

# Turning point for Argentina

*Mark Sonnenblick examines de Hoz's appalling economic legacy and the policy prospects under General Viola.*

General Roberto Viola took command of Argentina March 29 in the midst of an economic crisis which saw interest rates go over 400 percent and a currency flight of up to \$400 million per day.

Those Argentine citizens not thoroughly cynical from decades of betrayed promises are breathing sighs of hope that Viola will bring some progress toward economic and political sanity in the South American nation.

Viola, who was selected behind closed doors by military chiefs to succeed Gen. Jorge Videla, has made precious few promises. But he has much to accomplish. Over the past five years, General Videla served as little more than a military patsy for Finance Minister José Martínez de Hoz's experiment in monetarist economics.

While Viola has promised to continue the general thrust of de Hoz's disastrous program, the productive sectors and the military factions which believe national security is derived from a growing, diversified, high-technology economic base are well represented in his cabinet. Argentina may be in store for economic policy changes far more significant than the 30 percent devaluation Viola had to decree to quell the financial panic.

"The Wizard of Hoz" had run Argentina by the sort of "get the government out of business," free-enterprise, free-trade program which earned him the enthusiastic blessings of David Rockefeller and the *Wall Street Journal*. De Hoz proved the merit of his performance by proclaiming how he had reduced inflation from 350 percent in 1976 to a supposedly respectable 88 percent in 1980, while during the same period he increased foreign reserves from next to nothing up to \$10 billion.

Much as when Milton Friedman and Paul Volcker ran Nixon's administration into the ground in the late 1960s, de Hoz showed once again how gullible conservative leaders can be to well-packaged monetarist plans. When the top brass of the Argentine army, who had almost unquestioningly let de Hoz run their country for the past five years, were briefed on April 10 by the five economics ministers replacing him in the new military government, they were shocked at the facts they had been blind to. "But this is totally different from what they've been telling us!" one general blurted to Viola's finance minister Lorenzo Siguat. What the new econom-

ics team described with ample facts and figures to the muscle boys behind the presidency was effectively synthesized by the Buenos Aires daily *Clarín*: "On March 29, the country was approaching a balance-of-payments crisis with its productive apparatus nearly paralyzed and suffering from repressed inflation."

## Time bomb

The economic time bomb constructed by de Hoz, which *EIR* has warned of over the past year, exploded during the last months in office of the man who sought to lead Argentina into Trilateral Commission membership. De Hoz set it off himself in February. He had refused the demands made by the new economics team since Christmas that he clean up after himself. With Buenos Aires the world's most expensive city, Argentines and foreign bankers debated only whether the peso was overvalued by 100 percent or only 50 percent.

At first, de Hoz refused to devalue; then on Feb. 3, he did so by 10 percent. Everyone knew this to be too small an adjustment to correct the absurd exchange rates, but just big enough a move to warn the hot-money speculators that the new team would "bite the bullet"

speculator friends full freedom to pull their hoards out of Argentine pesos into dollars. During the ensuing panic, up to \$400 million per day fled the country, halving Argentina's reserves to only \$4.3 billion by March 23. Then, de Hoz borrowed \$900 million from his favorite foreign bankers at high interest during his final days in power in order to leave with a shade over \$5 billion reserves on the balance sheet.

As the pesos flew into the central bank for changing into hard currency, de Hoz simply burned them, shrinking the money supply. This, plus expectations of devaluation, accentuated the Paul Volcker-style credit squeeze he had imposed against Argentine producers. Interest rates shot up to annual rates of 250 and even 400 percent! The country plummeted further into a recession; industrial use of electricity fell by 14.5 percent from early 1980 levels.

But cash-strapped companies borrowed at any price hoping that if they could hold out until April, when de

Hoz would be gone, the new administration would do something to save them.

De Hoz was committed to de-industrializing Argentina. While giving government guarantees to speculators and radically increasing tax burdens to pay the cost of such looting, he offered only "the survival of the fittest" rationale to producers. Bankruptcies in 1980 were 74 percent more in real terms than in 1979. Half of the major companies had red bottom lines; 82 percent made no or inadequate profits. After a euphoric start in 1977, the ostensibly favored agricultural sector has also been decapitalized by exchange and credit policies, as reflected in the attrition of cattle herds.

Under former President Jorge Videla, de Hoz had full rein, with the cabinet of grey nonentities rubber-stamping his decisions and repressing civilian sectors who sought to warn against the coming disaster.

Viola has changed that. Unlike his predecessor, he is a "political" general. He seems to understand that de Hoz did more to discredit the military as an institution and as a ruling force than their own violent disbanding of all political organizations in the country. The composition and initial acts of the cabinet he chose suggests he wants to build a moderate political consensus in the country before it is again swept into a cycle of suicidal polarization and violence.

The new cabinet has representation from every

conservative and moderate constituency in Argentina. Thus, like the similarly divided Reagan cabinet, it can offer either a "new beginning" or a disastrous rerun of the failed administration that preceded it. Its members range from an international trade minister who wants to continue de Hoz's de-industrialization program to a foreign minister who was a top aide in the democratic "developmentist" government of Arturo Frondizi (1959-61) and who recently skillfully negotiated a nuclear industry integration deal with Brazil. The public works head is a retired general who earned the ire of London monetarists during a recent stint as chief of military industries by insisting that Argentina have a broad range of high-technology industrial capabilities.

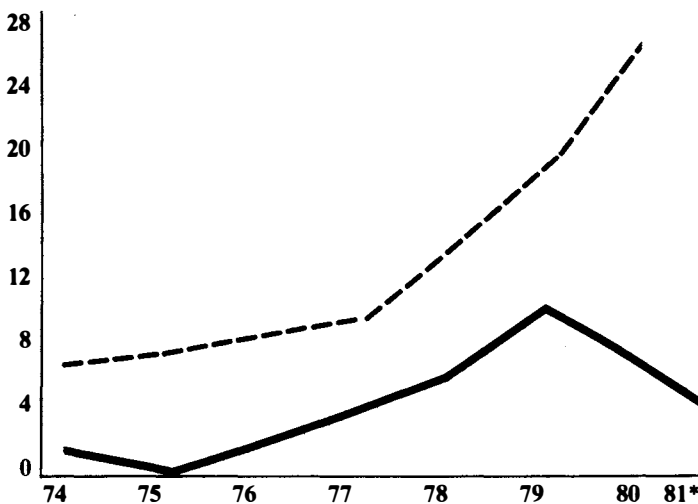
The industrial ministry cabinet post is in the hands of a textile manufacturer who headed the Unión Industrial Argentina, roughly equivalent to the U.S. National Association of Manufacturers; a leader of the traditional oligarchy's Confederación Rural Argentina has the agriculture post; and the powerful new interior minister, Gen. Horacio Liendo, spent his time as labor minister under Videla building bridges to that ineluctable factor in Argentina—the Peronists.

### The post-Easter package

This unelected, but broadly representative cabinet is desperately seeking agreement on a "post-Easter pack-

Figure 1  
**Foreign debt and reserves**

(billions of U.S. dollars at year end)



Source: Banco Central  
\* March 23, 1981



age" of measures to resurrect the moribund economy. The productive sectors want the government to grant \$3 billion worth of medium-term debt moratoriums, to force interest rates down, and to lower taxes. Agriculture demands more big devaluations and lower tariffs, while industry asks for restored protection. Viola has ordered a 15 percent cut in government spending with the difficult proviso of neither causing more unemployment nor further gouging real wages.

The only sure winner, however, is Finance Minister Sigaut, who is demanding higher taxes to prevent the budget deficit left by de Hoz (estimated by Citibank at over 6 percent of GNP) from bankrupting the Treasury.

The constraint on any Argentine government seeking to prevent chain-letter collapse of its industry and finances is the enormous debt burden mounted by de Hoz. As can be seen from Figure 1, during the last three years, he has tripled Argentina's foreign debt, while production capacities in industry and agriculture necessary to repay that debt have been stripped. The most incredible feature of Argentina's \$27.2 billion debt is that over half of it, \$13.8 billion, is due this year, according to de Hoz's central bank.

Assuming that some \$3.5 billion in short-term trade financing is simply rolled over, Argentina will be left with obligations to amortize over \$10 billion and to pay about \$4 billion in interest on the debt. Thus, Argentina's debt service in 1981 is a frightening 160 percent of the expected \$9 billion export earnings—a higher percentage than the world's most bankrupt countries.

Despite excellent weather that contributed to a record harvest, Argentina will have to go, hat in hand, before its foreign creditors later this year to plea for refinancing of its debt. It was rumored at the Inter-American Development Bank meeting in Madrid last week that Finance Minister Sigaut was determined to demonstrate even harsher austerity than his predecessor to convince bankers at the fall International Monetary Fund meeting to refinance the debt.

The banking community, however, is insistent on the completion of de Hoz's de-industrialization program. One Midwestern banker told *EIR*, "We expect 20 or 30 more financial institutions to close. We expect a great many industries to close. It's not going to be the cottage industries that go. . . . Well, maybe they'll keep some steel. We're thinking about a hundred large companies employing about 100,000 people who have another 100,000 dependents. There's going to be a big problem with unemployment." Viola realizes that such unemployment would spawn social conflicts, disrupting his plans for bringing political stability to the country. On the other hand, the bankers will not tolerate a "retrogression" from de Hoz's policies.

Even as Viola was inaugurated, bankers' cocktail-party circuits in Buenos Aires buzzed with gossip about

the president being "removed" by right-wing generals should he give too much freedom to domestic political forces. During the last month, retired Generals Benjamín Menéndez and Jorge Leal have been imprisoned by the army for threatening Viola. The man to watch, however, is Gen. Albano Harguindeguy, who, as interior minister in the past administration, zealously protected de Hoz and his program from all criticism. President Viola has embraced Harguindeguy as a top presidential adviser.

The departure of Jimmy Carter has brought a euphoric upturn in Argentine military attitudes toward the United States. Before his March 29 inauguration, President Viola held what was termed an "immensely successful visit" with Ronald Reagan in Washington. That has been followed by an unprecedented barrage of visits by high-ranking U.S. Army, Navy, and Air Force officials to Argentina.

While Reagan offered Viola his personal backing to stabilize, develop, and democratize Argentina, Alexander Haig and the military emissaries are reportedly pressing the Argentines to provide surrogate troops for Haig's geopolitical adventures in El Salvador and the Sinai. They are also reportedly trying to enlist Argentina in a plan to extend NATO operational capabilities into the South Atlantic region.

While such overtures have reinforced the positions of the more knee-jerk anticommunist generals, Viola and his foreign minister have taken pains to insist that such schemes would do nothing to ensure Argentina's survival as a civilized Western nation. Rational Argentines see more generous openings to foreign credit sources and markets as the only way to avoid internal economic and political disaster.

While the Reagan administration has shifted gears on military and "human rights" postures, the State Department reports no change on the more important economic and technology-transfer questions. U.S. shipments of enriched uranium for experimental reactors are still embargoed by "nonproliferation" considerations. Eximbank, which finances U.S. machinery exports the Argentines so dramatically need to rebuild their decayed and looted industry, is being savaged by the budget cutters. And the State Department says the debt crisis is purely in the hands of private bankers.

Thus, it should be no surprise that Foreign Minister Oscar Camilión staunchly defended Argentina's rupture of the Soviet grain embargo by selling 58 percent of its grain exports there at premium prices last year. Camilión likewise defended Argentina's purchase from the Soviets of 5 million tons of heavy water for its commercial nuclear plants. And he further stressed that Argentine Navy participation with the U.S. in joint exercises this summer have nothing to do with anti-Soviet NATO plans for policing the South Atlantic.