

# Argentina's presidential candidates vow to slash spending

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An ongoing economic crisis overshadows the upcoming October 24 presidential elections in Argentina. The country is in its deepest recession in 10 years, with the economy contracting by 3 percent during 1999. Complicating this, Argentina has seen its access to credit worsen since Brazil's currency devaluation in January destabilised and discouraged investment throughout the region.

Both of the major candidates running for election have heeded the demands of the financial markets for deeper cutbacks to social spending. Eduardo Duhalde from the ruling Justicialist Party (the Peronists) says the next administration must take rapid measures or the currency will be “in danger of a devaluation”.

If Duhalde is successful, his economics minister will be Jorge Lenicov, who says “no-one wants to increase spending, because lowering the deficit and the creation of an anti-crisis fund are objectives we share even with the opposition”.

Duhalde's opponents are equally strident in their attempts to satisfy the money markets. The opposition Alliance Party says it will make tough spending cuts in 2000 if elected to government. Alliance economist Jose Luis Machinea predicts a \$5 billion budget deficit by 2000 and says: “We need tough spending cuts, especially in the provinces”.

The *Buenos Aires Herald* commented: “The truth today, however, is that there is not a great difference between the Justicialist and the Alliance platforms. At times there are noises heard that might be branded ‘left’ of centre or to the ‘right’ of some narrow perception. But the economic policies spoken of by the planners in both parties are only fractionally different”.

Nevertheless, Alliance leader Fernando de la Rúa, the current mayor of Buenos Aires, is easily leading in the polls with 45 percent support compared to 26 percent for Duhalde, the governor of Buenos Aires Province. Polls

have shown that even in traditional Peronist strongholds such as Ciudad Evita, in the province of Buenos Aires, many are abandoning the Peronists.

The Alliance was formed in 1997 out of a merger between the Radical Party (UCR), the oldest party, traditionally based on the middle class, and the “Alliance for Work, Justice, and Education” (FREPASO—Frente Pais Solidaridad). FREPASO is a loose coalition of various political groupings: it consists of former Peronists, disaffected by the current Peronist government of President Carlos Menem, as well as former Radicals.

De la Rúa is playing upon the corruption and sinking popularity of the Menem regime, advancing proposals to weed out corruption and cronyism from public office, including judicial appointments. His campaign portrays the Peronists as big spenders who enjoy the perks of office at the expense of the majority of the population. The Alliance says it will improve the country's trade performance—in fact double Argentina's exports—and therefore reduce unemployment, but without saying how. De la Rúa claims, for example, that he will cut spending without cutting jobs.

The *Buenos Aires Herald* noted how little detail De la Rúa is providing about his policies: “Much of that thinking, however, seems to be taking place in private, with De la Rúa revealing little of what a potential Alliance administration will entail. This makes De la Rúa almost a disciple of President Carlos Menem, who in 1989 rode to victory on a populist platform and then did exactly the opposite. De la Rúa's campaign advertisements look nice and you feel like not voting for the Peronists after watching them, but they do not say much else”.

Duhalde's flagging fortunes are no doubt linked to the widespread disenchantment with Menem, whose personal popularity has slumped to 20 percent, its lowest level ever. After two presidential terms, Menem is obliged by

the constitution to retire this year. Apart from corruption, he is known for doubling unemployment to 14.5 percent, and for seeking to cling to office by changing the constitution. He says that if a Peronist is the next president, “someone will be in office, but I will be in power”.

Most of Duhalde's support is concentrated amongst the poorer sections of society and the elderly, where the Peronists have usually maintained 30 percent of the vote. Duhalde has, to an extent, attempted to revive the traditional populism of Peronism, saying at one rally: “Those who want more austerity should vote for de la Rúa. Those who want productivity and jobs should vote for me”.

But there is a general feeling of scepticism towards such rhetoric. After all, Menem came to power in 1989 by promising a return to the state regulation of the economy, and a moratorium on the national debt, only to implement one of the most rapid privatisation programs in the world.

The dominance of world finance over Argentina was graphically shown only three months ago. In an attempt to salvage his situation, and gain voter sympathy, Duhalde proclaimed that creditors should overlook some of the Argentine foreign debt of more than \$100 billion. The reaction was quick and painful. Argentina's stock market fell by 9 percent, forcing Duhalde to retract his statement.

Yet it was only in 1997 that international institutions hailed the restructuring of the Argentinian economy over the past decade. The Menem government had pegged the peso to the US dollar in 1991 and opened many areas of the economy up to transnational companies. In just four years, it had privatised banks, the national airline, railways, fuel, natural gas, electricity, telecommunications, ports, water and sewerage services, and manufacturing, including steel, various assembly operations, defense-related industries and the state oil company.

According to a World Bank report: “The privatisation program was unique in the world since it covered all major enterprises and it was accomplished in record time”. IMF managing director Michel Camdessus said Argentina's reforms would allow nations to achieve “high-quality growth of the kind that will be genuinely sustainable over the long term”. An article in the *New York Times* in 1997 predicted that the arrangement between the IMF and Argentina, “would serve as a model for developing countries elsewhere in Latin America”.

But then came the Asian meltdown. A study conducted by the Institute of Industrial Development concluded that

the Asian crisis had undermined the economic measures of the 1990s, by making Asian goods cheaper than Argentine exports. It said 40 percent of the cuts to export costs had been lost, while for industrial exports, the figure was 70 percent. The car, textile and footwear industries were particularly affected, as well as some agricultural products. Prior to the Asian crisis, Argentina imported 340,000 pairs of shoes from Asia a month. The figure is now two million.

Even worse is the deepening trade rift between Argentina and Brazil, both facing recessions. The Mercosur trade agreement that links Argentina, Brazil, Uruguay and Paraguay with associates Chile and Bolivia, is under pressure. In the aftermath of the Asian crisis, Brazil was forced to devalue its currency in January this year. Its exports arrive at much lower prices, undercutting Argentine firms. There have been ongoing disputes over different industries, including the shoe trade. Brazil has suspended preferential treatment of 400 Argentine products.

Whoever is elected in November, the money markets are demanding greater attacks on social conditions. An already deplorable situation for the vast majority of people is going to get worse. A World Bank report from 1998 showed that Argentina had 13.4 million people in poverty, or 36 percent of the population, while 3.2 million people lived on just \$70 per month.

The IMF has announced it will offer a \$10 billion package to help Argentina restore investor confidence. But, in return, it is demanding another round of austerity measures. IMF chief economist Michael Mussa proposed that Argentina make labour market and structural reforms. Referring to the cuts to social spending, Freddy Thomsen of ING Baring said: “The IMF doesn't care how they get there. They just have to get to the bottom line”.



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