Menem invites US to "dollarize" Argentina

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The proposal by the government of Prime Minister Carlos Menem for the dollarization of the Argentine economy is an indication of the profound crisis gripping not only Latin America, but world economic relations as a whole. It is also a telling demonstration of the terminal crisis of bourgeois nationalism.

Menem expressed his unreserved enthusiasm for the plan on January 26, barely one week after the idea was first publicly floated by Pedro Pau, the president of the Argentine Central Bank, to adopt the dollar as the sole legal currency for Argentina through a "bilateral monetary association treaty."

Pau said that conversion to the dollar and the phasing out of the peso would "eliminate any risk of devaluation in Argentina and decrease interest rates" on the country's debts. This proposal would in reality turn Argentina into an economic semi-colony of the US. Monetary policy would be determined not in Buenos Aires, but by the Federal Reserve Board in Washington.

In the interest of guaranteeing stable conditions to foreign capitalist investors, the Argentine government is proposing to cede its ability to offer any protection to national industry. If Washington set interest rates too high for Argentine steelmakers or other industries to borrow money, they would simply be forced to the wall.

The proposal comes nearly eight years after Argentina pegged the peso to the dollar under the Convertibility Law of 1991. Then-Finance Minister Domingo Cavallo crafted the plan which established a fixed parity between the peso and the dollar. Under the so-called currency board, the dollar became legal tender in Argentina, while the government agreed to issue no new pesos unless the money was backed 100 percent by dollar reserves in the central bank.

This tight money policy in turn became the spur for the free market liberalization program introduced by Menem that has seen the privatization of the railroads, telecommunications and other key sectors of the economy, together with the scrapping of subsidies and social services.

That Menem, the head of the Justicialista Party founded by Juan Peron, should now embrace a proposal to do away with the national currency altogether is a development of no small historical significance, or irony. In the 1940s, Peron emerged as the foremost exponent of Latin American nationalism, challenging Argentines to choose between him and the "Yankee" ambassador Braden and promising a program of economic independence, political sovereignty and social justice.

A half a century later, his political heir advocates placing the Argentine economy under the tutelage of US Federal Reserve Board Chairman Alan Greenspan.

In a press conference held at the governor's palace in the province of Rioja, Menem claimed that the plan would have no adverse effect on Argentine sovereignty and would be part of a regionwide monetary union. He compared the proposal to the recent introduction of the euro by the member states of the European Union.

The proposal got a response last week from Nicolás Eyzaguirre, the executive director of the International Monetary Fund, who declared, "In Argentina, dollarization is feasible; and I would even say appropriate." Menem responded to the IMF's encouragement by reiterating that dollarization constitutes a "strategic priority" for his government, which is drawing up a formal proposal to present to Washington.

While some regional officials indicated support for the idea and business groups as far away as Mexico expressed interest, the plan has by no means met with universal approval. Political opponents of Menem in Argentina charged that the proposal would turn the country into another Puerto Rico. Many pointed out that there is a fundamental difference between the dollar and the euro. While the latter is a mutually agreed upon creation of a group of countries, the dollar is the existing currency of the United State, which has historically exploited the nations of Latin America as an imperialist power.

Given the vast economic and social disparities between North America and Latin America, no one is under any illusion that Washington would be willing to cede control of its monetary policy to some supranational body run jointly with the governments of Latin America. Nor is it conceivable that the US government would allow the kind of semi-open borders that are being established between the countries of the European Union.

Meeting with Argentine officials in Brasilia, Brazil's Minister of Development Industry and Trade Celso Lafer made it clear that his government does not believe the plan will further capitalist interests in that country and that Brazil does not want to be irrevocably tied to an American economic sphere of influence.

"Our first evaluation is that dollarization would not contribute to a constructive way forward over the long term for the Mercosur [the free trade agreement between Brazil, Argentina and Uruguay]." He continued by explaining that "Brazil and the Mercosur have trade flows that are directed not solely to America, but also to Asia and Europe and therefore the dollarization theme worries us from the point of view of the diversity of our markets."

Francisco Chico Lopes, the president of Brazil's central bank, was even more categorical, describing the dollarization proposal as "a disastrous option" that would turn Argentina into "some sort of Panama." Lopes's comments provoked a sharp retort from Menem, who declared, "I would like to see the Brazilians solve their own internal problems, which are very grave, before launching a criticism of a project of this government that is aimed at giving us protection from the crisis."

The immediate context of the proposal is the dramatic crisis in Brazil and the threat that the plunge in the value of the Brazilian real will have a devastating impact on Argentine industry and trade. Argentine business interests fear an avalanche of cheap imports from their giant neighbor to the north, together with the drying up with their own exports to Brazil, their principal market. Economists are already predicting a wave of layoffs. Siderca, one of the country's major steelmakers, has already announced plans to lay off nearly half of its work force.

The dollarization of just the Argentine economy would offer no protection from the impact of a Brazilian devaluation. The devalued real would have the same relation to an Argentine-based dollar as it does to the peso, which is already pegged to dollar convertibility. Thus, the plan would make sense only to the extent that the dollar was made the coin of the realm in every major Latin American economy, creating a unified monetary and trade block.

Lawrence Summers, US Undersecretary of the Treasury, made this same point in a none too diplomatic rebuff to Menem's proposal. "Anyone who thinks of this as a quick solution [to the Brazilian crisis] is not reasoning correctly," he said, after testifying before a Senate committee. He added that Argentina's adopting the dollar as its currency would mean having to "accept that its economic policy would be governed by the monetary policy of the United States." Nonetheless, he said, the US government is prepared to offer its advice if the Argentines wish to study the idea of scrapping the peso in favor of the dollar.

Jochen Metzger, a representative of the German Bundesbank visiting Buenos Aires, made similar points. Menem's proposal, he said, could only be viewed as a long-term option and "it could not be a solution for the current crisis of Brazil." He also reminded his Argentine hosts that Europe went through seven years of negotiation before reaching agreement on a common currency.

While Menem's dollarization plan faces stiff opposition both internally and regionally, it is nonetheless driven by profound economic forces and has far-reaching implications. In the immediate situation, the crisis in Brazil threatens to break up the limited structures created for the economic integration of South America's southern cone under Mercosur. Few economists believe that any meaningful free trade agreement can thrive so long as Argentina's currency remains in fixed convertibility to the dollar, while the Brazilian real floats freely.

Despite the lack of public enthusiasm for the Argentine proposal on the part of the US Treasury official, the *Financial Times* of London reported in its January 22 issue that an even "more radical alternative" is currently under discussion by Washington: "to do away with many currencies altogether, thereby removing the targets for speculative attack."

The objective motivation for such a proposal is clear. As the ongoing crisis in Brazil--preceded by similar crises in East Asia, Russia, Mexico and elsewhere--is demonstrating, no government in the world is capable of defending its currency against the massive flows of speculative capital that scour the globe for profit. As the *Financial Times* goes on to make clear, however, the US proposal carries with it a grave danger: the ever-sharper polarization of the world economy.

"This suggests a world in which two or perhaps three currency zones begin to appear. In Latin America, the obvious candidate as a currency would be the dollar. Perhaps in Europe, the euro could be extended to its eastern flank. And as Japanese officials have suggested, the yen could dominate Asia."

Such a redivision of the world into hostile monetary/trading blocks would set the stage for a new period of imperialist wars and revolutionary upheavals.

The Menem dollarization plan is the clearest proof of the complete subordination of the national bourgeoisie of Latin America to US imperialism. Not only does the abandonment of a national currency--as the statement of Summers makes clear--mean an effective loss of control over economic policy. It would also pave the way for a more direct involvement of the United States in policing Latin America and suppressing struggles of the working masses of the continent, in the interest of maintaining a strong dollar.