'Economic miracle' could kill Argentina

by Cynthia R. Rush

In an effort to convince the Argentine people to swallow ever harsher austerity demanded by the International Monetary Fund (IMF) as the condition for a $1.2 billion standby agreement, Finance Minister Domingo Cavallo predicted on July 5 that by mid-1992, "we will achieve a period of extraordinary growth. Capital will return, investment will create many new jobs and improve Argentine living standards." This, Cavallo added, will be known as "the Argentine economic miracle," and will be achieved if only one year of solid "stability" can be maintained.

Considering the state of the Argentine economy, and Cavallo's precarious tenure, this is quite a prediction to make. Last March, the Harvard-trained minister introduced his "convertibility plan" which pegged the austral to the dollar, and vowed that he would increase tax revenues by combatting tax evasion, generate a treasury surplus, bring inflation down to zero, and eliminate the fiscal deficit. He also promised he would print no money, unless it had backing in hard-currency foreign reserves.

Almost four months later, there is no treasury surplus. Cavallo has been unable to generate the $300 million monthly he needed to guarantee debt service and other crucial payments, and has been forced to dip into foreign reserves to meet debt commitments—$900 million for June and July. He has replaced the borrowed reserves with foreign debt bonds known as BONEX, which effectively violates the premise of his program to guarantee hard-currency backing for the entirety of the money supply.

Nonetheless, in the letter of intent it just submitted to the IMF, the government promises to generate a $4.9 billion surplus, to be allocated for debt payment, for the fiscal year beginning in July and ending in June 1992. Salaries and public utility rates are to be frozen until April 1992, and annual inflation held at 11%. Tax collection is to be increased by $2.6 billion, and monthly debt service payments of $60 million are to be increased to $250 million. During the last week of June, the exchange rate began to exceed the official rate of 10,000 australs to the dollar, making it difficult to comply with the IMF's demand of a "stable" exchange rate.

The IMF has reportedly already accepted the government's letter of intent, and the standby agreement is now scheduled to be signed by the end of July. But, in five standby agreements signed since 1983, the Argentine government has never once fully complied with the Fund's conditionalities. Under today's crisis conditions, there is no reason to assume that President Carlos Menem can comply any more successfully with the most recent demands.

Nothing left to squeeze

The only option Menem has for attempting to comply with his letter of intent is to apply what the daily *Clarín* called the "fiscal tourniquet," while simultaneously accelerating the privatization of state sector companies. Even so, *Clarín* noted on July 7, "there are serious doubts about achieving the indicated surplus." The government will have to impose an austerity far harsher than even what the letter of intent indicates, the daily warned, including a range of new taxes and dramatic cutbacks in infrastructure investment, in areas such as housing, nuclear energy and road construction. This means a deeper recession, it concluded.

During a recent televised conference before the Foreign Banking Association in Buenos Aires, U.S. Treasury Undersecretary David Mulford told Argentina bluntly that if it hoped to get any economic assistance, it would have to pay its $62 billion foreign debt, and the $8 billion it owes in interest arrears. He emphasized repatriation of capital and foreign investment as the top priorities for the Argentine government to consider. To attract necessary foreign investment, he recommended, the country should "put on makeup like a woman looking for a boyfriend, look interested, and make itself pretty."

A political powder keg

With unrest rampant over the state of the economy, the government hopes to postpone the worst of the austerity package until after October's congressional elections, in which Menem's party, the Peronists, are expected to do poorly in any case. Any attempt to demand greater sacrifice from the population before the election will shatter an already precarious economic and political stability; what the country will look like after the elections is impossible to predict.

Business sectors are frantic over their inability to compete with the foreign imports which have flooded the country as a result of Cavallo's free trade policy, implemented as of March. Squabbling labor leaders have recently united to revitalize the Peronist "62 Organizations" and confront the government's economic policies. Provincial governments are bankrupt and unable to meet payroll and other crucial payments, let alone comply with the federal government's demand that they balance their budgets. On July 7, the governor of Rio Negro province, Hugo Massacceci, provoked a political crisis when he withdrew $16 million from the central bank in order to pay 30,000 provincial workers. The governor claimed that the act was justified because the federal government owed the province over $800 million; but Menem and Cavallo have accused the governor of extortion and embezzlement, and are threatening to charge the entire provincial legislature with treason for backing him.