

After the debt default: Argentine economy in deepest-ever recession

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A report on the state of the Argentine economy published earlier this month provides an insight into the devastating impact of its financial crisis, and the social catastrophe inflicted upon the population as a result of the measures dictated by the International Monetary Fund.

Prepared by the Center for Economic and Policy Research, a liberal think tank based in Washington, the report notes that four years of recession have seen the Argentine gross domestic product (GDP) contract by 20 percent, with no indication of when this downward spiral will end.

The statistics of what is already the worst economic crisis in the history of the country are summed up as follows:

“GDP has declined at a record 16.3 percent annual rate in the first quarter of 2002. Unemployment stands at 21.5 percent of the labour force, and real monthly wages have declined by 18 percent over the course of the year. Official poverty and indigent rates have reached record levels: 53 percent of Argentines now live below the official poverty line, while 25 percent are indigent (basic needs unmet). Since October 2001, 5.2 million Argentines have fallen below the poverty line, while seven out of ten Argentine children are poor today.”

If the contraction experienced in the first half were to continue at the same rate for the rest of the year, then the total decline in the Argentine economy since the last peak in the business cycle in 1998 will be 27 percent. This compares with the 33 percent loss of output in the United States during the Great Depression.

The collapse of the Argentine economy is a massive indictment of the policies of the International Monetary Fund which has directed the economic program of successive governments over the past decade.

But the IMF insists that it is blameless and that “failures in fiscal policy”—too much government spending—“constitute the root cause of the current crisis”. It continues to demand fiscal and monetary austerity as a means of reviving investor confidence and stimulating the economy—the very policies that have failed over the past four years.

Dealing with the IMF claims that government spending is the root of the problems, the report’s authors, Alan B. Cibils, Mark Weisbrot and Debayani Kar, point out that the central government’s deficit was never large, peaking at 3.2 percent of GDP in 2001, with the increase directly attributable to interest payments, while the deficits of the provincial governments peaked at 1.9 percent of GDP in 2001.

The combined Argentine deficit of 5.1 percent of GDP—sustained during one of the deepest downturns in postwar history—compares with the US government deficits of 4.7 percent of GDP in 1992 and 6.1 per cent in 1982.

The authors insist that the worsening of the government’s fiscal balance from 1993 onwards was not caused by increased spending, other than on interest payments, but followed the decline in government revenues resulting from the recession which began in the third quarter of 1998.

“More importantly, Argentina got stuck in a debt spiral in which higher interest rates increased the debt and the country’s risk premium, which led to ever higher interest rates and debt service until its default in December of 2001. The interest rate shocks came from outside, starting with the US Federal Reserve’s decision to raise short-term rates in February of 1994, and on through the Mexican, Asian, Russian, and Brazilian financial crises (1995-1999).”

One reason these international crises have had such a severe impact on Argentina is the financial policies pursued over the past decade. In particular the currency board, under which Argentina’s currency was pegged directly to the US dollar, meant that it was immediately hit by shifts in US financial policy and fluctuations in the value of the dollar.

The rise in US interest rates starting in February 1994—an increase from 3 percent to 6 percent over a 12-month period—was matched in Argentina, with an additional rise in the so-called risk premium. The Mexican crisis of late 1994 saw an outflow of capital from Argentina, leading to a steep recession as the GDP declined by 7.6 percent from the last quarter of 1994 to the first quarter of 1996.

The rise in the value of the US dollar after April 1995 meant that the Argentine peso became increasingly overvalued. This led to a worsening of the current account deficit, adding to the growing economic instability and leading in turn to rising interest rates. Then came the Asian crisis of 1997-98, the Russian default and the floating of the Brazilian real in January 1999.

The combined impact of these events led to a major capital outflow from the Argentine economy, sending the economy into a recession from which it has never recovered.

But for the economists directing the IMF, whose policies have helped to impose the worst economic disaster in the history of the country, the problem is not that there is too much poverty, but too little.

The former IMF chief economist, Michael Mussa, has insisted that if Argentina had had a “more flexible economic system, especially in its labour markets”, it would have been able to survive the turmoil of recent years. In other words, all would have been well if only wages had fallen further and faster than they actually did.

Accordingly, the IMF’s program is for further fiscal tightening by both the central and provincial governments. But despite the willingness of the central government to comply, the Fund has still refused to make more loan funds available.

According to the report: “It seems that the goal posts have been continually moved, so that new conditions are added after the government has agreed to satisfy previous ones.”

It points out that a recent report by four former central bankers from Europe and Canada sent to Argentina by the IMF to recommend how Argentina should reform its banking system concluded that: “Sacrifices will be needed, probably beyond those with which society has already come to terms.”

Meanwhile, the IMF is using its authority in international financial markets to ensure that credit to Argentina from all sources is denied until it reaches an overall agreement with the Fund. Even loans targeted directly for social programs, such as a credit of \$700 million approved by the World Bank, have been withheld. Export credits have also been difficult to obtain because of the lack of an agreement.

The authors of the report point out that agreement with the IMF is no solution for Argentina, because compliance with its demands for further spending cuts would have a “significant contractionary effect on the economy and almost certainly prolong and/or deepen the current depression.”

But the alternative perspective they advance offers no way out either. They claim that while the economic crisis is the most serious in the history of the country there are “a number of reasons to view the economy as poised for rapid recovery, and one that can take place without external financing.” Due to the collapse in demand as a result of the depression and the devaluation of the currency, Argentina is now running a large current account and trade surplus.

Accordingly, the government should use its resources to “revive the economy directly”, whereupon private investment would resume once investors no longer feared a worsening breakdown. But even if such a revival were to take place, it could not bring a lasting economic recovery. This is because any significant economic growth would immediately pose the need for closer connections with the international economy and access to international credit.

Faced with refusal to agree to its demands, the IMF, with the backing of the US Treasury, would declare the country to be in default of the IMF itself and cut off all sources of credit. According to the report’s authors, however, use of this “nuclear option” would not be likely as it would be “very difficult politically for the IMF/US Treasury to declare Argentina a ‘pariah state’ and enforce a credit embargo.”

One is led to the conclusion that the authors are either very naïve or so committed to promoting a national-based perspective that they have consciously drawn a screen over the real workings of the

international economy.

Moreover, their self-styled “home-grown” solutions are based on a denial of the economic processes that have led to the Argentine collapse. As the report draws out, in opposition to the IMF, the roots of the crisis lie not in the Argentine economy as such, or in domestic policies, but in the violent global economic storms of the past decade, the effects of which are spreading throughout Latin America.

As the report notes: “The risk premium on Brazil’s sovereign debt is now worse than Nigeria’s, Uruguay has lost a third of its reserves in the last month, and capital inflows to the region have dropped off sharply in the last year and a half.”

Other statistics, place the Argentine crisis within the context of the impoverishment inflicted on the people of Latin America as a consequence of the so-called free-market reforms of the past two decades.

According to an article by University of Miami senior research associate, Max Castro, published in the *Miami Herald* of July 16, the percentage of households in poverty in Latin America (defined as having insufficient income to meet basic needs) has increased over this period from 34.7 percent to 35.3 percent. In 1999, there were 211 million poor people in Latin America, compared to 136 million in 1980.

The rate of extreme poverty (defined as insufficient income to meet food needs) dropped slightly from 18.6 per cent to 18.5 percent over the same period. But the increase in population means that, while the rate has remained stationary, there are many more people going hungry than there were 20 years ago.

At the beginning of the 1990s, when Argentina was being hailed as a model of “reform”, the proponents of the capitalist “free market” claimed their policies would bring a zone of prosperity and democracy from Alaska to Tierra del Fuego.

It has turned into a nightmare. And not only in Latin America. The same economic processes that have wreaked such havoc across the continent are at work in the United States as well. This is the significance of the collapse of the financial bubble and the revelations that the “free market” has proved to be nothing more than a mechanism for the systematic looting of economic resources by a tiny minority at the expense of the overwhelming majority.

It is the very universality of the economic crisis which points to the political program on which the working class in Argentina and throughout the region must base their struggles.

While the contradictions and interconnections of the global capitalist economy have shattered the basis of any national economic programs in Argentina, the rest of Latin America and even the US itself, they have created the objective conditions for the unification of the working class across both continents in the struggle for an international and socialist program. That is the perspective which must be fought for by workers, youth and socialist-minded intellectuals.



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