

Argentina reaching the breaking point

by Cynthia Rush and Gonzalo Huertas

Over the past few months, Argentine Finance Minister Domingo Cavallo, a free-market fanatic, has been scurrying around the world begging for funds to prevent a debt default, and maintain the myth of his country's economic stability. But, as an economist at Wall Street's Morgan Stanley Inc. told the *Wall Street Journal* recently, this rash of borrowing is making foreign bankers nervous. "There are limits to the thickness of the welcome mat," the economist said. "If they keep up this pace of borrowing, next year they'll have a tough time." This year alone, Cavallo has increased foreign public debt by \$5.7 billion—some say the figure is closer to \$10 billion—and issued another \$6.5 billion in public bonds.

In August, the International Monetary Fund had to revise downward conditionalities in the letter of intent it had signed with the Menem government only five months earlier, to allow for a \$2.4 billion deficit for this year rather than the \$2 billion surplus originally demanded. And even this figure is wildly off. According to recent estimates, the deficit is expected to reach a whopping \$8.3 billion by year's end! If the 1995 growth rate is, as expected, 1% (at best), the government will have to double its 1996 borrowing needs, now estimated at \$5.1 billion.

A dramatic slowdown in all sectors of the economy is also affecting the banking sector which, since the December 1994 devaluation of the Mexican peso, has lost \$8 billion in deposits. "Irregular" or bad debt, now equals 22.6% of total deposits, up from 19% in January. The highest rate of defaults is occurring in credit card debt where annual interest rates are an astronomical 45-46%.

Blood from a stone?

One of the reasons for the growing deficit, and Cavallo's reliance on foreign loans, is that there is not much left inside the country to loot. The government had anticipated at least \$2.4 billion in income from privatizations this year, but this has now been reduced to \$400 million. To offset shrinking tax revenues, Cavallo has offered "tax moratorium" schemes, allowing delinquent taxpayers to pay what they owe without interest or penalties. But an unenthusiastic popular response has forced the minister to make up the shortfall: Repressive attempts to enforce tax collection, such as closing businesses which haven't paid, have only incited rebellion among taxpayers. In at least three cities, inspectors from the

federal tax agency were literally run out of town by merchants enraged at these strongarm tactics.

Unemployment now stands officially at 18.6%, and unofficially is closer to 25%. According to a report prepared by the Bahí Blanca branch of the Catholic agency, Caritas, 60% of the people who seek its assistance daily "used to belong to the middle class." Between December 1994 and June 1995, the number of people eating at the agency's soup kitchen increased from 12,000 to 16,000.

In the provinces, many governments are unable to pay employees wages and are offering provincial bonds instead. Demonstrations and marches to protest non-payment or reduction of wages, and shorter work weeks, occur almost weekly, and in some cases have turned violent. Cavallo, nonetheless, has insanely stated that the only way to address the growing deficit is to force the provinces to "deepen" free-market reforms, by privatizing provincial banks and utility companies, among other things. Resistance is widespread, and the minister has withheld federal revenue-sharing funds to blackmail provinces into accepting these measures. Moreover, Labor Minister Armando Caro Figueroa announced on Nov. 2 that the government will appeal to the Supreme Court to reverse a lower court ruling that President Carlos Menem's plan to reduce federal employees' wages is unconstitutional. Caro Figueroa said that if the appeal fails, the government will reduce wages by fiat.

On Nov. 11, Pope John Paul II addressed the ethical implications of these brutal policies, as he spoke to 50 Argentine bishops at the Vatican. Pointing to Argentina's "grave economic situation . . . which has as one of its manifestations . . . the increase of unemployment," the Pontiff argued that "it is useful to remember that the social situation doesn't improve only through application of technical measures, but also promoting reforms with a human and moral basis, which take into account an ethical consideration of people, of the family and society." Only "a new proposal of the fundamental moral values . . . in a land such as yours which Providence has created fertile and fruitful, can secure a better integral development for all the members of the national community."

Carlos Menem seems not to have heard the pontiff. On Nov. 14, he requested authority from Congress to "deepen the adjustment [i.e., IMF austerity] program." Specifically, he asked for the insertion into the 1996 budget of an article which, for 18 months, would allow the Finance Ministry to "fuse, suppress, dissolve or extinguish agencies of the State." All of the remaining 58 State companies will be privatized, and promotions at all levels of public administration, suspended. Congress has also agreed to support additional austerity measures requested by Menem. Finance Secretary Ricardo Gutiérrez also warned publicly that any company which failed to pay taxes would be shut down and lose its property. "We really are going to be very severe, and not fall into fiscal irresponsibility," he said.