Shock program could finish off Argentina

by Cynthia R. Rush

The only thing that Argentine President Raúl Alfonsín has to show for five years of slavish obedience to International Monetary Fund policy, is the wreckage that his nation has become. Annual inflation is running at 600%. Services are collapsing, and state-sector strikes are rampant over wage payments that are one to two months behind, especially in the bankrupt provinces. Even factions within the ruling Radical Civic Union (UCR) are up in arms over the state of the nation's collapse. At this point, a UCR victory in the June 1989 presidential elections is very unlikely.

This reality notwithstanding, on July 31, government spokesmen announced yet another IMF shock program, described as "a declaration of war against inflation." Coming as it does, in the midst of economic chaos and an uncontrollable foreign debt crisis, the new program will heighten an already intense political ferment, perhaps even affecting Alfonsín's ability to remain in office until the end of his term in June 1989.

The program includes a 30% increase in public utility rates, new taxes on agricultural exports, and a probable currency devaluation of at least 10%. Over the past 10 months, the government has imposed utility rate increases of between 10% and 20% on an average of every 15 days. Employment and spending in the state sector will be reduced, and business sectors will impose a two-week price freeze, to be followed by the establishment of a ceiling on future price increases.

In Argentina, employment in the state sector has served as a form of unemployment insurance, as the number of operatives in the industrial sector has decreased due to the decline in productive activity. Reduction of the state sector means simply throwing people out on the streets with no possibility of alternative employment.

The new program is a direct result of late-July negotiations between the IMF and Argentine government officials. Argentine negotiators agreed to impose further adjustment measures in exchange for a $1.2 billion standby agreement. In addition, the government requires another $1.5 billion from foreign commercial banks, and also hopes that the IMF will release the two remaining tranches of a 1987 standby loan, totaling $450 million. The fund canceled these last two disbursements after the government failed to meet established guidelines on curbing inflation and reducing the fiscal deficit.

What lies ahead

Argentina's chaotic internal situation, and its inability to pay its foreign debt, makes its future entirely unpredictable, a fact that has not escaped nervous creditors. After details of the new program became known, leaders of the Peronist opposition, the General Confederation of Labor (CGT), and agricultural and industrial associations announced that they would not accept new austerity measures. José Luis Manzano, president of the Peronist congressional bloc, called for the impeachment of Finance Minister Juan V. Sourrouille.

As the debt crisis heats up all over Ibero-America, and nationalists in Mexico, Venezuela, and Argentina call for repudiation of IMF policy, bankers are especially apprehensive over what path Argentina might follow should the Peronist presidential candidate, La Rioja Gov. Carlos Menem, win next year's elections. Menem's recent selection as the Peronist candidate was due to a mobilization of anti-IMF forces in the country.

The government owes $5 billion in interest payments this year, which it cannot pay. It is between $850 and $900 million in arrears on interest payments to commercial banks, and in the first week of August, several of its interest payments due in May will fall more than 90 days behind, forcing banks to place a portion of their Argentine loans on a nonaccrual basis. Creditors are not exactly crawling over each other to lend Argentina new money.

There is some discussion of the United States offering Argentina a $500 million bridge loan, to help it out of its immediate difficulties. In Aug. 2 meetings with U.S. Secretary of State George Shultz in Buenos Aires, government authorities reportedly also urged the United States to consider something "other than conventional procedures" to deal with the country's problem of servicing its $54 billion foreign debt. Carlos Menem told Shultz that Argentina must have a period "in which it will not be subjected to the bloodletting that the payment of debt service signifies."

Shultz's only response was to recommend that Argentina continue to apply "sound macroeconomic policies and long-term structural reform"—that is, behave and continue to adhere to IMF policy.

In this regard, there is absolutely no difference between U.S. and Soviet policy on Ibero-America's debt crisis. In an interview published in the July 27 edition of Buenos Aires' *Somos* magazine, Victor Volsky, director of the Soviet Academy of Sciences' Latin America Institute, recently advised against the declaration of moratoria on Ibero-American debt. "Moratoria could result in a boomerang which, by placing the international financial system in danger, would endanger the economies of indebted countries." Echoing the line put out by Undersecretary of State Elliott Abrams or Gen. Vernon Walters, both bona fide members of the U.S. "secret government," Volsky warned the Peronists not to consider adopting any "extreme" positions which might offend the IMF or foreign creditors.