommendations, and, ultimately, a formal presentation to the public and government of the findings. These audits are an effective way to convey the advantages of economic freedom directly to a nation’s leaders, and serve as a powerful media tool for communication with the public.

To establish a baseline for the audit, LyP dug into the nuts and bolts of Fraser’s EFW materials, analyzing each component. For each audit, the Fraser Institute prepares a booklet that features the nation’s level of economic freedom for each of the 42 variables in the index. To provide context for the results and to put them in perspective, the matrix also shows the scores of the top 10 nations for each variable, the top 10 average, the regional average, and the world average.

Fraser’s dataset mostly comes from the Doing Business report by the World Bank, which measures the ease of doing business in 189 economies, and the World Competitiveness Report by the World Economic Forum, which analyzes 138 countries. By examining these materials, LyP ascertained Argentina’s performance for each variable, how it compared to its neighbors and the world, and what improvements are needed.

After receiving advice and reviewing Fraser Institute materials, LyP commenced its brainstorming for the multi-day conference of the audit. They organized a series of seven workshops in a two-day event. The sessions focused on each of the components of the EFW index, with a few modifications.

The Size of Government category, because of the particular challenges facing Argentina, was split into two sessions, the first considering public expenditures and the second taxation. And the Regulation category was given two sessions: Business and Labor, with the third element, Credit regulations, being combined in the Sound Money session. One important hurdle the LyP team needed to surmount was identifying where they should look for the best practices to address the leveraged policy areas they determined needed improvement. They also needed to develop a cohort of attendees that
would balance deep expertise and political know-how. The success of the entire project, and any EFA for that matter, hinged on this. They had to get the right people in the room.

LyP held several meetings with internal project leaders and the organization’s directors to determine which stakeholders to reach out to. By utilizing their extensive social and professional network, LyP sent invitations to targeted individuals and drew on the social capital that LyP’s leadership had worked for years to establish.

Once the initial contact had been made, follow up on the invitations was delegated to a dedicated point person on staff. To help keep track of invitation statuses, the team used Salesforce, a customer relationship management (also called “CRM”) software platform that integrates communications, analytics, and various automations that can significantly relieve administrative burden.

This intentional approach attracted an impressive array of participants, ranging from the facilitator to the attendees for each topical session. Among the 46 workshop participants who attended, a cornucopia of professions was represented: academic economists, consultants, lawyers, public policy experts, elected officials, and economic policy analysts. Professor Martin Krause, a professor of economics at the University of Buenos Aires and an adjunct scholar at the Cato Institute, was the point person for the project, and author of the final report. He also facilitated each of the workshop sessions.

To begin each session, Krause asked participants to introduce some key concepts of every issue. The topics raised covered wide and diverse policy areas, ranging from export duties on soybeans to off-budget government expenditures, rogue municipal governors to sanctioned investment vehicles for startups. The sessions provided key takeaways and opened discussion among the diverse participants. And the deep expertise of the attendees provided new ideas for policy reform for LyP to investigate further.

**Challenge: Exogenous Shocks**

Logistical issues can be unpredictable and yet disruptive. On the first day of the audit, a national strike brought public transportation to a halt. Similarly, on the day of the conference, Angela Merkel’s visit to Argentina required increased security in Buenos Aires that restricted access to the meeting location. For these issues LyP had to quickly develop and implement communication plans. Due to the organization’s record keeping and use of CRM, contacting participants was significantly more efficient than it otherwise would have been. Such built-in tools and processes enable quick responses to unforeseen circumstances. Focusing on organizational tools, while not glamorous policy reform, are sometimes what makes the difference between a project’s success or failure.

Following the EFA, Professor Krause wrote a final report. After which, both he and Fred McMahon, a resident fellow at the Fraser Institute who provided expertise on the EFA process, built a communications plan to strategically distribute the results of the audit. Outreach included press interviews, meetings with policymakers and other leaders, and presentations in two cities, Buenos Aires and Tucumán. Notably, Krause and McMahon also met with representatives of the National Congress at the Friedrich Naumann Foundation’s office. The representatives were impressed with the audit, its findings, and some of the policy recommendations, building opportunities for future engagement.

McMahon also gave presentations to Argentinian think tanks. He visited the Fundación Instituto David Hume to present to an audience of academics and professors who were unfamiliar with the Economic Freedom Index. And in Tucumán, McMahon spoke to a group of youth assembled by the Foundation for Federalism and Liberty (Federalismo y Libertad), a young think tank that for several years has been ranked as a “Top 100 Think Tank to Watch” by the University of Pennsylvania’s Global Go To Think Tank Index. These in-person visits put actionable information directly into the hands of influencers involved in Argentina’s policy formation.
The importance of the audit lies not just in the report, but also in serious policy outcomes and sustained ideological change. LyP can claim at least one policy win — so far — that has emerged from their audit. During the workshop on regulation, experts specifically debated Argentina’s labor market regulatory scheme. According to the audit report, “When the cost of hiring or employing workers is too high, businesses are reluctant to hire. Creating jobs for future generations is a key priority for Argentina, and yet its own laws, regulations, and regulators stand in the way.”

At the time of the report, Argentina’s labor market regulations imposed high costs. In the “hiring regulations and minimum wage” audit category, Argentina scored 2.23 out of 10, and in the “hiring and firing regulations” category, scored a 1.9 out of 10. Overall, for the entire category of “labor market regulations,” Argentina received 2.52 out of 10. For comparison, the U.S. scored 9.2, and the South American average was 5.3.

Discussion at the workshop revealed that the Macri administration had once attempted to ameliorate labor market issues through a “first job bill,” would have made it easier for 18 to 24 year-olds to find jobs. However, the House’s Labor Committee never considered the bill and it never got to the floor for a vote.

From Plan to Policy: Workplace Reform

The workshop exchange generated a series of considerations any labor reform would require.

1. Argentina would need to return to “a culture of work.” A good channel for returning to such a culture would involve transforming existing welfare programs into workfare by promoting work for those receiving social subsidies.

2. The public sector must move its own excess employees into the private sector.

3. The Law of Labor Contracts needs an update to account for increased flexibility resulting from technology.

4. The right to strike needs further regulation to prevent excess.
Following the audit, in 2017, LyP created a video entitled Why Argentina Fails, drawing on ideas developed in the workshops. The video highlighted employment and labor reform problems, explaining that 8 million Argentinians work to support 20 million receiving government payments. LyP won Atlas Network’s ‘Lights, Camera, Liberty’ Film Festival Award for its work and message.

The video gained significant media traction, earning 420,000 views, and caught the attention of Argentina’s government. The government included some of the proposed reforms in its Programa Empalme (Connection Program), launched in June 2017, which subsidizes business with an average of $4,430 for each person they hire who was on social welfare. It is aimed at providing a path to productive employment. The subsidy lasts for two years of work, and businesses are restricted in the share of employees that can participate in the program. The program is currently in a beta phase, with 12,280 participants in the program. There is strong demand for a full rollout to extend to the estimated 70,000 potential candidates.

The Programa Empalme is a promising policy that builds on the work presented in LyP’s audit. Furthermore, it demonstrates that an audit is more than product; it is also a process to identify solutions and start a conversation. The program also shows that successful follow up can have tremendous results.

**Key Takeaway**

A unique challenge for LyP was figuring out how to motivate Argentines out of complacency. Early economic success established a comfortable way of life, and allowed the formation of numerous and visible public perks. But the unseen is what threatens to cripple the country. The country can possibly continue many of its social welfare programs with slight reforms to please its international lenders, but this path would come at great opportunity cost of what they could become.

LyP drew on individuals’ aspirations for prosperity to build momentum for their EFA and the resultant policy recommendations. Appealing to this very personal concept by focusing on labor policy, something that affects nearly everyone in society and is crucial for policymakers, made the policy conversation practical rather than ideological. LyP found a pressure point that was close to home and used it as a catalyst to move toward broader change.
A successful audit can lead to serious policy changes and ideological shifts. Leveraging an organization’s background and skills can set the stage for success, but it’s only one part of the equation. Engaging a diverse and well-equipped body of participants is how to generate content and mobilize solutions. Combining these elements, along with the structural support of good business operations and a strong network of partners, increases the chances of a successful policy reform project. LyP’s audit led to real policy that could become the groundwork for more sustained, substantial change in Argentina.

Through the workshop and meeting process, experts and leaders drafted a series of necessary requirements that serious labor reform efforts ought to include. By coupling this research with a video campaign, it appears that the government of Argentina is acknowledging government bloat and taking actions to decrease it. The current Programa Empalme, while still in its early stages, shows that successfully implementing and following up on an EFA can achieve sustained ideological shift and policy change.

Conclusion
Discussion Questions:

» How did culture impact the Overton Window that LyP faced? What are cultural barriers that your organization faces when pursuing policy reform?

» What unforeseen events have hampered the success of projects you have worked on? Did you build in contingencies for future initiatives? If you did, what were they? If you didn’t, could your projects be at risk from other unexpected variables?

» What is a way that LyP overcame blind spots they may have?

» What technological or business process could yield immediate benefits to your work? What about in the longer term?

» What policy issue in your target market personally resonates with people and their everyday lives?
Economic Freedom Audit Series

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