Seigniorage and inflation: Argentina 1982-1984

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A nation's central government, along with its central bank, has monopoly control over the creation of the money supply. The revenue a government earns by printing money is called seigniorage, and the inflation that may occur due to the increased money supply is called inflation tax. Seigniorage, once relied on too heavily to finance the government deficit, can easily lead to hyperinflation. The purpose of this paper is to examine how seigniorage in the economy of Argentina economy between the period of 1982 and 1984 reached unsustainable levels, eventually leading the country on the path to hyperinflation. The stability of a currency, which is undermined by rapid inflation, is a vital element to any civilized society. Weakening of a country's currency threatens to overturn the basic foundation of any society. The severity of such an occurrence legitimizes the study of currency as of the utmost importance. By utilizing the quantity theory of money, it is possible to analyze what effects growth of the money supply that far exceed the growth of the economy's real output will have on the value of a government's currency. The government of Argentina incurred large budget deficits as a result of increases in government spending. The government's policy to increase revenue was that of seigniorage. This paper will prove that the Argentine government's monetary policy, which consisted of large increases in the money supply, was the direct cause of the hyperinflation that the country and its people faced during the years of 1982 and 1984.