Argentina sells its currency for dollars

by Peter Rush

The Argentine administration of President Carlos Menem, discredited by two years of worsening economic collapse, failed programs to deal with the crisis, and the worst corruption in Argentine history, unveiled in late March its fourth major "stabilization" plan, which effectively ends Argentine sovereignty over its currency and hitches the nation's financial system to Wall Street and New York. On March 20, Finance Minister Domingo Cavallo announced that effective April 1, Argentina would become one of only a handful of countries in the world which have effectively scrapped their own currencies and replaced them with the U.S. dollar as legal tender. The most notorious of these is Panama, which began its existence as a virtual U.S. colony and has never fully shaken that status, and which has a similar arrangement where the balboa is nothing but the Panamanian name for the U.S. dollar.

The reform announced by Cavallo establishes that the national currency, the austral, will be fully convertible with the dollar, and that the national treasury will maintain on deposit at all times enough dollars to redeem every austral in circulation, should they all be presented for dollar payment at the same time. While it has long been the practice to calculate most prices in U.S. dollars and to daily translate these prices into australs based on that morning's exchange market quotation, the new measure virtually allows dollars to circulate in Argentina alongside the austral.

Cavallo announced that the parity would be 10,000 australs per dollar, but that the government reserved the prerogative of either removing four zeros from the austral, or issuing a new currency altogether, either of which measures would establish a new parity of one to one, which would then, supposedly, be maintained at all times.

Cavallo further announced that under the new regime, no wage increases will be permitted, other than an annual 12% adjustment (to compensate for dollar inflation in international markets). Cavallo pledged that the government would be unable to print new australs unless backed by increased dollar reserves, which, he said, would force the government to live within its means. He announced that yet another effort would be made to collect taxes, which would be the sole means of financing government expenditures, despite the fact that numerous such efforts have failed dismally in the past.

Within hours of the announcement on March 20, prices began rising for a broad range of commodities. As of March 26, dairy products were up 20%, taxi rates up 29%, chicken up 28%, and other commodities were also up sharply. And these price increases occurred after an overall price increase of 77% during the first three weeks of March before the new measures were announced, according to *Ambito Financiero* of March 25. Reacting to the post-March 20 increases, Cavallo lamely said he was sure the prices would come down again as soon as the new measures went into effect, as there was no reason for the increases.

Strikes to be met with police state

Not addressed by Cavallo was the fact that real wages have already sunk to levels far below those required for subsistence for many workers, and that labor's demands for wage increases are to compensate for past inflation. Commenting on this fact, Victor de Gennaro, secretary general of the Association of State Workers (ASW) told *Clarín* March 25 that the problem facing workers was not getting to the end of the year, when they will receive their 12% increase, but getting to the end of the month. He said that the minimum wage, now down to around $97 a month, compared to $1,600 a month for Europe, is too low to live on. Also commenting on the wage freeze, ASW leader in Buenos Aires Carlos Cassineli spoke for most of labor when he called the new program "an outrage."

The wage situation has led to a strike wave that shows no sign of abating. As of March 27, strikes were either under way, or being planned, by workers in many major sectors of the economy, including the metallurgical industries, food processing, banks, commerce, energy, textiles, aeronautics, meat packing, and teachers.

However, Cavallo made clear the government's intent to enforce the new policy, with the Army if necessary. He announced that henceforth, there will be no collective bargaining by public sector workers. Asked on March 25 by *Clarín* what would happen if labor balks, he answered, "They must agree. If there is no agreement, and it comes to conflict, we will decree mandatory arbitration. And if they don't obey, we will declare it illegal to strike," he said.

Reflecting the fear that the Collor administration of Brazil could be the next to follow Argentina's example, a spate of commentaries in the Brazilian press have attacked the Argentine measure as a surrender of sovereignty. Writing in *Estado de São Paulo* on March 22, Flavio Tavares expressed the Brazilian sentiment when he said that as of now, the austral is nothing but "a mere graphic representation of the U.S. currency in the hands of the population," and that, in the absence of a genuine economic program, Cavallo is acting like a witch doctor who believes he has found a magic potion. The same issue of *Estado* editorialized that Argentina "has renounced its sovereignty" as a nation by the measure, and warns Brazil not to follow suit.