

- interest rates 30 percent over inflation which companies must pay each month to refinance their burgeoning debts.

During the last year, the textile business has eliminated 60 percent of its former capacity. Tractors are no longer produced in one of the world's richest breadbaskets. And provincial industries such as winemaking and winter fruits have been hit hard (see Figure 3).

Most industrialists, however, have sought to keep operating by slower payments of their bills. *The Times* of London reported that \$10 billion of the \$60 billion in private loans in the country are overdue. Other British sources provide lower figures, but Argentine circles believe many banks have over 30 percent of their assets nonperforming. This makes them legally bankrupt, and the government has moved aggressively to liquidate 25 such financial entities during 1980. Rather than purge the rotten apples out of the market, as de Hoz and his Wall Street buddies claim, the closing of these banks—which range from over-greedy speculators to some of the most respected banks—has only increased the illiquidity of their creditors.

With banks going under in waves starting last March, de Hoz has acted to reassure local peso depositors by providing for FDIC-type insurance covering all small deposits and 90 percent of large CDs. The treasury paid out some \$3 billion on such insurance during 1980, but the chain letter of bank collapses is now gathering momentum. Such treasury disbursements come on top of an accelerating budget deficit which now equals 4.2 percent of GNP, thus further fueling inflation. Such an insurance policy will not be able to withstand the coming tidal wave.

Viola . . . a new tune?

The incoming government of Gen. Roberto Viola has tried to offer a ray of hope to domestic producers by saying it intends to “reactivate the economy” from its current decline. However, Viola has also said he intends to preserve the main lines of de Hoz's policies. He now faces a tough choice between policies which are equally unlikely to revive the corpse of the Argentine economy. He can *either* 1) continue off the cliff defined by de Hoz, jacking up interest rates and causing the remainder of Argentina's real economy to be auctioned off at scrap value to foreign money operators; *or* 2) reflate the sagging economy by liberally giving out the credit needed to forestall generalized bankruptcy. In the ravaged Argentine economy, this option would lead only to a hyperinflationary blowout more violent than the one that preceded the 1976 military coup—unless it takes place in an extremely supportive international environment prepared to put Argentina's current indebtedness in suspended animation and channel in new capital exclusively for *productive* investment to sustain a genuine economic recovery.



Martínez de Hoz: a British operative

by Dolia Pettingell

The following report on the background of Argentine economics Minister José Alfredo Martínez de Hoz was first prepared in August 1978. Because of its continued relevance to Argentina today, we reprint extensive excerpts.

It would be a mistake to assume that Argentina is currently governed by its armed forces. Argentina is actually largely under the control of a single individual, a man who was born to be exactly what he is: a British agent with an aristocratic pedigree. This man is José Alfredo Martínez de Hoz, and even though his official position in the Argentine government is that of economics minister, his behind-the-scenes activities, decision-making powers, and international ties show him to be the strongman of Argentine politics.

What has been de Hoz's British deployment?

Stopping Perón

Only two decades ago, Argentina was the most advanced country in the entire developing sector. In spite of the fact that dictator Juan Domingo Perón's 1950s rule included complicating corporatist features, Perón was in fact forced to base himself on a labor-industry alliance. His policies, which were explicitly anti-British, expanded national industry and established a vigorous state sector. As a result, during the early 1950s, Argentina was among the nine countries of the world with the highest standard of living. At that time, the Argentine population was the best-educated in Latin America, with illiteracy rates of practically zero.

The British-orchestrated coup against Perón in 1955 was specifically designed to stop this progress in Argen-

tina cold, and reverse it. They installed one of their servile agents in the Economics Ministry, Raúl Prébisch, who was to handle the deindustrialization of the economy and the destruction of the powerful Peronist state sector. Prébisch tried, but he never completed the monetarist task.

For the next 20 years, chaos, anarchy, and faction fighting within the armed forces swept the political landscape. During those two decades, 13 presidents passed through the Casa Rosada (or Pink House, the presidential mansion). Most of them were military men who in one way or another sought to dismantle the Argentine economy.

By 1976, it had become apparent that the only thing that had been achieved was to weaken the economy. The Argentine population, composed principally of a significant white-collar strata and a large labor force, firmly resisted its own destruction. Demonstrations increased exponentially, from labor strikes to student outbreaks culminating in a 1975 general strike that paralyzed the entire country.

In 1976, the British decided to play their trump card. On March 24 of that year, after six tedious months of vacillation, the armed forces finally overthrew Isabel Perón's chaotic government. The grey eminence behind

the military decision was José Alfredo Martínez de Hoz.

De Hoz is the offspring of one of the richest oligarchic families in Argentina. His grandfather was a member of the British Jockey Club, whose members were primarily the oligarchical landowners, the monopolizers of the cattle industry who thus controlled Argentina's principal export for most of the last century. Up until the 1940s, this elite was the real power behind the succession of figurehead presidents.

De Hoz's father continued the family tradition, becoming president of the British-modeled Argentine Rural Society, and of the Association of Breeders of Thoroughbred Horses.

Born in Argentina in 1925, the current de Hoz spent his early years and adolescence in England. He attended Eton, where members of the British monarchy are schooled along with royal family retainers; later he went to Oxford University, where he joined the long line of products of British liberalism. As for de Hoz's impeccable British accent, it dates back to his British "nanny."

Following their stay in England, the de Hoz family returned to Argentina, where, in 1949, Joe was graduated from the University of Buenos Aires Law School with a "gold medal." From there he transferred to Harvard University, where he received another degree from the business school. It is possible that it was during this period de Hoz met Henry Kissinger, also a student at Harvard, with whom he later developed an intimate relationship.

No one enjoys recounting the "charm" of this British product more than the anglophile media. When de Hoz took over the post of Argentina's economic czar he was the subject of extraordinary press adulation. "51, a thin, soft-spoken lawyer" said *Forbes* magazine, while *Institutional Investor* characterized him as a "calm, pleasant-mannered, part-time horse breeder, who combines an air of English patrician refinement with persuasive energy. . ."

His public life

It is no accident that de Hoz began his public career in 1957, immediately after the 1955 coup d'état that toppled Perón. De Hoz was at that point named economics minister in the province of Salta, an appointment probably arranged by incoming national Economics Minister Raúl Prébisch, Argentina's most blatant proponent of the British "free trade" doctrine since the 19th century, and a fervent promoter of making Argentina into a mere "agro-exporter." "It was my great opportunity," de Hoz said after, "to direct the economy of that province as if it were a laboratory experiment."

Two years later, in 1959, with the election of the first postwar civilian government in Argentina, de Hoz was out of the administration. "It was then that I became

The Trilateral angle

Economics Minister José Alfredo Martínez de Hoz is also the Videla government's principal foreign policy adviser, often executing the country's diplomacy himself. He is known to favor incorporating Argentina into the Trilateral Commission, a subgroup of the New York Council on Foreign Relations, as that grouping's first Third World member.

On March 26, 1978, the Buenos Aires daily *La Opinión*, known to reflect the thinking of the armed forces (and therefore de Hoz's policy inputs), devoted page after page to promote the antidevelopment policies of the Trilateral Commission.

"Argentine [foreign] policy must have as its ultimate objective to become Latin America's representative before the Trilateral Commission. . . . Argentina would become a very powerful nation as soon as, instead of defining its policies according to what Brazil is up to, it goes directly to the source of power of the Western world, and of the Eastern world as well. . . . The Trilateral Commission runs the world with an ecumenical spirit."

more and more interested in public life, which, once entered, is difficult to leave, despite the headaches and sacrifices it calls for," de Hoz commented in a 1978 interview.

In the period from 1955 to 1976, de Hoz was in and out of the government, depending upon who was president. He was named president of the National Grain Association, secretary of Agriculture and Livestock, and even occupied the chair of Agrarian Law at the University of Buenos Aires and at the Catholic El Salvador University.

With the help of the anglophile press, de Hoz has become famous as a "liberal intellectual" who reads everything from John Galbraith to Trotsky's *History of the Russian Revolution*. "Few men could match the natural tools that Martínez de Hoz brought to the task—fluent in English, French, and Spanish and possessing a photographic memory to boot," commented *Institutional Investor* in February 1978.

De Hoz is also a monetarist through and through, a fervent devotee of the "free market economy" and an enemy of dirigism. Along with Prébisch, he is a promoter of the thesis that Argentina's manifest destiny is exclusively to be an "agro-exporter," with no industry. He believes that foreign debt payment is sacrosanct, no matter what it does to the standard of living of the population. He agrees with the teachings of Milton Friedman, and totally rejects any protectionism for national industry.

The 1976 monetarist coup

On March 24, 1976, when the Argentine armed forces decided to finally overthrow the "Peronist" government of the cultist López Rega, the lover of Perón's widow and a longstanding ally of the neofascist oligarchic Black International, the country was submerged in the worst political and economic crisis of its modern history. In only one year, from 1974 to 1975, total industrial production had fallen by 9 percent, and then dipped another 5 percent in the first quarter of 1976.

For the Argentine population, 1975 was like an episode out of Dante's Inferno. Annual inflation ran at 600 percent; as much as 80 percent of the budget was financed by foreign loans and by printing money at home. Foreign debt climbed to \$10 billion, the third highest in Latin America. One month before the coup, the country had defaulted on its payments, and only had \$2 million in reserves in its central bank. Half a dozen technocrats tried to put the economy in order; all of them failed.

It is an open secret in Argentina that the military was hesitant to take power, not knowing how to handle the economic crisis.

It is perhaps ironic that the man who moved the powerful Argentine armed forces into action was the

"delicate" José Alfredo Martínez de Hoz.

De Hoz and a group of technocrats from the International Monetary Fund drew up an economic plan a few weeks before the coup d'état. After presenting it to the commander of the three branches of the armed forces, de Hoz went to Kenya to participate in a several week long safari. the *New York Times* wrote that "in the middle of the safari, he was called by radio to return to Argentina, about a week before the coup, so that Videla [Commander in Chief of the Army and imminent president] could tell him that the armed forces had adopted his plan and that they wanted the names of those who would carry it out." A few days later, de Hoz gave his first national speech on radio and television. In a three-and-a-half-hour discourse, he exhorted the population to "sacrifice equally."

De Hoz's self-confidence relied significantly on the unanimous trust placed in him by the IMF, the World Bank, and the commercial banks who were Argentina's creditors, led by Chase Manhattan's David Rockefeller, a personal friend of "Joe."

De Hoz's plan was nothing new. It was the classic IMF plan, the British neocolonialist clamp imposed today on most Third World countries.

In the case of Argentina, the main goal was to reduce the galloping inflation by attacking its supposed "cause," the "excessive" public expenditures. This meant laying off as quickly as possible more than 300,000 public employees, and reducing public services to a minimum. This mass of newly unemployed workers would be absorbed through "large-scale investments" in labor-intensive agricultural projects designed by the World Bank, thus eliminating Argentina's highly mechanized agricultural production.

Raúl Prébisch, 21 years earlier, had presented the same "stabilization" plan of laying off thousands of public employees. The other aspects of de Hoz's plan are also identical to Prébisch's. Turn the country's natural resources like oil and minerals over to the multinationals; cut import tariffs and state subsidies for agricultural exports; eliminate all price controls while freezing wages; and impose a strong tax reform that penalized medium sized industries.

Furthermore, to show his appreciation to the international banking community, de Hoz immediately reversed the nationalization of bank deposits that had banks like Chase Manhattan on the verge of closing their Argentine branches. In exchange for this favor, Argentina's international creditors granted de Hoz a six-month moratorium on foreign debt, at the end of which the economy would supposedly be on the way to "recovery."

Thus was laid the basis of the solid romance between de Hoz and the international banking community which remains to this day.