Shock therapy for Argentina: 75,000 jobs disappear in one month

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Argentina faces a social crisis of unprecedented proportions. Seventy-five thousand jobs disappeared during the month of February alone. The nation moved toward the 25 percent unemployment mark, while government officials begged for assistance from the International Monetary Fund (IMF).

Human rights organizations report that together with high levels of unemployment, labor rights have become a dead letter; bosses can impose virtually any working conditions at will. Wage cuts are rampant and 44 percent of the population is living with a per capita income of 120 pesos a month (about US$50) or less. A recent study by the Capital Foundation, a Buenos Aires think tank, warns that 600,000 more jobs will be lost this year given the current “dynamics” of the labor market. The report indicates that 11 percent of the population, or almost 4 million people, are not getting enough to eat and that a fifth of the labor force is underemployed, unable to find full-time work.

The financial shock has hit the poorest sections of the working class the hardest, particularly those forced to work in the informal sweatshop sector, where wages have dropped to less than $160 a month.

The March devaluation has had a much greater impact on the prices of basic necessities, particularly food, and by extension on the underprivileged layers of the population. Prices for food and basic necessities have shot up 8.3 percent since last September.

Unemployment also falls hardest on the poor. Nationally the jobless rate is about 25 percent, but among youth and low-income workers the rate exceeds 35 percent. Those on the higher rungs of the social scale face an unemployment rate of less than 7 percent.

Furthermore the business sector has taken advantage of desperation among the unemployed by replacing high-paying jobs with benefits with a new form of employment known as “promoted contracts,” or temporary posts, with little or no benefits. Eighty percent of so-called new jobs consist of promoted contracts.

No relief is in sight. An IMF team headed by Indian economist Anoop Singh visited Buenos Aires during the first half of March. Singh made it clear that as a condition for new loans the IMF requires the government create institutional guarantees that the nation’s creditors will be paid through the sacrifices of the Argentine population.

President Eduardo Duhalde took office in January promising to replace his predecessor’s reactionary free-market economic policies with a “new model” resting on an “alliance between labor and domestic industries.” He has since turned his back on that demagogic nostalgia for the heyday of Peronism and agreed to obey the IMF. Among the measures that the Singh team requires are:

* Making permanent last year’s 13 percent cut in pensions and wages for government workers, along with a 14 percent reduction in government spending.

* The elimination of all subsidies to private industry that had been put in place to prevent increases in unemployment by former Economics Minister Cavallo.

* A dramatic consumer tax increase through the elimination of exemptions on the value-added tax, for such essential services as transportation.

* A 5 percent tax on firms that exchanged their dollar debts into pesos. Many of those companies are already on the verge of bankruptcy.

* The dropping of lawsuits against banks and other financial institutions for their role in massive illegal capital transfers to foreign bank accounts, and a draconian 60 percent budget cut to be imposed on the provinces, which will be unable to issue their own currencies to keep afloat.

* The Argentine government must commit itself to a budget surplus, taxing an exhausted population in excess of what it spends.

Each of these measures will cause the economy to further contract and increase social misery. Leading economists estimate that this year the economy will shrink by another 8 to 10 percent, double government predictions. Under conditions in which entire layers of Argentine industry will go bankrupt, absent IMF loans, it is as if Argentina were being forced to pay reparations to Wall Street and the international banks.

Short of imposing these austerity measures by means of police-military dictatorship, in the near future the government will be forced to print money to make up for tax shortfalls, driving inflation to double digits and the exchange rate to a four peso per dollar level, thus threatening runaway inflation.

Undoubtedly to demonstrate that it is not without a sense of humor, before leaving Buenos Aires on March 15 the Singh team admonished Argentine officials not to forget the poor.

The IMF is acting as an enforcer of rules laid down by US Treasury Secretary Paul O’Neil, who has insisted that Argentina prove its ability to pay its creditors through the imposition of historically unprecedented poverty measures before the IMF releases any loans, lest these be used for purposes other than shoring up the peso and enabling the payment of foreign creditors.

A free-floating peso puts in doubt the ability of the private sector to service its dollar-denominated debt and raises the specter of bankruptcy. The Duhalde administration is under pressure to assume those debts to bail out banks and foreign investors. In the words of an economic analyst: “Profits are to remain in private hands, while corporate debts are to be socialized and paid for through taxation.”

Every action taken by the Argentine government since the fall of President Fernando De la Rua on December 20 has been to assure international bankers that their loans will be paid at the expense of the living standards of the population.

In a recent press conference, US President George W. Bush declared that no bailout would be forthcoming until Argentina makes hard decisions that inspire investor confidence. IMF head Anne Krueger in Moscow used similarly harsh terms on March 19. “We can’t make any loans when they [the Argentines] continue having the same difficulties,” she said.

In an interview with the Buenos Aires Daily *Clarin*, US Secretary of State Colin Powell cynically insisted that the US is Argentina’s best friend, but called on Argentine citizens to make painful decisions to stabilize the economy.

Those prescriptions represent the interests of international financial institutions. From their point of view, the market dictates how resources should be divided and how the national income is to be distributed. The role of the national government is to protect the rights of rapacious entrepreneurs from public unrest.

Any measure that exceeds those limits is punished through capital flight. Both current President Duhalde and former Economics Minister Domingo Cavallo had to renounce populist ambitions and Keynesian stimulus measures given the new realities of a globalized world.

The measures being contemplated by the IMF are similar to those adopted in Chile during the Pinochet dictatorship in the 1970s and ’80s, including so-called labor reforms designed to further emasculate the unions, the destruction of the social safety net, an end to worker safety and environmental regulations and other institutional reforms that give foreign capital a free hand.

In truth, the Argentine crisis is the working out of a process set in motion during the brutal military dictatorship of 1976-83.

President Duhalde recently predicted that Argentina’s economic crisis would be over by July 9, Argentina’s Independence Day. “Argentina is destined to succeed,” said Duhalde. This depends on how success is measured; the ruin of Argentina’s working class would surely create extraordinary profit opportunities for Argentina’s economic elite and for international investors.

On March 24, 1976, paralleling Chile, Argentina’s bloodiest military dictatorship came to power and began the process of dismantling an economy based on import substitution, a large state industrial sector, high tariffs on foreign goods, and a cozy corporatist compromise between the unions and management.

Under Economics Minister Jose Alfredo Martinez de Hoz, the Videla dictatorship initiated a break from the past with devastating effects on the working class. Like Augusto Pinochet in Chile, the Argentine dictators imposed their economic reforms through bloody police-state measures that included kidnappings, torture and the murder of more than 30,000 young workers and students. Militant trade union leaders were arrested or made to disappear. Martinez de Hoz participated directly in this bloody task. While president of Argentina’s largest steel company, ACINDAR, he directed the savage repression of the union leadership at the plant. Many militant steelworkers disappeared and were presumably tortured and killed. ACINDAR itself became one of the torture centers of the regime.

By the time the dictatorship fell in the wake of Argentina’s defeat in the Malvinas/Falklands war, the nation’s industrial capacity had shrunk by 30 percent and financial capital was flowing out of the country. Real wages were 62 percent of what they had been in 1969.

The succeeding governments—Alfonsin in 1983, Menem in 1989 and De la Rua in 1999—each advanced the Martinez de Hoz program. During the administration of Carlos Menem, an immense fire sale of nationalized industries took place at ridiculously low prices. Menem and the politicians around him became very wealthy through a succession of shady deals.

Privatizations created the illusion of economic growth during the first half of the 1990s. This growth was not a reflection of any real increase in production, but the financial effect of the sales themselves combined with massive inflows of capital, based on exaggerated profit expectations.

The massive capital flight from Mexico in December 1994 ended this growth spurt. The Mexican shock caused capital flows to reverse direction. By 1995, unemployment levels had reached 18.5 percent. On the heels of that recession came contractions in Russia, Brazil and Turkey that choked off any possibility of recovery for the Argentine economy.

Upon taking power, Duhalde promised a “new model,” as did his elected predecessors, Alfonsin, Menem and De la Rua. Each then turned to increasingly more extreme forms of laissez-faire economic policies. Hardly anything remains that has not been privatized, while unemployment and social inequality are at unprecedented levels. The number of indigent poor, 6 million people, is now twice what it was 10 years ago. Among the demands of striking teachers last week were free lunches for hungry students.

Since December shantytowns have mushroomed around the major cities, with 10 new ones around the city of Rosario in February alone.

The message from Bush and the IMF—that resistance to the “pain” of low wages, the end of favorable labor laws and the social safety net will only result in more unemployment and lower living standards—fails to take into account that a discredited and corrupt Duhalde regime cannot rein in the social explosion through which Argentina is still passing. The regime is running out of oxygen and it will certainly fall without an IMF loan.

Massive demonstrations on December 19 and 20 last year forced the resignation of the De la Rua administration. Working class and middle class neighborhood assemblies have sprung up spontaneously across the nation. Workers have occupied factories and in some cases are running them to defend their jobs. Angry citizens attack politicians on the streets, in restaurants and at airports.

This initial mass movement, however, lacks political leadership. The dissident wing of the trade union apparatus together with left-nationalist groups of various stripes encourage the illusion that more and bigger demonstrations will somehow reverse the course of history and bring back the social relations that existed before the 1976 coup.

Without a political alternative, the ubiquitous demand of the protests, *“Que se vayan todos”* (throw them all out), underscores the frustration of the working class with the political dead end into which it has been led by the national reformist politics of Peronism and its left apologists.