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Argentina

# Argentina's Economic Crisis: Interpretations and Proposals

- IV Online magazine - 2001 - IV334 - October 2001 -

Publication date: Sunday 14 October 2001

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**Why is the economic crisis in Argentina so serious? How can the present and continuing depression be explained? The recession in the economy has persisted for three years, twice the traditional length of cyclical contractions. The fall in investment affects all sectors and the gross domestic product has fallen by 4.3 per cent from the beginning of 1998.**

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The effective interest rate is five times greater than the international average, and thwarts each appearance of economic revival. Consumption has fallen because of the drastic contraction of purchasing power. Unemployment is at 30 per cent and the income of half the country's wage earners is less than 500 pesos (US\$320). Poverty affects 37 per cent of the population. There is no precedent in the history of the country for a social disaster of this magnitude.

The critical point of this recent crisis, which has now confronted Argentina for a year, was the virtual cessation by the Government of its foreign debt payments. This has threatened the continuity of all the economic measures brought in by Domingo Cavallo, the Minister of the Economy.

Mr. Cavallo hoped to achieve a breather by postponing payments on the debt through the megacanje, [1] a financial package comprising of a partial exchange of old bonds for new ones with more prolonged maturities. However, the US Treasury and the European Central Bank have refused to guarantee the flotation of these issues and the cost of this operation to the government has thus been scandalous. Liability has increased by US\$47.4 billion. When the period of grace ends in two or three years, the impossibility of dealing with these maturities would reappear. Long before this date, the creditors will return to exact their privileges of collecting their payments before the needs of pensioners and public employees are met.

As the megacanje did not open up the road toward an economic upturn, Mr. Cavallo gambled on encouraging an increase in exports as a solution to the crisis. Thus he opened the floodgates of the process of devaluation with the introduction of an exchange market, divided between the commercial and the financial sector.

Even though he has said that he would maintain a strict convertibility in this first attempt at a half-euro and half-dollar parity, already an argument is now being put forward by the Government to justify devaluation if the slide is not stopped. Meanwhile the slide of the Gross Domestic Product (GDP) continues.

Any one of Cavallo's measures could lead to a major crisis that will include the wholesale general abandonment of public bonds, peso deposits and Argentine commercial paper. If such a run appears, a more radical economic switch toward maxi-devaluations, dollarisation or both will be established. The context of this crisis is reminiscent those great economic collapses which happened during each of the past few decades (Rodrigazo of 1975, the nationalization of the debt at the beginning of the 1980's, hyperinflation of 1989) and thus invalidates the latest conjunctural explanations that attribute the crisis to the "corruption of Menem" or the "lack of skill of Fernando De la Rúa" (the President of Argentina).

## Justifying neo-liberalism

Until the past year many neo-liberals reduced their explanations of the Argentine crisis to that of a regrettable coincidence of external difficulties such as the appreciation of the US dollar, the devaluation of the Argentine

currency, the fall in the price of exported goods, the lowering of the value of the Euro and the collapse of the other economies on the periphery of the advanced capitalist economies.

But in the past these kinds of adversities have been frequent. The only thing new today is the Argentine economy's accentuated defencelessness in the face of these dangers, a consequence of the liberalization of the financial system, the industrial privatisation process, the commercial opening to foreigners, and the renunciation of monetary and exchange sovereignty by the Government.

But because a recognition of this would be equivalent to them admitting their own failures, the orthodox economists fall back upon their favourite explanation: the high level of public expenditure by the Government.

They say that "only the private sector has made the adjustment" as if big business and the workers form a collective solidarity which shares sacrifices in common. In their crusade against the deficit, they conceal the fact that this imbalance does not arise from social expenditure on salaries or education but from the multiple mechanisms of direct and indirect subsidies to the ruling class.

The neo-liberals especially omit from their explanations the idea that the principal sources of the collapse of public finances are the interest payments on the foreign debt. These have contributed to the tripling of the Government's administrative expenses, consuming seven times more funds than social assistance, for example, and twenty-three times more than the state employment schemes. State public expenditure automatically multiplies with each refinancing of the debt and there is no way of eliminating this lack of equilibrium with new privatisations.

The neo-liberals also forget that the financial deficit ran out of control with the elimination of employers' contributions to the system of social security. This "incentive to investment" actually contributed to generating a record level of unemployment, provoking a loss of revenue to the state, equivalent to a third of the public debt.

After accumulating a substantial amount of reserves the Argentine Association of the Retired and Pensioners (AFJP) has been converted into a large creditor of an insolvent state while a high level of poverty amongst pensioners is maintained and threatens to drive the next generation of retirees into an even worse situation than presently exists.

Faced with this perspective and to protect the pension fund business, the Government is proposing to increase the retirement age and to reduce the minimum wage. Reinstating employers' social security contributions to the state and eliminating the parasitic system of management of the AFJP could begin to remedy this lack of fiscal equilibrium that the neo-liberals question so much. But because this corrective measure would affect the profits of the establishment, the orthodox economists do not even consider this alternative.

## Privatisation

Because of the impact on the public of the failure of Aerolineas, the national airline of Argentina, some neo-liberals have begun to accept the idea that, in their words, "badly carried out privatisations" have contributed to the present crisis. But what happened to this airline company is a typical case of fraudulent depletion of funds and cannot be classified, correctly or incorrectly, in terms of just a "giving away" of a public asset.

As for the remaining privatisations: were they carried out well? The railway subsidies and the toll system? The sale of the telephone companies at ridiculously low prices? The granting of monopolistic exploitation licenses to the electrical companies? It is evident in any of these cases one cares to name, that the Argentine state, far from "withdrawing

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itself from the economy", strengthened its subsidizing role, guaranteeing, in a deflationary period, increases in tariffs to these companies that range between 40 per cent and 100 per cent.

If the privatised companies had to confront the same external competition that exists for the rest of the economy, they would have had a fate similar to Aerolineas. In spite of this evidence, the economists who monopolize the television air-waves continue to speak of "necessary privatisations" (national banks, provincially owned companies, the lottery and so on) and the "pending reforms" in health and education as if this kind of transformation would have some beneficial effect for the bulk of the population.

Their arguments exhausted, the neo-liberals resort to asking us to "have faith". They promise that dollarisation of the currency "will complete the reforms" and assure the currency's stability so that there will be an increase in the rate of flow of foreign capital into Argentina.

But they avoid all commentary about the US Federal Reserve Board's lack of interest in helping the banks and big business. They avoid mentioning external monetary signals, nor do they look at the effect of the system of dollarisation on nations such as Panama, which is still subject to the same kind of crisis that affects any Latin American country one cares to mention.

The new monetary regime, coming after a period of very profound deflationary adjustment, will only facilitate the transfer of property on more favourable terms to those groups who manage foreign exchange.

The neo-liberal discourse combines amnesia with schizophrenia. They speak highly of the "transformations of 1991 and 1995" as if these changes were unrelated to the later disaster and excuse their own trickery and all their responsibility for the impoverishment of the country.

On other occasions they attribute the crisis to Argentina's technological and scientific backwardness, forgetting their active militancy in favour of budgetary cutbacks at the universities and the closure of the National Council for Scientific and Technological Investigation (Conicet).

The neo-liberal policy has been orchestrated at three levels.

Firstly, there was the response of former finance minister Machinea who, faced with the financial crisis, reduced the salaries of public employees and raised taxes on the middle class declaring that there was no alternative. Later came the outright attack by Mr. Lopez Murphy (Economics Minister), who introduced the economic adjustments we are now suffering from. And finally came the pragmatism of Cavallo, who contradicts in the night that which he proposed in the morning, managing to accumulate a record number of initiatives that are abandoned before they are announced.

He spoke of prioritising the revitalizing the economy with increases in tariffs, a reduction of the nation's financial reserves and the reduction of financial subsidies to various sectors, but then he turned towards more drastic financial measures, such as the generalization of IVA (the 21% value-added consumption tax) and renewal of the tax collection goals that had been set by his predecessor.

He questioned the state's ruinous debt, but issued bonds that assured higher prices and tax privileges to the banks. He spoke about "a cleaning up" of the government which was immediately suspended. In one breath he proposed distancing the peso from the dollar to bring it closer to the euro, in the other, he contradictorily abandoned Mercosur and the trade alliance comprised of Argentina, Brazil, Paraguay and Uruguay to unilaterally enter the Free Trade Area of the Americas (FTAA) while promising to maintain the Argentinean currency's convertibility as he opens a war

of competitive devaluations throughout South America.

# Critics of neo-liberalism

Of the many economists who oppose the government's policies the majority focus their questions on the neo-liberal model, but characterize this policy in a variety of ways. In its most current form, it is identified with convertibility of the currency.

To suppose that the crisis could be resolved by a change from the policy of convertibility is as illusory as imagining a viability of some kind of mechanism of "popular devaluation" that avoids the depreciation of wages or the expropriation of the small savings accounts.

By maintaining as invariable the promises of paying the debt and attempting to control economic resiliency through the International Monetary Fund (IMF), any devaluation will have the effect of impoverishing the population.

Many of those who question the government's economic policy explain the recessionary consequences of convertibility, especially the permanence of high levels of interest as being due to a "lack of active policies" by the government.

But this deficiency does not derive exclusively from the exchange rate trap. What prevents all the "nations on the periphery" from applying Keynesian policies to reactivate their economies is their dependence on the inspectors from the IMF, who restrict internal credit for investment and consumption to ensure the fulfilment of payments on the debt.

Even though the magnitude of this liability is, on a percentage basis, not greater than that of the dominant countries, it is nominated in foreign currency and dependent upon periodic external refinancing.

Because of the economic cycle in these countries, they are more subject to monitoring by the creditors (and the consequent inflow and outflow of capital) than the internal economic conditions demand. This explains why the new elites of the financial organizations are replacing the old national bureaucracies and have assumed direct macroeconomic management in the indebted countries.

Frequently one hears statements about the weight of the debt having consolidated the supremacy of the "parasitic financiers over the productive industrialists." In this view the privileges of the bankers who do well with their high-wire juggling acts and profiteering as middlemen are especially contrasted with the misfortunes of big businesses burdened by the rising price of credit.

But this line of argument forgets the enormous interlocking between both groups and the financial diversification of the large businesses, which handle, moreover, an important portion of the government's public bonds.

The industrialists participated fully in the privatisation frenzy and have been the principal beneficiaries of the increase of productivity that the workers contributed to the economy during the first half of the past decade.

The victims of the neo-liberal model have been the wage earners, whose remuneration fell half a percent with each point of an increase in production and it has been the capitalists who took advantage of and enjoyed the precarious situation of labour during the 1990s.

It is evident, however, that the neo-liberal policies of currency convertibility, monetary adjustment, the social exclusion of important parts of the population from society and the opening to the outside for imports, deepened the Argentinean economic crisis. But this model did not cause the depression. This depression, which affects all of those economies that are on the periphery of the major capitalist economies, has its roots in the dynamic of world capitalism.

## Collapse of dependent countries

The Argentine crisis constitutes a link in the economic upheavals that has hammered all the "emerging markets": Mexico in 1995; South East Asia in 1997; Russia in 1998; Brazil in 1999 and Ecuador in 2000. This latest escalation has developed as a "domino effect" indiscriminately impacting the dependent economies, no matter their location in the world or their monetary or fiscal policies.

In all these cases, the fall in prices of export products and the flight of capital has had a powerful social impact. Even though one can identify the existence of a neo-liberal policy common to all these affected countries, the methods of this orientation were diverse, whereas the existence of a dependent capitalist class is common to all of them.

The consequences of the world polarization of investments between advanced countries and backward ones can be seen in these dependent economies and has provoked the reorganization of capitalism during the 1990s.

These peripheral nations have been particularly affected by the general bosses' offensive against the workers, by the geographical and sectoral expansion of capital and by the competitive frenzy accompanying globalisation of the economy.

It is estimated that the chasm of inequality between the developed nations and the underdeveloped nations increased thirty to sixty times in the last three decades, re-enforcing the concentration of 86 per cent of total consumption by 20 per cent of the world's population.

The dependent nations have supported a systematic and growing transfer of resources toward the great corporations of the advanced countries because of the unequal exchange in commerce, the payment of the external debt and the profits that result from the low salaries in the international sector of the industries of the peripheral countries.

The backward technology, the financial fragility, the industrial duality and the prevailing commercial disadvantages in these economies sharpened markedly in recent years, provoking this recent sharp crisis. The economic debacle Argentina is enduring is in this way similar to the suffering of the bulk of the countries of Latin America, Asia, Africa and East Europe.

A related policy of this degradation has been a process of re-colonisation, that is to say, the loss of autonomy by the local ruling classes as a consequence of their growing interlocking with foreign capital. By this means, the functionaries of the IMF have attained a level of power over government policy decisions that is without precedent. This new situation can be summed up with the old concept: the intensification of imperialist oppression.

As in the other dependent nations, the Argentine economy suffers intensely from the consequences of overproduction. It endures the impact of the falling rate of profit in the central developed economies (both in the phase of full economic decline and in the stages of partial recovery) and also suffers from a lack of purchasing power by a great part of the population. This imbalance constitutes the basis of the speculative financial operations

associated with indebtedness.

But merely characterizing these actions as the "immoral actions of a shareholder capitalism" prevents us from seeing in the background, the systematic transfer of wealth to the imperialist corporations. If the same financial parasitism has had different effects in the United States or Great Britain compared to any of the peripheral countries, it is because of the existence of this process of imperialist polarization.

The direction of the Argentine economy accompanies the general trend of a degradation of Latin America's position in the world market, indicated by the predominantly low growth rate, beginning from the last decade of the 1980s.

As in the rest of the region, this contributed to the US's hegemonic economic recovery by financing the restructuring of banks in the United States that were impacted by the regional debt. It opened new markets for exports by the dominant power and facilitated the shipment of profits from corporations situated in the peripheral countries.

The Argentine ruling class made this process of revenue transfer out of the country viable, thereby impairing the internal market. It failed also in its project of establishing Mercosur, intended to establish a geographical area of business activity with some autonomy from the major capitalist countries.

The ruling class now appears to be sharply turning away from Mercosur and going towards Argentina's incorporation into the Free Trade Area of the Americas, which the United States is promoting in an attempt to displace its European competitors in South America.

The Argentine crisis forms part of the world economic capitalist reorganization that does not favour the underdeveloped nations. The effects of this reorganization are particularly sharp because it is combined with a regression of the economy, which over a long period has seen the erosion of Argentina's traditional position among those countries at a higher level on the periphery.

The real per capita product today is just at the level that was reached in 1974. The significant growth of the Gross Domestic Product (GDP) of 127 per cent between 1949 and 1974, contrasts sharply with the languid advance of 55 per cent from 1974 until the present time.

Unlike South Korea, the Argentinean economy is not collapsing because of unavoidable competition with large corporations, but is steadily losing its position in the world market. The same is happening with the new peripheral countries which are travelling in the direction of capitalist restoration, like Russia, whose economic viability is supported by a systematic destruction of its economic achievements from the past, where these countries for the first time face a situation of extreme poverty, typical of the economies of the weak periphery.

But this kind of slump is not a novelty under capitalism, a system structured around profits and allowing the flow of capital toward the regions that promise the greatest returns.

Inside this "stable architecture" that separates the imperialist nations from the peripheral countries, a "variable geometry" governs the underdevelopment which generates a repositioning, the rise and falls on the internal map of the excluded nations.

## A "mafia state"

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The seriousness of the Argentine economic crisis has induced many analysts to inquire at the policy level into its causes. Some intellectuals argue that the decline in Argentine production arises from the institutional instability created by the consolidation of a "mafia state".

Others try to deal with these same difficulties with the notion of the effect of the "military inheritance", the "lack of respect for the law", and the "breaking down of constitutional order in 1930" in Argentina.

But even though it is evident that the accelerated erosion of the political regime has taken place because of the impact of graft, money laundering and narco-trafficking, these disintegrative forces, however, are a consequence of the continuing economic debacle that is systematically destroying the rules of the game which the various wealthy sectors enforce and as a result is undermining, in the eyes of the population, the authority of the parties of the ruling class.

The belief that corruption is antagonistic to capitalist economic growth is inspired by an idealized vision of this system, which continuously produces a mixing of the legal and illegal spheres among businesses. It is sufficient to observe the weight of the "crime economy" in the US financial system or the incidences of shady business in the spread of investments in the most recently industrialized countries, to corroborate this fact.

It is an unsupportable fantasy to imagine that the IMF or the World Bank gives out prizes for transparency. Was it not IBM, Siemens, Telefonica or Iberia who promoted the obtaining of fraudulent contracts with the state? Didn't the embassies of the United States and the European countries directly favour those operations? Corruption feeds the same search for greater profit that dominates all capitalist activities and affects the same competitive blindness that undermines these processes.

On certain occasions it accelerates the accumulation of capital and in other circumstances, it perpetuates the crisis.

Another very topical way for some analysts to approach the current crisis is to inquire into its "cultural roots", taking up once again the old questions about "the character of the Argentines." Invariably these views note the "absence of a national project."

The "creole character" of the population is criticized, as is the "the lack of a work culture". But in these laborious explanations it is supposed that any citizen - symbolized as a kind of sociological ideal-type - has the same responsibilities as the powerful owners of wealth for the present depression. This ignores the fact that it is the ruling classes who define and orchestrate economic policy. It is simply incorrect for them to project these failures onto the entire population.

Of course the economic decadence of a nation such as Argentina with so many natural riches has historic foundations. But they can't be tied to the temperament of its inhabitants. Instead, they are tied to the agro-shareholding configuration of the Argentine social structure during the 19th century, to the later economic distortions of a substituted industrialization and to the recent systematic transfer of resources out of the country.

This same situation is prevalent in many underdeveloped countries also lacking a "business class that takes risks and is innovative." But what is most important is not to conform to this reality: neither to assume it as a fate, nor to conclude that nothing could be expected from the groups that traditionally have managed power.

The future of the country depends on the action of the popular sectors of the population who while in full social retreat, have learned how to maintain their old traditions of struggle and incorporate new forms of resistance into

them.

The active workers and the unemployed constitute the only social force capable of constructing an alternative for overcoming the present crisis.

## Proposals for change

There is nothing that will favourably improve the Argentinean economy for the people unless the level of material well being of the population is restored to the level of the years 1970 to 1980.

This is a conclusion that is shunned by all the neo-liberal economists who propose continuing the "adjustment" and by all the anti-liberals who focus on the solution of a kind of change based upon "competitiveness" or customs protection.

Assuring a minimum, guaranteed income, for all the unemployed and increasing wages and pensions to recreate purchasing power is a basic condition for any progressive alternative to the present government's course.

The "confidence of the consumers" will be restored by repealing the labour reforms and ensuring the stability of employment and not waiting for the "trickle down" effect from the benefits which big business has obtained.

Cavallo persists in introducing a tax on current accounts which the banks manage to the detriment of the small businesses to reduce the burden on the upper middle class or by modifying the tax norms authorizing part payments to the large businesses, meanwhile maintaining a real regressive percentage for VAT.

An immediate improvement and a better standard of living for the waged and the unemployed is essential for reducing the gap in incomes that separates the richest 10 per cent from the poor sector of the population, a gap that has widened by 57 per cent in the last ten years.

## Resources

Are resources lacking for this change? On balance if one looks at the "winners in the model", one quickly discovers who appropriated that which was taken off the incomes of the workers. In the midst of the country's complete misery, four Argentines feature on the list of the 538 richest people in the world (Perez Companc, Rocca, Noble and Fortabat).

Many trades unionists and community leaders have shown, to the point of weariness, that by eliminating the evasion by the large business groups in the paying of US\$20 billion annually and by reintroducing the employers' contributions to social programs, the amounts necessary for implementing emergency plans for employment and family support could be raised immediately.

In this view, a program of economic reconstruction cannot advance without first eliminating the squandering actions of the privatisations through regaining state control of strategic businesses.

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It will be said that these initiatives would "violate the contracts." But over the last decade, were all the laws that protected labour, social and pension rights recognized? The only differences now would be that for the first time, the same "juridical insecurity" would fall upon those who have enriched themselves by manipulating the country's laws for their own private benefit.

Of course, this decision will unleash financial reprisals, but no one must forget that the electricity plants, the petroleum complexes and the telephone networks are not assets that can be transferred outside the country.

In every way the most critical aspect of the Argentine economy is the national debt. While it persists, the daily pressure from the creditors on public finances will not leave any room for the adoption of measures conducive to popular well being. Therefore, under the present conditions it turns out to be more advantageous to declare suspension of paying this debt than passively awaiting for the next crisis, which will be the moratorium.

Such a declaration would constitute a sovereignty decision allowing the reorienting of resources toward the priorities of social expenses and economic reactivity.

It is customary for some to assert that this measure will marginalize the country in the international markets. But hasn't this displacement been accomplished already by the government having tried to take responsibility for an untenable compromise? Some also caution against the "flight of foreign exchange" forgetting that all the promises to honour the debt did not induce any return of the US\$100 billion that have been deposited outside the country. The bulk of the creditors are not some kind of ghostly saviours, but are concentrated groups of businessmen spread throughout the country.

Many tactical ways exist to confront the suspension of paying what is probably a fraudulent debt. The library of juridical reasons to justify this method is huge. The only real challenge rests in substituting concrete actions for high-sounding declarations. But it is necessary to remember that any fight against the creditors will be viable only if it is adopted as part of an integrated plan of economic reconstruction.

For example, a moratorium divorced from direct control over the banks and external commerce will drive us towards chaos similar to that created by Alan Garcia in Peru in the middle of the 1980s.

The present day debate about economic programs is dominated by the anti-liberal proposals in opposition to the prevailing model. In these discussions capitalism is considered as an immovable reality, omitting from consideration the idea that this system recreates periodic crises, which brings terrible suffering for the majority of the population. Therefore one must consider a third option, socialist, which points to overcoming the tyranny of the market through democratic planning. A popular alternative constructed from an improvement of the people's purchasing power, reversing the privatisations and suspending paying the debt, is a starting point in this perspective for social emancipation.

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[1] A word coined by Argentines to describe the Government's financial measures and manoeuvres to deal with the crises.