

Argentina: 'Shock Therapy' To Reduce Inflation

Argentine Finance Minister José Alfredo Martínez de Hoz recently announced the implementation of a series of Friedmanite "shock therapy" measures designed to reduce an inflation rate currently running at 93 percent annually.

ARGENTINA

On June 24, De Hoz announced that import tariffs would be cut, and in some cases eliminated, for 89 different manufactured foreign goods. De Hoz' "logic" is to flood Argentine markets with foreign goods in order to force the nation's produced goods to "compete" with foreign goods, driving down prices and reducing inflation. The Finance Minister explained that the price competition will only involve small and medium industries, while the "leader industries," i.e. transnationals, will stick to a price indexation system which will allow them to increase prices by only 80 percent of the value the falling Argentine peso loses with respect to the dollar. Both measures, De Hoz asserted, will control prices and therefore favor the consumer. What De Hoz did not reveal is that the new measures were stipulated in a "letter of intent" signed between Argentina and the International Monetary Fund in December 1976.

Inflation in Argentina does continue to be a serious problem, but the De Hoz-IMF Friedmanite prescriptions, far from "curing" the patient, will kill it by destroying the vital industrial base of the Argentine economy. The latest measures are a gigantic step toward concretizing

the old monetarist scheme of transforming Argentina back into the semi-feudal agricultural economy of British colonial days.

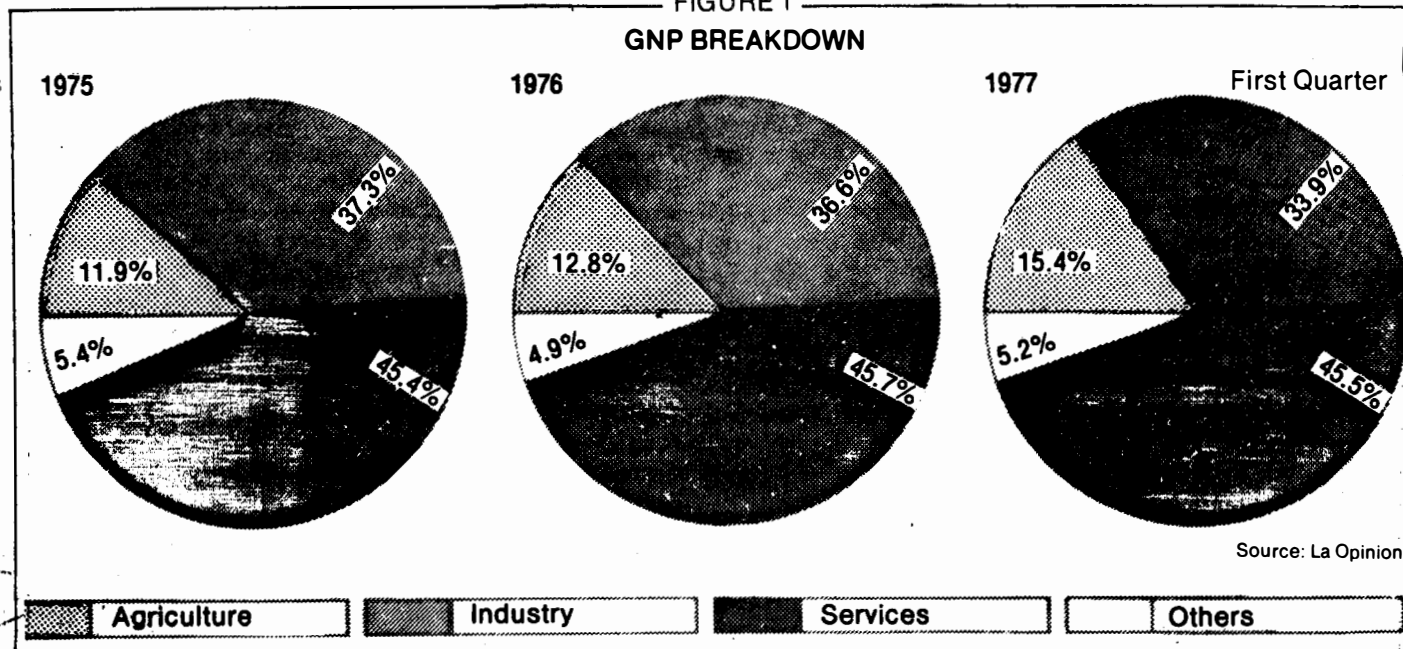
Over the last year the agriculture sector has been the only one which had government support, and has therefore been the only sector to increase its production. The monetarist de-industrialization scheme becomes clear by analyzing the GNP of the last two and a half years which shows that the increased participation of the agriculture sector in the GNP has been at the expense of industrial production (See Fig. 1). Thus, the overall GNP figure shows a slight increase of 1.2 percent during the first quarter of the current year over the same period of 1976, but the combined industrial production categories (which had fallen 6.3 percent in 1976 as against 1975) sank another 1.6 percent during the first quarter of this year.

In the battered, inflation-ridden economy of Argentina, even this slight, skewed increase of the GNP was enough for De Hoz and his bankers in the U.S. (De Hoz is a close friend of Chase Manhattan's David Rockefeller) to play up as an "economic recovery." Banking circles in the U.S. have gone so far as to suggest that if the country continues its recovery trend, it could soon become an "economic model" of recovery for the rest of South America.

But the New York banks, with heavy debts in Argentina, have a strong stake in maintaining an "aura of confidence" around the Argentine economy. Their sanguine assessment is not shared by many who are looking more towards the fundamental health of the economy. Among these latter circles, the fear is being forcefully expressed that while the De Hoz-New York banks deindustrialization program may improve the short-term pay-

FIGURE 1

GNP BREAKDOWN



ments picture, in the long run the lack of new industrial capital will leave Argentina worse off than ever. On July 10, Argentina's leading military strategist, retired General Juan Guglielmelli, expressed the sentiment of the military and nationalist industrialist circles in a stinging attack on the De Hoz-IMF austerity program. In an article written in the Buenos Aires daily, *Clarín*, Guglielmelli asked: "Could we accept an economic structure similar to that which the Second World War allies considered applying to their unconditionally-surrendered enemy?" referring to the Rockefeller circles' "Morgenthau Plan" for deindustrializing post-war West Germany. He went on to charge that the De Hoz-IMF plan is "based on the formula of Nelson Rockefeller." Guglielmelli, editor of the prestigious *Estrategia* military journal is known for his advocacy of the view that Argentina's national security requires a strong and integrated industrial capability, one that will begin to mechanize agriculture as a basis for still broader development.

The Sickness

In addition to the measures mentioned above, De Hoz has repeatedly emphasized the need to reduce the federal budget's deficit in order to control inflation, and has insisted that state sector workers be laid off to accomplish this. But a closer look shows the real problem to be more that of debt service payments than of excessive work force.

In 1976, Argentina's inflation rate reached 347.5 percent — the highest inflation rate in the world — while the federal budget deficit amounted to \$1 billion. In the first five months of 1977 the deficit rose more rapidly than expected, largely because debt payments gobbled up a full third of the budget during this period (91,138 million pesos out of the budgeted 236,546 million pesos — see Fig. 2). Not surprisingly, the money supply increased at a

FIGURE 2

Amortization of Public Debt For 1977's First Five Months (in million pesos)	
Jan.	3,199
Feb.	5,720
Mar.	7,377
Apr.	28,999
May.	45,868
Total (5 months)	91,138
Total Budget	236,546

190 percent annual rate from January to June to help meet these payments. Such printing plate "solutions" invariably lead to runaway inflation.

1977 national budget expenditures were set at \$9.3 billion, with an unofficially projected deficit of \$1.5 billion. 38.1 percent of the total budget income comes from heavy taxing of production, consumption and monetary transactions. The IMF has insisted that the total tax cut out of GNP be increased from 16 percent in 1976 to 24.5 percent this year. In the provinces, taxation has already tripled over last year.

With the public debt payments using up even larger proportions of the allocations, further cuts in the public sector are slated for all the social sectors: education, health, social welfare and so on. Already, De Hoz is demanding that subsidies be eliminated for the major utilities — Yacimientos Petroliferos Fiscales (oil), Segba (electricity), ENTel (telephone), Ferrocarriles Argentinos (railroad), SOMISA (steel) and Gas del Estado (gas) — to force them to become self-sufficient through a series of increases in public utilities rates.

Over the last two and a half years, the decreasing share of industrial production in total GNP has relatively favored agricultural production. Due to this agricultural "boom," the total GNP during the first quarter of this year showed a slight increase of 1.2 percent over the same period of the last year. (See Fig. 3.)

Because 1976 was by far the worst year for the Argentine economy in recent history, the slight recovery in the 1977 GNP is being trumpeted by De Hoz and the monetarists as a full-scale economic "recovery." However, 1977 production levels are still far below 1975's. Comparing 1977's first quarter production levels to 1975's, it becomes clear that Argentina's economy is not only still in a deep crisis but has not really effected a significant recovery. Nineteen-seventy-six's 6.3 percent drop in industrial production as a whole from 1975 levels, a fall which continued unabated in the first quarter of this year, illustrates the problem.

In agriculture, the 98.6 percent increase in grain exports shown in the first quarter of this year over the same period of last year will probably not be repeated, since a large percentage of last year's exportable grain crop is still waiting in silos for lack of buyers. Argentine agriculture officials announced, furthermore, that this year's crop will be reduced 25 percent over last year's, also as a result of the lack of foreign markets and of the low international price of wheat.

The IMF Cure

The latest measures dictated by the IMF are already having serious effects on both the agriculture and industrial sectors.

The textile industry is indicative of the kind of collapse that De Hoz' "cure inflation" measures are creating in industry. Immediately after De Hoz announced his IMF "shock therapy" measures against small and medium national industries, "La Emilia," one of the major textile plants in the Buenos Aires urban area, was forced to "suspend" 80 percent of its work force. Although the press claimed that this was an "isolated" case, the two major textile producer organizations requested an urgent meeting with De Hoz to pose to him the enormous disadvantages of the so-called "competitive" price race. They protested that since they lack modern technology and since textile production is already in a deep crisis, their goods are simply going to be squeezed out of the domestic market, not to mention the international market. In 1976, textile production barely reached to 11,800 tons, just above the 1972 low of 109,949 tons (see Fig. 4). This year, if the situation continues to worsen, a chain reaction of textile plant shutdowns is likely.

In addition to the textile industry, home appliances and shoes have also been badly hit — as have the auto parts, cigarets and the auto industry.

FIGURE 3

Rates of change variation of GNP and its components

(in percentage)

	1st Quart. 76	1st Quart. 77	1st Quart. 77
	1st Quart. 75	1st Quart. 76	1st Quart. 75
Gross Domestic Product	- 4.2	1.2	- 3.1
Agriculture, hunting, fishing, etc.	9.3	8.7	18.8
Mines and gueries	- 5.9	8.2	1.8
Manufacturing industries	- 6.7	- 1.6	- 8.2
Electricity, gas and water	4.2	4.3	8.7
Construction	-26.7	1.9	-25.2
Wholesale and Retail Trade commerce, hotelery, etc.	- 9.9	- 0.6	-10.5
Transportation and storage services	- 4.4	4.3	- 0.3
Financial entities, Insurance, Real Estate operations, etc.	5.6	- 0.7	4.8
Social and private services	1.1	-	1.1

Source: Based on data provided by the Ministry of Economy.

The cigaret industry, historically one of the strongest medium-sized Argentine industries which has had a total monopoly on the domestic market, was hit by a drastic lowering of imports tariffs from 85 to 5 percent. Under these price warfare conditions, domestic cigaret prices were unfrozen in order to allow competition with the cigaret dumping coming from abroad.

In Argentina, the bulk of the industrial production comes from such small and medium-sized industries. In 1974, 98 percent of all existing plants were classed as small or medium, employing 67 percent of the total labor force. Today that share has been reduced to 50 percent. Argentina has for several decades depended almost entirely on its domestic production to meet the population's requirements of manufactured goods, while importing only capital goods, inputs, oil, steel, etc. Now, with the dumping measures installed, local industry will not even

be able to fill that domestic market. It is this fact that Guglielmelli and the nationalists are vociferously protesting.

Other major drops in basic industrial production during the first five months of 1977 over the same period in 1975 are: 4.9 percent in coal, and 28.9 percent in auto production. Furthermore, during the first six months of 1977, crude steel dropped 3.7 percent over 1976, while cast iron fell by 16.9 percent. (See Fig. 5.) This collapse will aggravate Argentina's dependence on steel imports, which already runs at 50 percent of total domestic consumption.

The State Sector

Beside destroying national industry in order to "cure" the economy, the De Hoz-IMF forces are committed to dismantling the state sector in an attempt to reduce inflation. They claim that the major reason for the growing fiscal deficit is the enormous state workforce.

Before the 1976 military coup, the Argentine state workforce amounted to 1.6 million. Since then, De Hoz worked out with the IMF and the World Bank a massive lay-off plan — which so far has been notoriously unsuccessful. The triage plan calls for the prompt dismissal of 300,000, or almost 20 percent, of the state sector workers, plus the dismantling and denationalization of many state-owned enterprises.

The outstanding example of what the IMF is committed to do is the state-owned railroad enterprise, Ferrocarriles Argentinos, which has been the first target of the triage plan. Reportedly, this enterprise needs \$2 million per day in order to cover its expenditures. De Hoz's plan not only refuses to cover such a figure, but cuts the operating budget to the bone. The budget allocation,

FIGURE 4

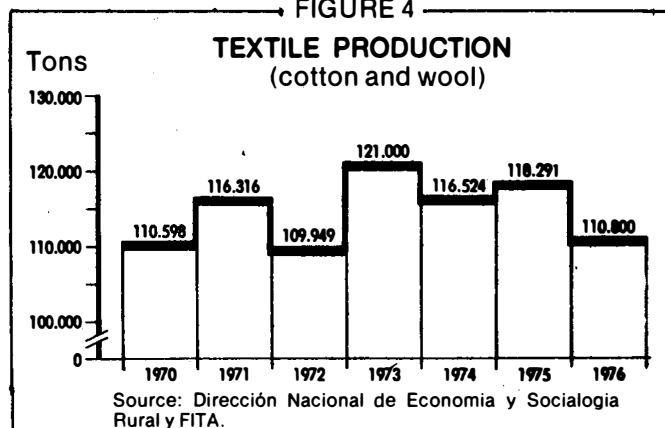
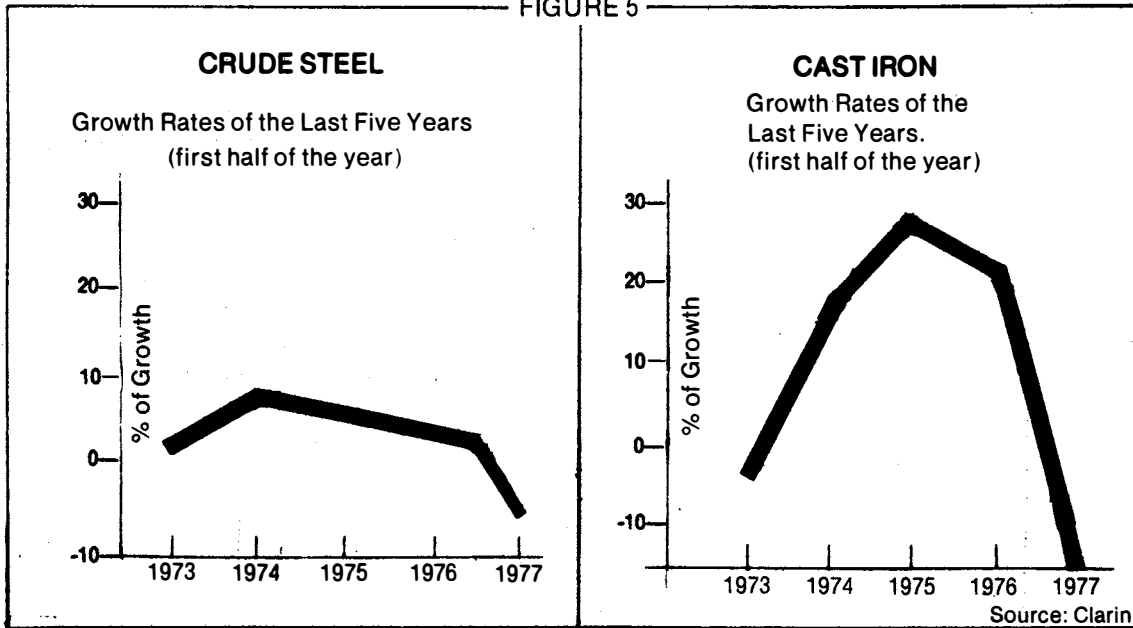


FIGURE 5



which was \$775 million in 1974 and \$555 million in 1976, will only be \$345 million for this year, a drop of nearly 50 percent in the last three years.

Along with the budget cuts, the head of the enterprise, General Tomas Caballero, recently called for 23,500 layoffs. After a six month "grace" period, these workers will be recycled into public jobs. Caballero also announced a five year plan aimed at modernizing the system by eliminating all inter-urban passenger services and using rail lines only for cargo. The purpose of these measures is to facilitate agricultural exports — and nothing else. In fact, slave labor projects to rip up 10,000 kilometers of rail are already underway.

The IMF plan also includes massive labor-recycling into decentralized works projects in the interior — once the state sector layoffs really get rolling. This was made clear by the governor of the northeast state of Santiago del Estero, who recently stated that "the vast public

works projects, mainly for roads and hydroelectric works that require 50 percent of the total provincial budget allocations, are being used to provide massive manual labor jobs and to stop the extensive emigration into the cities..."

However the increasing resistance coming from the working class and nationalist circles like Guglielmelli represent a serious threat to the De Hoz-IMF-World Bank triage plans. In February of this year, for instance, when a mere 500 railroad workers were laid off, the sector's trade union rebelled and declared the whole union to be in a "state of national emergency." When De Hoz tries to implement the full 300,000 layoffs being demanded by the IMF, massive social unrest will most likely result.

— Dolia Estévez

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