Market chaos follows Argentine liberalization

by Cynthia Rush

Just two weeks after Argentine President Carlos Menem reshuffled his cabinet, installed a new finance minister, and announced a total liberalization of the economy, the national currency collapsed, raising fears of renewed economic chaos and hyperinflation. On Dec. 27, the austral dropped 20.8% against the U.S. dollar, from 1,355 at the opening of trading to 1,710 at the close.

As the economy rapidly unravels, the government is said to be considering imposing a state of siege, anticipating intensifying popular unrest. With the collapse of the national currency and local markets, members of Menem's cabinet are frantically attempting to put together a pact with the political opposition to give legitimacy to the latest set of economic measures.

Former Finance Minister Nestor Rapanelli resigned on Dec. 15, following several unsuccessful attempts to stem the free-fall of the austral, through a series of control measures. Just a few days before, the minister, a former executive of the Bunge & Born holding company, had announced a series of harsh austerity measures, including a 50% devaluation of the austral and 40% increases in public utility and gasoline prices.

After the Dec. 11 devaluation, the austral dropped 28.3% against the dollar. Merchants began to quickly mark up prices in anticipation of higher inflation. From November's 6.5% inflation rate, December's rate is expected to climb to at least 50%, and perhaps higher.

The cabinet shakeup signaled a break with the Bunge & Borne grain cartel, the author of Menem's economic program, and whose backing was one of the factors in his coming to power last July. Several powerful local business groups opposed aspects of Rapanelli's program, particularly his refusal to establish a free-floating exchange rate, and his intention to impose new taxes on farm exports. Resigning along with Rapanelli was Finance Undersecretary Orlando Ferreres, also formerly of Bunge & Born.

Opening up the economy

Following Rapanelli's resignation, sources close to Bunge & Born predicted that Menem would return to economic policies more closely associated with Peronism—heavy state involvement in the economy and dirigist controls. Instead, the new finance minister, public accountant Antonio Erman González, formerly the health and social welfare minister, announced the very liberalization of the economy which business and banking sectors have long been demanding: a unified exchange rate determined by "market forces," lifting of all price controls, and nullifying the 11% tax on agricultural exports Rapanelli had set.

Suggesting that the new plan is a last-ditch attempt to stabilize the economy, Menem told reporters that "we will all get on this flight, but there are no parachutes aboard. Whoever wants to jump, jump!" To placate local bankers, Menem has suggested he will reverse the two-year moratorium which Rapanelli established for the $7 billion internal debt. Local banks, which hold a large quantity of that debt in the form of dollarized bonds, opposed the measure and had reportedly forced the drop in the austral over recent weeks, by purchasing large amounts of dollars on the black market.

The Buenos Aires daily *La Nación* reported that Menem himself is the driving force behind the change in policy, having tired of "complex formulas to control the markets." However, the break with the Bunge & Born crowd reportedly occurred because other members of the Menem cabinet, specifically Interior Minister Bauzá, and Ermán González, both factionally allied to Foreign Minister Domingo Cavallo, opposed Rapanelli's measures, claiming they were too harsh. The irony is that Cavallo, who will undoubtedly influence economic policy through his affiliation with Ermán González, is a monetarist in his own right, who doesn't hide his ambition to become finance minister.

Ermán González explained the Dec. 27 austral collapse by saying that there would be "some confusion" in the markets at first, until everyone learns "the rules of the game." The more likely scenario is that the confusion will increase. Nor is the Peronist-run labor movement likely to wait patiently to see what happens. Strikes over wage demands are on the rise. Leaders of the General Confederation of Labor (CGT) criticized the 20,000 austral wage increase (roughly $20) granted as part of the new package, noting that prices have already started to go through the roof. Just prior to the announced economic liberalization, items such as meat saw a 80% price markup; other foods rose between 100 and 150%; construction materials rose 90%, and some household cleaning items rose by 220%.

Menem is promising that he will continue to apply aspects of the Bunge & Born program relating to privatizing and "reforming" the state sector. Argentina's creditors, however, are already threatening to cut the country off from promised loans, if Menem doesn't follow through with harsh austerity and other "fiscal reforms" agreed upon with the International Monetary Fund. Argentina's recently signed standby agreement with the IMF called for the government to reduce inflation to 1% in December and a total of 15% for 1990. This $1.4 billion agreement could be "endangered," warns the Dec. 16 *Washington Post*, if the country again proceeds toward hyperinflation.