Argentina Overthrows Conventional Wisdom

John Williamson explains why Argentina's nationalization of Spanish oil company holdings is self-destructive and discouraging to investors.


Steve Weisman: Argentina has created some turmoil with its announcement that it would seek to nationalize part of the Spanish oil company Repsol, and Spain is in a furor. Luckily, John Williamson of the Peterson Institute for International Economics is here to explain to us. This is Steve Weisman.

John, were you surprised by Argentina's action? Also explain what they did.

John Williamson: I suppose I wasn’t altogether surprised, because the Argentine government has been taking an increasingly heterodox line, adopting policies that are intended to thumb their noses at the conventional wisdom. And that’s exactly what this does. I think essentially what they’ve done is to announce that they are taking over 51 percent of the 56.7 percent holding which Repsol had in YPF, the Argentine petroleum-producing conglomerate. The effect of that will be to turn this into a nationalized industry – 51 percent gives unambiguous control to the Argentinean government. There’s no question about it -- they are the people who will in the future be appointing managers and making the decisions.

Steve Weisman: It must have been a tempting target for the Argentine government.

John Williamson: I suppose, with the increase in oil prices, one, the value of the investment must have gone up considerably. It’s therefore a tempting target. It’s in the tradition of the Argentine government, which took over previously other pension plans and turned them back into PAYE, pay-as-you-go obligations, rather than treating them as simply building up pension rights in the future. [The goal was to] enhance the short-run revenue of the government at the cost of worsening of its long-run fiscal position.

Steve Weisman: Also an irresponsible move.

John Williamson: Yes. I would certainly agree with that.

Steve Weisman: Conventional wisdom is not to do this. Why? What could happen adversely for Argentina?

John Williamson: The argument against it is essentially that you want a number of freestanding companies to stand on their own feet. If they can’t make ends meet, they fall by the wayside. They go bankrupt and declare bankruptcy. Once you start taking over companies, you abandon that principle. It essentially means that there is no basis of fair competition in the society, because some company can always undercut somebody else and thereby preserve itself if it knows it’s going to be bailed out in the end by the government.
Why is this not a good idea for Argentina? Well, in part, it’s because presumably Argentina wants to create a healthy, vibrant private sector. That’s what kept it going so far. But it also makes it a very unattractive place in which to do any foreign investment – foreign direct investment in particular. That was quite important in Argentina in previous decades. I don’t think that anybody in their right mind is going to invest in Argentina in the future.

Steve Weisman: Have the markets begun to respond, sending that signal?

John Williamson: It isn’t as much a case of markets moving as a move of the direct investors. They are people who are thinking of investing in Argentina and probably won’t now. So the Argentine government will lose that big inflow of foreign exchange, which has the potential to raise productivity more generally.

Steve Weisman: What kind of a signal does this send to other countries -- oil-producing, or energy-producing countries, or just generally countries that are looking for foreign investment?

John Williamson: If the international community lets them get away with it, I think it will be a new, attractive signal to oil producers. They are sitting on matter which has increased in value. In the same way that one happened in the early ’70s, a wave of takeovers of foreign companies’ rights in the light of the increase in oil prices. They became much more attractive. So you had expropriation, and governments first saw the value of the assets increasing and they saw countries getting away with it and they decided to do the same.

As far as countries more generally are concerned, not oil producers, I think it’s likely to reinforce the reluctance to invest, to interfere with investments.

Steve Weisman: In other words, you think that the adverse effects might discourage other countries from doing the same thing.

John Williamson: I think the adverse effects will clearly outweigh the beneficial effects, as far as the non-oil producers are concerned. But as far as the oil producers are concerned, it’s much more ambiguous. That’s to say where foreign governments now have established rights once again in oil-producing countries -- and to a large extent, they’re owned now by national producing companies —they are not in any danger.

Steve Weisman: I guess Russia, countries like that, where it still could go either way. It’ll be interesting to watch.

John Williamson: Yes.

Steve Weisman: Thank you, John.

John Williamson: OK, pleasure.