Menem picks cabinet to impose economic shock

by Cynthia Rush

The cabinet reorganization announced by Argentine President Carlos Menem with much fanfare on Jan. 14, lasted exactly two weeks. On Jan. 28, when the national currency, the austral, plunged 30% against the dollar, and set off an immediate inflationary surge, Menem once again reshuffled his cabinet. Foreign Minister Domingo Cavallo replaced Antonio Erman González as the economics "superminister"; González became defense minister, and Guido Di Tella, named as defense minister in the previous reorganization, is now the foreign minister. Just 48 hours earlier, Menem had told reporters that Cavallo and González were the two ministers who would never be moved from their posts.

It was not just the collapse of the austral which motivated this game of musical chairs. It has been clear for some time that the seventh version of the government's economic program, named "Erman VII" after the unfortunate finance minister, wasn't successful enough to suit Argentina's foreign creditors. González, an accountant by profession, had deregulated the economy to a degree, but wasn't moving fast enough to increase tax revenues, lower the fiscal deficit, and "balance the books"—a demand of the International Monetary Fund (IMF) and other creditor banks. Menem had reportedly intended to remove González in March, but the currency devaluation and inflationary upsurge moved up the timetable.

With his doctorate in economics from Harvard, Domingo Cavallo is perceived as just the man to turn the screws on the Argentine economy, and he has lost no time in getting down to work. On Feb. 3, in a nationally televised address, he announced a set of brutal economic shock measures which will destroy what remains of the population's wages and living standards, while continuing to gut industrial and productive capabilities. His announcement came at virtually the same time that President Fernando Collor de Mello announced a similar program in neighboring Brazil.

The shock program is geared toward squeezing out revenues to pay off the foreign debt, accelerate the privatization of state sector companies, and further deregulate the economy to permit the wholesale entry of foreign investment and financial interests to the detriment of national sovereignty. According to the Feb. 1 issue of the weekly *El Informador Público,* Cavallo promised Menem that within weeks, he would restore the country's relations with its creditor banks and unfreeze loans promised from both the IMF and World Bank.

The program's centerpiece is the establishment of a floating exchange rate set at between 8,000 and 10,000 australs to the dollar. Although this is supposed to encourage an export boom, and make Argentine products more competitive abroad, domestic producers fear that the benefits of this measure will be offset by across-the-board increases in utility and fuel rates. The program imposed a 25% increase in railroad, postal, and water supply rates, and a 33% tax on gasoline, which will affect transportation costs. Electricity rates are expected to go up by over 60%.

To increase tax revenues by $200 million monthly, Cavallo will create policing mechanisms which will enlist the public in helping to identify evaders. He proposes publishing lists of taxes paid by all companies, so that competitors can report on any cases of suspected evasion. Taxes will be increased on company assets and checks and foreign exchange transactions, and state-owned banks are prohibited from lending to large clients. Cavallo blamed these banks for financing the public deficit and granting credit to "bad debtors."

A mini-dictatorship

Implementation of these measures will require near-dictatorial control over all aspects of policy. Cavallo has reportedly formed a "mini-cabinet" made up of the foreign, defense, and labor ministers. The Jan. 31 London *Financial Times* reports that the group's major task will be attracting foreign investment to Argentina, although it adds that "it will probably coordinate broad government policies as well."

Cavallo admitted that there is no alternative to having the brunt of the program fall on workers and retirees. "People are getting tired of so much belt tightening," he said, but added that "a lot more has to be done." In response to the fact that the austral devaluation cut people's wages in half overnight, Cavallo offered a pathetic, one-time wage and pension increase of $25, lamenting that "our capacity for avoiding a fall in popular incomes is very limited." He stated baldly that controlling inflation takes precedence over the defense of living standards and wages. Inflation for February is expected to shoot up to over 20%.

In swearing in his new ministers on Jan. 30, Menem asserted that with his measures, he had inserted Argentina into "the new world order . . . and no one, absolutely no one, will remove us from it." However, Argentine labor leaders find nothing new in these policies. They are "the same monetarist recipes, which have failed repeatedly and overwhelmingly," said Saul Ubaldini of the Azopardo faction of the CGT trade union federation. Guerino Andreoni of the San Martín faction of the CGT warned that these were the same measures imposed by Henry Kissinger's friend Finance Minister José Martínez de Hoz in 1976, whose results were "catastrophic."