

Bankers are jittery about Argentina

by Cynthia R. Rush

Top bankers from London and Wall Street are flocking to the defense of Argentine Finance Minister Domingo Cavallo, fearful that if, as rumored, the minister were to resign, the country's fragile financial system would shatter. The Harvard-trained Cavallo is the architect of Argentina's "convertibility plan," the radical free-market austerity program imposed in 1991, which pegged the peso to the dollar in a one-to-one parity, and transformed the country into one of Wall Street's favorite "success" stories.

Recently, however, opposition to Cavallo's economic plan has grown, both from within the government of President Carlos Menem, as well as from among industrial, labor, and Catholic Church circles, whose leaders warn that continued application of this International Monetary Fund-dictated policy will sow economic and social chaos. There are rumors that the official unemployment rate of 18.6% could jump to 26-28% by October, and protest demonstrations against government policy are going on in virtually every province. The credibility of IMF-imposed policies is so low in Argentina, the London *Guardian* reported Aug. 28, that economic "neo-liberalism" and "adjustment" have become swear words!

Cavallo and supporters dictate terms

In mid-August, when Cavallo responded to public and private criticism of him by charging that "mafias" inside the government were trying to sabotage his policy, he unleashed an internal crisis which threatened his tenure in office and the stability of the government.

Ibero-America is reeling from the same lunatic economic policies applied by Cavallo in Argentina, and there is fear among the international banking community that another shock similar to Mexico's 1994 devaluation could set off an uncontrollable chain reaction on the continent. London and Wall Street see Cavallo's continuation in office as key to Argentina's stability, and the political backlash provoked by the minister's accusations brought an unprecedented response from his international backers.

Most remarkable was the Aug. 24 statement of support for Cavallo signed by such figures as IMF Managing Director Michel Camdessus, World Bank President James Wolfensohn, Citibank Vice President William Rhodes, and former Bush administration Treasury officials Nicholas Brady and David Mulford. Unabashedly dictating orders, the signators demanded that Cavallo—not President Menem—

be reaffirmed as the "director of the Argentine economy" and that his powers in no way be curtailed.

Just a few days later, Citibank's William Rhodes arrived in Buenos Aires for a "surprise visit," and met with Menem and Cavallo. In a press conference which followed, Rhodes had the chutzpah to tell reporters that "Menem openly and fully backs his minister and his plans for managing the national economy." Rhodes threatened that "any change or modification in the Argentine economic situation will be viewed with great concern by international banks. We are all watching Argentina . . . because any change could generate a difficult situation [here], as well as in the Mexican and Brazilian markets."

Who's afraid of dinosaurs?

Stewart Brittain, an analyst at London's Stephen Rose & Partners, offered insight into the mental processes of these international usurers, when he told the daily *La Nación*, "If Cavallo goes, Argentina might fall under a dark shadow." Most probably, he warned, this would give an opening to the Peronist "old guard," more identified with dirigistic economic policy and opposed to the radical free-market opening up of the economy for looting.

What Brittain and other pro-British bankers refer to as the "dinosaurs" of Peronism, who they warn will reverse the "tough policies" already implemented, is not Peronism per se, which is considerably dissipated from its heyday of the 1950s. Rather, it is a protectionist tradition which, although dormant, has shown signs of life recently in the increasingly heated debate over economic policy. During the Aug. 10 conference of the Argentine Industrial Union (UIA) in Mar del Plata, for example, business leaders demanded greater protection for industry and warned of growing unemployment as a result of free-market policy. In opposing Cavallo's policies, former UIA President Roberto Favelevic said, "It is better to foster investment and employment, if necessary even with 'heresies' such as subsidies, lower taxes, and protection against subsidized imports."

The UIA was founded originally in the 1880s by protectionist and pro-industrial circles grouped around political leader Carlos Pellegrini and his mentor Vicente Fidel López, who pointed to the industrial development of the United States as a model for Argentina to follow. "I know of no system more hateful and merciless than that of free trade, applied to newer countries," López said in an August 1876 speech before the House of Deputies.

In Argentina's charged political environment, even discussion of such pro-industrial sentiment causes teeth-gnashing among London's defenders. In a commentary, "Protectionist Winds," in the Aug. 24 *La Nación*, a worried former Trade Minister Alberto de las Carreras lamented the "confrontation between industrialists and [economic] liberals" which had characterized the UIA conference, and warned that a return to protectionism would wreck Argentina's future.