Argentine Senate approves “zero deficit budget”

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With a nearly unpayable debt burden of over US$ 327 billion dollars (about 80 percent of the country’s Gross Domestic Product) and a dollar flight of nearly US$ 30 billion this year, Argentina’s economy teeters on the brink of disaster. An agreement with the International Monetary Fund (IMF) and a new budget plan attempts to pay the debt through the policies designed to inflict hunger and social misery.

Following 12 hours of debate, during the dawn hours of Thursday, November 15, the Argentine Senate approved a shock-therapy budget for 2019, a savage attack on jobs and wages. Having endured two years of supposedly “gradual” austerity measures that have eroded living standards, social services and public investment, the new budget signals that much worse is coming.

The so-called zero deficit budget, approved in October by the lower house, passed comfortably in the Senate (45 for, 24 against, one abstention) thanks in part to the votes of a conservative wing of the Peronist Party (the Federal Block), whose leader, Miguel Pichetto, declared that his faction would not allow a government paralysis.

The four-billion-dollar budget includes a budget cut of 300 billion pesos, relative to 2018. For workers it means another year of falling real wages, increasing unemployment and cuts in pensions and social benefits.

With a rate of unemployment and underemployment of 9.7 percent and 11 percent, during the first semester of 2018, Argentina’s poverty rate now exceeds 27 percent of the population, about 12 million people. President Macri recently warned that Argentines should brace for further increases in joblessness and poverty.

Further devastating living standards and increasing social inequality, the budget includes significant increases in regressive value added taxes, while slashing taxes on corporate profits, mining companies and soy exporters.

There will be no increases in public investments, further eroding the promises made by Macri in 2016.

In response to the collapse in the dollar-value of the Argentine Peso (currently 37 pesos up from 19 pesos to the dollar in January 2018), the budget sets aside increasing amounts of pesos to service Argentina’s debt to foreign banks and hedge funds in accordance with the agreement with the IMF in return for a US$ 57 billion rescue package from that institution.

Beginning with the decision to remove controls on the dollar, and now with this budget, the IMF has effectively taken control of Argentine fiscal policy, which is now oriented to insuring the debt payment above everything else. The budget does provide for increases in money destined for debt payment; one third of fiscal spending is earmarked for debt payment.

The government has declared that it anticipates that inflation, 45 percent in 2018, will fall to 23 percent in 2019 and that GDP growth will decline by 0.5 percent relative to the 1.5 percent decline in 2018. It predicts that the price of dollars will stabilize at 40 pesos, as Central Bank interest rates remain at a usurious 70 percent, slamming the brakes on economic activity. Unable to raise capital except at extremely high rates, medium and small firms are on the verge of financial collapse.

Government spending will shrink by seven percent in order to reach the zero fiscal deficit goal. For 2020, government officials predict a budget surplus.

There is an atmosphere of disbelief in Argentine society in relation to all the government projections. To many, they appear to be intended for foreign consumption; to reassure the IMF and Wall street bond holders. In the words of a TV commentator: “there is little bread and a lot of circus” in government statements.

Every day Argentine residents wake up to the announcement of mass layoffs in auto, steel, textiles, and other industries. So far this year, 250,000 workers have lost their jobs. Industries operate at 60 percent capacity, auto at less than 45 percent, textiles at less than 50 percent. As a consequence of the layoffs, along with cuts in pensions and cuts in social programs for children of the unemployed and poor, consumption spending has collapsed, further weakening industries that produce consumer goods for the domestic market.

For its part, IMF officials congratulated the Macri administration on the passage of the zero-deficit budget. At the fund’s regular Thursday press conference in New York, IMF official Gerry Rice called the new budget a “positive step” and key to restoring confidence in the Argentine economy.

Government authorities have announced some minimal palliative measures, such as a US$ 140 bonus (in 2 payments) in order to compensate for inflation, and a ten-day notice for layoffs.

As the social and economic crisis develops, on November 30, leaders of the G20 nations will gather in Buenos Aires and other Argentine cities, amidst extraordinary security measures. Interior Secretary Patricia Bullrich has suggested that residents of Buenos Aires leave the city during the days of the summit (November 30 to December 1). President Macri has announced that Argentina will shoot down any unauthorized airplanes that fly over the sites of the meetings. The infiltration of protest groups and attacks on immigrants are being carried out by Argentine security forces.

This December marks 17 years since one of the most significant mass protest movement in Argentina’s post-war history. Chanting “*¡Qué se vayan todos, que no quede ni uno solo!*” (Out with all [politicians], that not one remain!) hundreds of thousands poured into the streets of Buenos Aires and other cities.

What triggered this popular rebellion that forced the collapse of the administration of then-president De la Rua was the debt crisis driven by the failure of the neo-liberal model of former Peronist president Carlos Ménem, the resulting massive outflow of US dollars, the closure of the banks, mass unemployment and collapsing living standards.

“An austerity policy of this magnitude has never taken place without the collapse of the government,” declared Economics Minister Nicolás Dujovne referring to these events, undoubtedly expressing the fears within the Argentine government and ruling class.