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Thank you, Argentina [1]

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You can always count on Argentina for abject lessons on how not to run a country. That?s always been painful for its citizens but useful for the rest of us to see how hair-brained, populist schemes just don?t work.

This week, President Cristina Fernandez de Kirchner announced the seizure of Spanish oil company Repsol?s stake in Argentine oil company YPF to give the government 51% control. Spain is outraged and has recalled its ambassador. The Argentine navy has been diverted from the Falklands and is now steaming towards the Canary Islands.

Ms Fernandez justified her move on the grounds that YPF has failed to invest sufficiently to prevent Argentina from importing ever greater quantities of fuel. The fact that Argentine oil reserves have been dwindling means the sector needs greater and increasingly sophisticated investment to reach more complex structures, just like in the North Sea. Expropriation isn?t going to attract that kind of high-risk investment.

Once in state hands, odds are high that YPF will be used by the government for other purposes, just like Venezuela?s PDVSA. It was no surprise that Hugo Chavez cheered the news from Ms Fernandez. Perhaps he hopes she can show PDVSA how to increase daily oil production which has fallen by 7% in the past five years.

The YPF seizure continues Argentina?s cavalier attitude towards other people?s money shown back in 2008 when Ms Fernandez grabbed some $24 billion of private pension funds and used central bank reserves to meet debt payments. More recently, the country has been in a spat with the IMF over the quality of its statistics. Argentina claims inflation is running at somewhere between 5% and 11% but private independent estimates put the number at somewhere around 25%. The Economist is refusing to publish official Argentine inflation data [3].

Disrespect for the law and wilful distortion of the facts are no way to manage an economy. Productive investment requires assurance that monies invested will be paid back and that investment decisions are based on reliable data.

Like many floundering politicians, Ms Fernandez confuses ownership with productivity. This is especially so when it comes to natural resources as if the mere existence of oil within a set of borders is wealth in itself. But wealth comes from finding, extracting, processing, shipping and selling the commodity, just like

any other product. America, Canada, Britain, Australia and others benefit from the exploitation of their natural resources by private companies operating within clearly understood legal arrangements, not from state ownership of the entire production process and certainly not from expropriation.

With her latest move, Ms Fernandez continues the long, sad tradition of Argentina failing to live up to its potential. At least the rest of us get real-world case studies of bad policy-making.

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