Argentina at the brink

Mark Sonnenblick describes the extent to which a once-developed economy has been undercut by monetarism.

The once-thriving Argentine economic system may suffer a spectacular blowout before Economics Minister José Martínez de Hoz ends his four-year period of "economic reconstruction" March 29. But if good luck, good weather, and the good graces of his friend and protector David Rockefeller are still with him, "Dr. Joe" de Hoz may manage to bequeath Argentina's new President, Gen. Roberto Viola, the ticking economic time bomb. Either way, things in Argentina are set to explode.

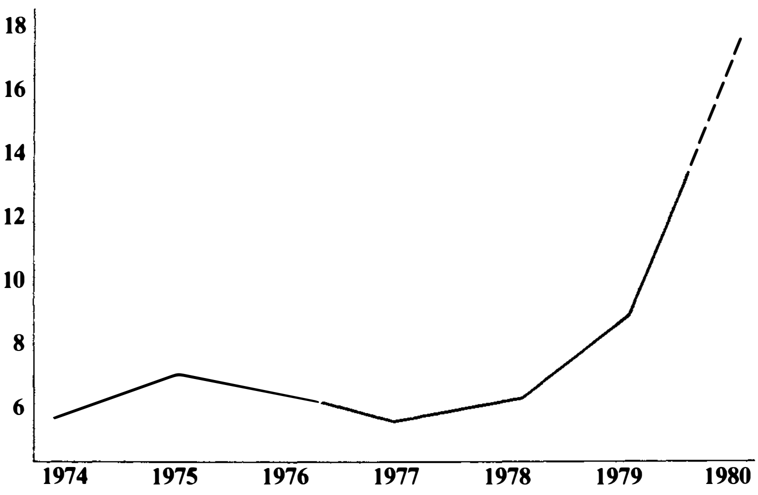
No amount of praise from Rockefeller or de Hoz's monetarist mentor Milton Friedman, such as that lavished by Rockefeller during his November 1980 trip to Argentina, can save the house of cards that he has built up. De Hoz's four-year experiment of applying monetarist nostrums to "reconstruct" an economy suffering from decades of inadequate investment policies offers an object lesson to those advisers of U.S. President Ronald Reagan who recommend that the same failed "anti-inflationary" policies be applied to the United States. Through his "pain and sacrifice," de Hoz has reduced inflation from the 290 percent level of 1975, the year before he came to power, to "only" 87.6 percent during 1980.

Over its head in debt

From the time de Hoz entered office with the March 31, 1976 military coup until the present, he has tripled the nation's foreign debt. It has doubled since the beginning of 1979 to an estimated current total of $25 to 30 billion (see Figure 1). The name de Hoz has such a magic ring in international financial circles that he has even been able to sell bonds of his bankrupt country to the finicky continental oligarchy.

One might think that this infusion of some $15 billion in foreign capital during a very few years would have launched Argentina into a spectacular economic takeoff. After all, Argentina was one of the few developing nations which had a literate and skilled labor force; a mature, diversified industrial base; fertile plains comparable to the American Midwest; and near self-

Figure 1
Net foreign debt
(billions of U.S. dollars at end of year)



Source: Banco Central; end-1980 figure is an estimate by *El Economista*, Buenos Aires.
Note: Net foreign debt is total foreign debt minus foreign reserves.

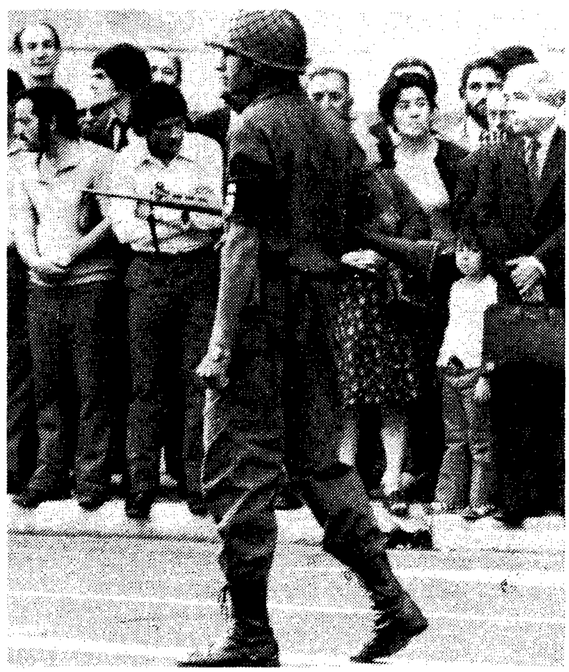


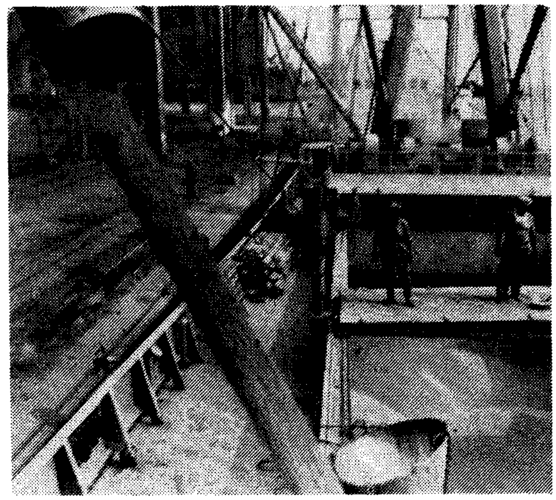
Figure 2

Argentine balance of payments

(billions of current U.S. dollars)

	1975	1976	1977	1978	1979	1980
Exports (fob)	3.0	3.9	5.7	6.4	7.8	7.5
Imports (cif)	3.9	3.0	4.2	3.8	6.3	9.0
Trade balance	−1.0	+0.9	+1.5	+2.6	+1.5	−1.5
Service balance	−1.2	−0.8	−1.0	−1.4	−1.6	−2.5
Net capital inflow	+0.2	−0.5	+1.5	+1.3	+4.4	+1.6
Reserves changes	−0.8	+1.2	+2.2	+2.0	+4.4	−2.5
Gross foreign debt (at end of year)	7.9	8.3	9.7	12.5	19.0	25.0

Source: Banco Central for 1975-79; *El Economista* for 1980, estimated on basis of Banco Central figures for first nine months.



sufficiency in energy supplies. It was probably the one Third World country that could have put that capital to profitable reproductive use with the least trauma.

Despite all these advantages, the monetarist free-enterprise politics pursued by the "wizard of Hoz" have left the country stripped of industrial capacity, with a looted agriculture sector, and with a debt vulnerability far more serious than even that of neighboring Brazil. Rather than strengthening the country's industrial and agricultural base, the national economy has been inserted into the "free play" of the Eurodollar market, resulting in one of the most spectacular asset-stripping operations in the history of world monetarism.

Endgame

The endgame of this process is now being played out. Argentina is now floating along with some $6 billion in "hot money" attracted by the 30 to 50 percent annual profits to be made by speculation. The "hot money" is loaned to Argentina by foreign multinationals, hoary European families, and banks on a one- or two-month basis, which means that if the lenders panic that the looting game is about to end, then Argentina's $7.5 billion in foreign-exchange reserves will evaporate overnight. Reserves have already fallen by $2.5 billion during 1980, and would have been drained completely had not de Hoz granted more and more prerogatives and guarantees to the "hot money" speculators.

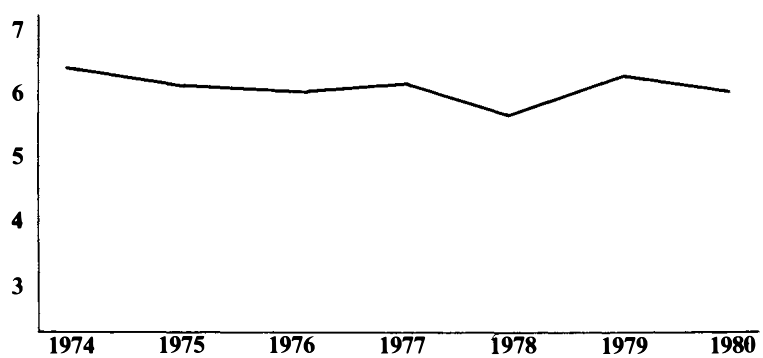
The problem now, however, is that there is no way he can guarantee the speculators security *after* he leaves office in March. And this factor makes the situation extremely tense and highly volatile. A run could be triggered on a moment's notice.

The "hot money" game depends on domestic peso interest rates' being several percentage points per month *above* the rate of peso devaluation. Thus, a speculator bringing in dollars is guaranteed by de Hoz, in advance, that at the end of a 28 or 35 day "investment," he will

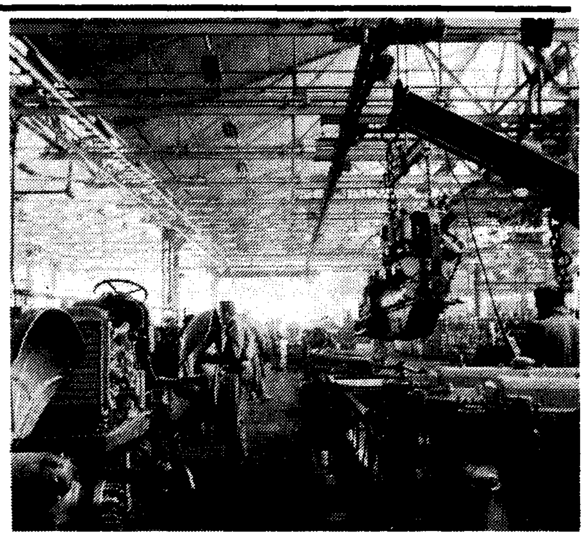
Figure 3

Gross manufacturing production

(billions of constant 1960 pesos)



Source: Banco Central



be able to withdraw his dollars along with 30 to 50 percent annual net profit in dollars.

But the game is now being squeezed by the fact that U.S. Federal Reserve Board chief Paul Volcker is imitating de Hoz's policies of squeezing off credit availability to legitimate industries. This tight-credit policy has led to doubled dollar interest rates and increased borrowing costs for people using dollars, for good or bad purposes, anywhere in the world.

On top of this, de Hoz has sped up Argentina's peso devaluation rate from 1 percent per month to two percent, in return for guaranteeing speculators that they will not be ruined by any big "catch-up" devaluation before March 29. Any significant move in the direction of a large corrective devaluation would threaten the capital of the "hot money" speculators and make government pay more to service its sizable debt.

But Argentine industrialists and farmers who have lost their ability to export competitively—thanks to de Hoz's systematic overvaluing of the peso—are pressing for the peso's value to be halved. In fact, the longer giant steps in that direction are delayed, the more Argentina's traditionally positive trade balance becomes sharply negative, causing further indebtedness, loss of reserves, and loss of international credibility (see Figure 2).

With higher dollar interest rates and slightly faster devaluations both eroding profitability, de Hoz has little option but to keep pushing up domestic interest rates to prevent the game from collapsing.

Theoretically, this process could go on forever.

But the ultimate source of the speculative profits has been the asset-stripping of the *real economy*, and this has been looted to the limit of endurance—a fact which will be violently signaled by a wave of bankruptcies that could rip apart the country's capitalist economic fiber at any moment.

The authoritative Buenos Aires weekly *El Economista* reports "the total liabilities of businesses liquidated in 1980 were more than $1.2 billion and would be about $2.5 billion if Sasetru were included." (Sasetru, Argentina's largest private conglomerate, filed for bankruptcy on New Year's Eve.) "Naturally, one would have to add the uncollectable accounts of the businesses held in 'bank clubs' and other gimmicks which disguise their bankrupt condition but are insufficient to avoid the corresponding economic impact."

Each week brings news of the closing of more longstanding industries, ruined by:

- internal markets sapped by declining real wages and by de Hoz's "free trade" policies of facilitating competition from imports to drive down prices;
- exports made uncompetitive and loss-inducing by the overvalued peso;
- a 38.4 percent increase in tax collections last year, in real terms

Buenos Aires commentary

The Buenos Aires stock market has suffered drastic losses due to the general illiquidity of the economy and the much higher profits to be made in speculative investments and asset-stripping of industrial enterprises. Stock market president Julio J. Bardi reflects the betrayal felt by those Argentines who supported the 1976 military coup which brought de Hoz into power. Statements made to the Argentine press by Bardi are excerpted below.

In 1976, the Armed Forces ordered an economic plan seeking to stimulate productivity, to reactivate the productive apparatus, to reduce budget deficits, to encourage productive investments and to reverse statizing tendencies.

However, the economy's global economic growth during 1976-80 was low with large yearly oscillations. The increase was not even large enough to keep up with population growth. Thus, per capita income fell.

Each Argentine's decreased participation in the sum of goods and services is a grave indication of backsliding, starting with economic stagnation and moving toward social deterioration. The contractive situation is clearly and gravely reflected in those companies which attempt public sales of their stock.

Argentine capitalists have become increasingly concerned about Economics Minister de Hoz's policies, which threaten their very livelihood. On Dec. 9, representatives from 376 business organizations met in Buenos Aires to discuss their consternation. De Hoz asked the military to prohibit the meeting, but was unsuccessful.

We reprint excerpts from the meeting's statement, called "The Declaration of Buenos Aires."

[Current policy] damages profitability, reduces workers' wages, shrinks the internal market, functions as a judge to decide on the survival or disappearance of producers, banks, and finance companies, thus negating the principle of economic freedom which it claims to support. It imposes exchange rates out of phase with reality, dismantles regional economies, and shows itself impotent to stop the flight of foreign exchange and capital and the uncontrolled increase in the foreign debt.

• interest rates 30 percent over inflation which companies must pay each month to refinance their burgeoning debts.

During the last year, the textile business has eliminated 60 percent of its former capacity. Tractors are no longer produced in one of the world's richest breadbaskets. And provincial industries such as winemaking and winter fruits have been hit hard (see Figure 3).

Most industrialists, however, have sought to keep operating by slower payments of their bills. *The Times* of London reported that $10 billion of the $60 billion in private loans in the country are overdue. Other British sources provide lower figures, but Argentine circles believe many banks have over 30 percent of their assets nonperforming. This makes them legally bankrupt, and the government has moved aggressively to liquidate 25 such financial entities during 1980. Rather than purge the rotten apples out of the market, as de Hoz and his Wall Street buddies claim, the closing of these banks—which range from over-greedy speculators to some of the most respected banks—has only increased the illiquidity of their creditors.

With banks going under in waves starting last March, de Hoz has acted to reassure local peso depositors by providing for FDIC-type insurance covering all small deposits and 90 percent of large CDs. The treasury paid out some $3 billion on such insurance during 1980, but the chain letter of bank collapses is now gathering momentum. Such treasury disbursements come on top of an accelerating budget deficit which now equals 4.2 percent of GNP, thus further fueling inflation. Such an insurance policy will not be able to withstand the coming tidal wave.

Viola . . . a new tune?

The incoming government of Gen. Roberto Viola has tried to offer a ray of hope to domestic producers by saying it intends to "reactivate the economy" from its current decline. However, Viola has also said he intends to preserve the main lines of de Hoz's policies. He now faces a tough choice between policies which are equally unlikely to revive the corpse of the Argentine economy. He can *either* 1) continue off the cliff defined by de Hoz, jacking up interest rates and causing the remainder of Argentina's real economy to be auctioned off at scrap value to foreign money operators; *or* 2) reflate the sagging economy by liberally giving out the credit needed to forestall generalized bankruptcy. In the ravaged Argentine economy, this option would lead only to a hyperinflationary blowout more violent than the one that preceded the 1976 military coup—unless it takes place in an extremely supportive international environment prepared to put Argentina's current indebtedness in suspended animation and channel in new capital exclusively for *productive* investment to sustain a genuine economic recovery.

Martínez de Hoz: a British operative

by Dolia Pettingell

The following report on the background of Argentine economics Minister José Alfredo Martínez de Hoz was first prepared in August 1978. Because of its continued relevance to Argentina today, we reprint extensive excerpts.

It would be a mistake to assume that Argentina is currently governed by its armed forces. Argentina is actually largely under the control of a single individual, a man who was born to be exactly what he is: a British agent with an aristocratic pedigree. This man is José Alfredo Martínez de Hoz, and even though his official position in the Argentine government is that of economics minister, his behind-the-scenes activities, decision-making powers, and international ties show him to be the strongman of Argentine politics.

What has been de Hoz's British deployment?

Stopping Perón

Only two decades ago, Argentina was the most advanced country in the entire developing sector. In spite of the fact that dictator Juan Domingo Perón's 1950s rule included complicating corporatist features, Perón was in fact forced to base himself on a labor-industry alliance. His policies, which were explicitly anti-British, expanded national industry and established a vigorous state sector. As a result, during the early 1950s, Argentina was among the nine countries of the world with the highest standard of living. At that time, the Argentine population was the best-educated in Latin America, with illiteracy rates of practically zero.

The British-orchestrated coup against Perón in 1955 was specifically designed to stop this progress in Argen-