Argentine government carries out IMF orders

by Gonzalo Huertas

Less than 24 hours after the Alliance, the political coalition made up of the Radical Civic Union (UCR) and the Frepaso front, took power in Argentina last Dec. 10, it made clear that it would fulfill to the letter the orders of the International Monetary Fund (IMF), which had already captured the Alliance well before the electoral campaign even began. The government of newly elected President Fernando de la Rúa announced a program of greater austerity, supposedly to reduce a fiscal deficit which, according to the Alliance, was $8 billion last year, and to enforce punctual payment of the public debt.

At the government's urging, Congress approved the year 2000 national budget on Dec. 28, which establishes that the fiscal deficit in 2000 must be lowered to $4.5 billion. To achieve this goal, public expenses will be cut $1.419 billion. The hardest hit sector will be the social security system, with a cutback of $378 million, followed by the provinces, which will lose $262 million in government revenue-sharing funds. The daily *Página 12* described this as "the largest adjustment of a national budget plan in the last decade."

Only the debt is inviolable

The great beneficiary of the new budget is the international banking community, which was given the lion's share when the government allocated $9.034 billion to public debt payments in 2000. International banks are the main creditors of the Argentine public debt.

To comply with such an allocation, the government has decided to pursue tax evaders who, according to the government, owe about $25 billion a year. Of this amount, it is estimated that $10 billion is unpaid value-added taxes, $9 billion is unpaid social security taxes, and the rest unpaid income tax.

To ensure tax collection, on Dec. 22 the government confirmed that Carlos Silvani would remain at the head of the Federal Administration of Public Income. Silvani is an IMF employee who currently is "on leave from the IMF," a high-level IMF official told the daily *Clarín*'s Washington correspondent Ana Barón. At the same time, on Dec. 28, Finance Mininster José Luis Machinea, Justice Minister Ricardo Gil Laveda, and Attorney General Nicolás Becerra announced the formation of the "Prosecutorial Unit of Tax Crime Investigations," to pursue "evaders of more than $200,000," and the creation of a special legal jurisdiction dedicated exclusively to cases of "tax fraud." Further, as of Jan. 1, the government has begun to implement its new tax package, which some journalists have begun to drily characterize as "your taxes, or your life."

However, undoubtedly the area most affected by the tax reform is wages, because the tax rate on earnings rises and the deductible drops, from 4,800 pesos to 4,000.

The package also imposes a 4% tax on certain vehicles, earmarked for the Education Fund. Hopeful that this would increase salaries, the Teachers' Federation of the Argentine Republic on Dec. 30 halted its strike, which had continued for more than 1,000 days, and removed the "white tent" that had been placed in front of the Congress, thus ending demands for wage increases for the sector.

In justifying the tax package, President De la Rúa said that "no one likes to levy new taxes, but the country cannot function with a fiscal hole and a crisis situation. . . . I ask you not to think about the taxes, but rather about the deficit [the Menem government] has left us. . . . I said that I would make these adjustments the policy of my government, and we are making cutbacks never seen before. We are leading the way with the salaries of government officials across the country, to set an example."

The IMF demands more

The government seeks to meet the demands of the IMF with this new tax package and cutbacks in public spending; however, the IMF is demanding much more. On Dec. 20, after meeting with the IMF mission that arrived to carry out the first stage of its country evaluation, Cabinet chief Rodolfo Terragno admitted: "The Fund's main concern is the consolidated fiscal deficit and the consolidated debt. They are studying the red side of the ledger, and the indebtedness of the provinces, with a magnifying glass." The provinces must reduce their deficits and their debts, said Terragno. "If they don't do this, it will be difficult to reach an agreement with the Fund. The country risk rating could increase, interest rates could rise ever further, and we would all suffer the consequences, beginning with the most indebted provinces."

Currently, the accumulated debt of the provinces is $18 billion, with a combined fiscal deficit of nearly $3 billion. This year, the provinces owe $3.5 billion in interest payments alone.

As a result of the Convertibility Plan (the currency-board system implemented in 1991), Argentine industry was devastated. Because of the shrinkage in the tax base, tax revenues also declined dramatically. According to the Finance Ministry's latest figures, collection in December 1999 was 9.2% less than in December 1998.

The same thing is happening with the agricultural sector, whose products account for the bulk of Argentina's exports. Agriculture Minister Antonio Berhongaray recently admitted that "the rural sector is bankrupt," a result of the "absurd interest rates the producers are being forced to pay."