DESTROYING ARGENTINA

by Vincent Valdmanis

In the same week that the Argentine National Treasury seized private pension accounts to pay back foreign lenders, Matias Bello, an unemployed 27-year-old father of two, called television stations to tell them "something serious" was going to happen at the Tandil Town Hall, 300 miles from Buenos Aires.

There, defiantly sitting in the mayor's chair, Bello pleaded with officials on live television to understand that the government-imposed $250 limit on savings withdrawals (imposed to prevent capital flight) unduly hurt debtors in a cash economy.[1] As viewers watched in horror and journalists struggled to stop him, Bello placed a gun in his mouth and pulled the trigger.

How did a nation, which at the turn of the last century was among the world's 10 wealthiest,find itself desperately confiscating $3.2 billion of privately held retirement savings in order to pay international creditors?[2] Once as rich as France, with more cars than Japan, Argentina has seen its homeless population double in four years as poverty becomes increasingly widespread. In Buenos Aires, a city once as safe as London and with more psychoanalysts per capita than anywhere else on earth, an average of two banks a day are robbed. In the capital and surrounding suburbs, crime has soared 41 percent since 2000.[3]

South America's largest economy, once the developing world's poster child of economic liberalization and boundless potential, is now stuck in its fifth year of recession. The unemployment rate is over 20 percent, and millions more lost jobs as industrial production sank 25 percent last year. Industrial output has been crushed by interest rates, which by one measure have leapt to over 90 percent on dollar-denominated borrowings.[4] Embroiled in a struggle with creditors, bond markets,labor unions, and provincial gov-

ernments as its economy crumbles under the weight of bloated debt, stalled industrial output, and high unemployment, Argentina has crashed.

Part of the problem are the policies advanced by the International Monetary Fund (IMF), an international institution accountable to no one, which gives Argentina conditional loans and in exchange badgers the government into raising taxes, cutting spending, shoring up its overvalued currency, and adding to its debt burden.

One of the greatest impediments to growth that Argentina faces at the time of this writing is its currency, pegged to the U.S. dollar since 1991 as part of its IMF-backed Convertibility Plan. The policy is credited with reducing annual inflation from 5,000 percent in 1989 to less than 5 percent in 1994, but it increasingly made Argentine exports prohibitively expensive (while simultaneously making foreign imports cheap) and put even greater pressure on the country's trade deficit.[5] The IMF, repeating a move that was met with complete failure in Russia and Brazil in 1998, arranged a $40 billion package in December 2000 and an $8 billion package last August with the stipulation (among others) that Argentina persist with the Convertibility Plan.[6] Along with the loans came the usual "austerity measures": high interest rates (killing industrial production, thereby driving up unemployment) and budget cuts (slicing social safety nets, thus foisting the burden of "adjustment" on the poor).

The IMF has attempted to shore up currencies before. Fearing explosive inflation and market destabilization, it made a $42 billion loan to Brazil in November 1998 to buttress the falling real and demanded changes in government spending and market structures. Within two months the real collapsed anyway. The IMF repeated the same formula in Russia, and again the local currency collapsed despite the loans. But with imports made expensive and labor cheap by weak domestic currencies, both economies responded positively to the devaluations. Russia posted its strongest growth in two decades in 2000.[7]

The peso-dollar peg also means that Argentine interest rates track those set by the U.S. Federal Reserve, which until the economic slowdown in 2001 had raised interest rates at the very moment Argentina needed them reduced. Industrial output, financing, and employment figures were further damaged, hurting tax revenue and Argentina's ability to repay loans.

In the early 1990s Brazil also pegged its currency to the U.S. dollar as an anti-inflation measure, a move that allowed Argentina to maintain a competitive edge until January 1999, when Brazil's real lost 40 percent of its value.[8] At the time of the Brazilian devaluation, the Argentine peso rose 20 percent between January 2000 and late 2000 as it followed the rise of the dollar to which it was fixed.[9] While the peso's value was stable against the dollar, it helped Argentina's trade balance very little, since U.S. markets account for fewer than 12 percent of Argentine exports.[10] Trade with Brazil is more than double that figure, meaning that the Argentine economy was at a tremendous competitive disadvantage against now cheaper Brazilian exports. Slumping regional economies combined with an unfavorable exchange rate sharply reduced demand for Argentine exports in 1999.[11] Instead of rethinking its Convertibility Plan, Argentina piled up massive debts (to some extent in an effort to maintain its status quo), spiking interest rates as investors demanded higher and higher risk premiums. By way of comparison, to match

the current situation in Argentina, the U.S. government would have to borrow $1.4 trillion, or 70 percent of its budget.[12]

An additional issue is government spending. In a "Technical Memorandum of Understanding," dated September 5, 2000 and signed by Pedro Pou, president of the Central Bank of Argentina, for transmission to Horst Köhler, managing director of the IMF, austerity measures for Argentina were spelled out. Rejecting Keynesian economic theory altogether, the memorandum required the Argentine government to cut its deficit from U.S. $5.3 billion in 2000 to U.S. $4.1 billion in 2001, or 2.3 percent of GDP, extraordinarily tight constraints for an economy mired in a long and deep recession.[13] By comparison, the United States ran a budget deficit of 4.6 percent of GDP in its last recession (1991) and 6.1 percent in the previous,more severe recession of 1983.[14]

How would Argentina cut its deficit? The memorandum clearly laid out a plan that sacrificed the livelihoods of the underprivileged. Under the heading "improving the conditions of the poor" was inked an agreement to reduce salaries under the government's emergency employment program, *Trabajar*, by 20 percent, from $200 a month to $160.[15] Grabbing $40 a month from the poor yields little savings,however. The memorandum therefore promised "a 12 to 15 percent cut in salaries" of civil servants and "rationalization of certain privileged pension benefits," meaning a cut in pension payments to the elderly of 13 percent under both public and private plans.[16] These cuts meant that in some provinces state employees were not paid in four months, sparking angry workers in the state of Entre Rios into attempting to burn down the local Economy Ministry in October.[17] That same month, pharmacies and private hospitals cut off more than three million subscribers to Argentina's PAMI pension system. Starved of cash by the National Treasury, which has refused to support it in order to meet budget targets, PAMI had not paid reimbursements for months.[18]

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By agreeing to these terms, Argentina was promised an emergency loan package of $26 billion for 2001, to be paid in installments by the IMF, World Bank, and private lenders. Was it worth it?

The 16 percent surcharge by lenders, plus the normal interest on Argentina's $128 billion in debt, comes to about $27 billion in annual external costs.[19] "In other words," wrote *Observer* columnist Gregory Palast in August, "Argentina's people don't net one penny from the $26 billion loan package. Little of the bailout money escapes New York, where it lingers to pay interest to U.S. creditors [like Citibank] holding the debt . . . "[20]

Unable to make payments on its public debt, Argentina announced in early December that it would seize $3.5 billion in private pension funds and transfer them to

the National Treasury's accounts in an effort to continue paying. The IMF, dissatisfied with the government's efforts to cut spending, held back a $1.3 billion installment a day before the announcement, and the World Bank and Inter American Development Bank froze an additional $1.1 billion the same day.

With the spending cuts and tax reforms outlined in the memorandum in place, the IMF forecasted that Argentina's economic production in 2001 would jump 3.7 percent and its unemployment would wane. By March, however, the nation's GDP had shrunk 2.1 percent below the level of a year earlier, and it continues to decline.

Aware that Argentina was (as of December 15, 2001) at the brink of the worst sovereign debt default in history, international investors shunned the nation's government bonds, sending the yield spread to historic highs at the same time Argentina was cut off from further international lending.

This provoked fears of a forced currency devaluation, making dollar-denominated debts even more difficult to repay. Nervous Argentines withdrew $1 billion from banks in two days in December 2001, and banks had lost 17 percent of their deposits since January 2000.[21] To prevent widespread capital flight, the government limited withdrawals to $250 and offshore transfers to $1,000 as the situation worsened in early December.

As Argentina continues its downward plunge in its worst recession since the Great Depression, dire economic conditions have caused social unrest. To protest salary cuts, the Engineering College of Buenos Aires has moved its classes,along with desks and blackboards, to the middle of the street outside its building.[22] Forty percent of hospital admissions in Buenos Aires are linked to depression, according to the daily newspaper *Clarin*. Young, educated workers with enough means are retracing their grandparents' footsteps back to Italy, France, Germany, and England in the worst brain drain in Argentina's history. An estimated 11 million people, almost a third of the country's 37 million, live below the poverty line.[23]

Critics on the right attribute Argentina's crisis to corruption,inflexible labor conditions, and slow reform. Certainly these are significant weights holding down the country's economy. Former President Carlos Menem was recently released from house arrest for covertly supplying weapons to Croatia during his presidency in a scandal that is only the most notorious in a long string of indignities. Factories are heavily unionized and limited by complex labor laws. Legislation on economic restructuring has been bogged down by political battles.

L. Jacob Rodriguez, assistant director of the Project on Global Economic Liberty at the conservative Cato Institute, gave a typical rightist critique in January 2001 that condemned Argentina's labor and tax laws, saying the country's regulated labor market dissuaded companies from hiring, thus contributing to the unemployment rate. Taxes,he said, were prohibitively high, encouraging tax evasion. "With tax revenues failing to keep up with spending and privatization proceeds drying up," Rodriguez said, "the government is looking to outside sources for financing. Unfortunately, the IMF is all too happy to oblige, acting like a bartender who keeps pouring drinks for an alcoholic."[24]

The rhetoric from the left has been equally strong. Leftists decry what they see as the IMF's hard-line, Malthusian approach, which "opens up markets" in an exploitative

process. Cuban President Fidel Castro told the Argentine daily *Pagina/12* in October that "what has happened to many prisoners condemned to death in the United States is now happening to Latin America. They appeal and appeal, and after 23 years,they go to the electric chair." He went on to say about Argentina,specifically, "So they do you the favor of not executing you immediately. They've given you some pills, some money, and a few other things. Now you are exploding." Castro, the longest-surviving head of state to consistently defy U.S. pressure, recalled a diplomatic incident he had caused a year earlier by describing Argentina as a "bootlicker" of the United States.[25]

The truth is a mix of both. Perhaps no other country has followed the IMF's neoliberal principles more closely than Argentina. Domingo Cavallo, current economy minister, regularly flies from Buenos Aires to Washington to New York and back in dogged pursuit of solution after solution. While corrupt and dependent on 18 IMF bailouts in 45 years, Argentina has also cooperated fully with the terms set by the IMF and Washington.

After each IMF bailout the process was declared a success,and after each bailout the economy slid into another crisis. Clearly the current IMF effort is not working. The IMF can try to dismiss the few thousand demonstrators beating drums in Genoa as naive and pampered youths of the West, but it would do well to listen closely to the rumble of 80,000 in the streets of Buenos Aires last May. Stuck in the middle between free-wheeling politicians and an IMF with its head in the ground,the Argentine people are suffering and will not swallow their frustration forever.

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