Alfonsín pushes Argentina to edge

by Cynthia R. Rush

Argentina's Finance Minister Juan V. Sourrouille has managed to create a temporary breathing space in his nation's overwhelming debt crisis. After a mid-January trip to Washington, Sourrouille's economics team returned to Buenos Aires with a $400 million credit line from the World Bank, and a promise from the International Monetary Fund that it would release the next $225 million tranche of its standby agreement with Argentina.

The release of the funds occurred only after Sourrouille requested that U.S. Treasury Secretary James Baker intercede at the IMF on Argentina's behalf. The Argentine official told Baker that his country's debt crisis had reached the "critical" stage: Foreign reserves stand at $530 million; the 1987 trade balance came in at $700 million instead of the estimated $2.1 billion; the 1987 inflation rate was 186%, instead of the 40% predicted by the government. Under these conditions, Sourrouille warned, unless Argentina received some fresh funds, it would be unable to make important interest payments due this month.

The country's creditors apparently decided that since the Mexican and Brazilian debt crises are not under control, it wouldn't do to have the Argentine situation blow up. As it did three times during 1987, the IMF waived the nation's non-compliance with the Fund's guidelines for fiscal deficit, inflation, and monetary issuance, and promised to disburse the $225 million in February.

This barely makes a dent. To meet its 1988 interest payments of close to $5 billion, Argentina will need at least $2.5 billion in new credit. Central Bank president José Luis Machinea boasts that Argentina will have "no problem" in obtaining fresh funds. But in the negotiations now under way with Argentine officials in Washington, the IMF is demanding a sharp devaluation of the austral, and imposition of greater austerity, in exchange for any new credit. In January alone, the government accelerated the devaluation rate to almost 10%.

Razing national industry

To demonstrate its "creditworthiness," the Alfonsín government has imposed drastic austerity over the past two months, raising the rates on all public services by 10-20%, and increasing the price of gasoline by almost 40%. As demanded by creditors, on Jan. 31, it also implemented the first phase of "opening up" the economy, reducing tariff barriers on petrochemical, textile, and steel imports by 20%, allegedly to "foster competition" with foreign goods. Most industrialists recall with horror that Finance Minister José Martínez de Hoz razed national industry with the same policy in 1976-81.

Raul Alfonsín is willing to go even further, or at least promise to do so, even knowing that the nation's productive sectors and population cannot physically survive another round of IMF "adjustment." Three million retirees are now subsisting on monthly pensions of no more than $30; the government agency which provides social security and medical insurance to 12 million citizens is close to bankruptcy.

Figures just released by the Argentine Finance Ministry show that for the third quarter of 1987, GNP rose by only 0.5%, the lowest rate for the last seven quarters. Industrial production dropped by 3% for the same period. A study produced by the Universidad Argentina de la Empresa, a private think tank, reports that the nation's industrial sector last year indebted itself at interest rates 22% higher than the prices charged for its products. Average monthly interest rates are now at 20%, and expected to go higher.

The bankruptcy of regional economies, starved of funds for investment and production by an equally bankrupt federal government, is forcing the provincial banking system into collapse. On Jan. 12, the Bank of Salta in Argentina's northwest province, closed its doors for 15 days, due to lack of cash to cover its normal operations. The Argentine Central Bank owed the Bank of Salta 100 million australs in revenue-sharing funds, which it arranged to pay after several days of frantic negotiations between federal and provincial authorities. The province's commercial and financial activities came to a standstill.

According to Casett Waidett, president of the Association of Provincial Banks, Salta is not an isolated case. The real problem, he told the daily *Clarín,* is the "decapitalization of the regional economies" which has driven many small- and medium-sized enterprises into bankruptcy, leaving the banks with bad debts which constitute between 10% and 20% of their loan portfolios. In the case of the Bank of Salta, which finances important agricultural and raw materials-extracting activities, 43% of its loan portfolio was bad debt.

Yet the IMF demands that the government raise revenues, at the expense of productive economic activity and living standards. The national congress passed an IMF-dictated tax package in mid-January, despite anger from industry and agriculture, and intends to raise public service rates again, even though the population cannot afford to pay current rates. One source told *EIR* that Buenos Aires' streets are increasingly empty, because car owners can't afford gasoline. One angry retiree, out on the street to protest the pitiful size of monthly pensions, described Alfonsín's policy this way: "They might as well dig a hole, toss us in, and let us die."