

Wall Street nervous as Argentine model falters

by Cynthia Rush and Gerardo Terán Canal

After Mexico's much touted free-market model collapsed in the wake of the December 1994 peso devaluation, Wall Street and London bankers turned their eyes to Argentina's convertibility plan for a model that might hold up better than had Mexico's. Convertibility, which pegs the peso to the dollar in a one-to-one parity, supposedly weathered the 1995 "tequila effect" triggered by the Mexican meltdown because it was not so dependent on foreign capital, despite the fact that \$8 billion fled the country in the course of last year. International bankers heaped praise on Finance Minister Domingo Cavallo for his "leadership," in imposing even harsher austerity in the midst of recession and high unemployment.

Now, predictably, the model is in trouble, precisely because it is based on the same insane free-market policies which brought down Mexico. In early May, the country was scandalized when a Channel 13 reporter filmed slum dwellers in the city of Rosario, once hailed as the "Chicago" of Ibero-America, killing, skinning, and eating cats. Impoverished heads-of-household told reporters, that in the country renowned for its excellent beef and wealth of natural resources, they were forced to eat cat, turtle, and snake meat, because they have no income with which to purchase food.

The unemployment rate in Rosario, in some places, is as high as 27%, compared to the official national rate of 16%. In 1995 alone, 9,000 people lost their jobs, and close to 1,000 companies and businesses filed for bankruptcy. In some slums, infant mortality approaches African levels of 39 deaths per 1,000 births. It is estimated that 10% of the population of 1 million, live in poverty.

This is not exactly the image of its success story that London and Wall Street want splashed all over the international media. Two weeks after the cats scandal broke, International Monetary Fund (IMF) Managing Director Michel Camdessus flew into the country to take stock of the situation, and demanded that there be no deviation from the draconian austerity and "second reform of the state" which President Carlos Menem had just announced. In a May 28 press conference, he condescendingly counseled Argentines to abandon their skepticism about the model's ability to industrialize the nation; he also announced that the IMF is willing to lend Argentina as much money as it needs.

The ship is sinking

How to keep the model afloat? Finance Minister Cavallo has been borrowing money hand over fist to make up for the fact that economic activity is not generating the revenues necessary either to pay off foreign debt or keep the fiscal deficit within the range demanded by the IMF. According to last January's agreement with the Fund, the government must increase annual tax revenues 23% compared to 1995—a monthly revenue of \$4 billion. By June 30, the fiscal deficit isn't supposed to be larger than \$265 million. But by the end of April, due to tax revenue shortfalls, the deficit had already reached \$1.6 billion, and, according to respected economist Daniel Muchnik, by year's end it could reach \$3.8 billion, or more. Even pro-IMF economist Carlos Calvo argues that Cavallo has no option but to renegotiate the terms of the IMF agreement, to allow for a larger deficit.

Menem and Cavallo may seek a waiver from the IMF, but they are also digging in to squeeze more from an increasingly impoverished population. In the year October 1994 to October 1995, poverty in Greater Buenos Aires, the country's most populous region, increased by 24%. In metropolitan Buenos Aires, with a population of about 10 million people, 2 million live in poverty.

While Camdessus was in Buenos Aires, Menem signed Decree No. 555, establishing a "good conduct tax card," which citizens will have to carry around with them. The card, which will indicate whether people are up-to-date on their tax payments, will have to be presented when applying for a variety of services (such as phone, water, gas, or electricity hookups), applying for a credit card or insurance policy, or when purchasing an airline ticket for travel abroad. Anyone who hasn't paid his taxes, isn't eligible for these services.

Also during Camdessus's visit, Menem made a point of informing the leaders of Argentina's Armed Forces, that the military institution won't be exempt from the harsh budget cuts envisioned in the "second reform of the state." The military is specifically singled out in this reform, supposedly because it hasn't suffered the same cuts as other state sectors.

This is a lie. As a result of the British-inspired policy of demilitarizing Ibero-America, Argentina's Armed Forces are barely functional. What Menem and Cavallo are proposing to do will leave the country defenseless. Since 1989, the Army budget has dropped from \$449 million to \$106 million. During the same period, the Navy budget dropped from \$270 million to \$70 million; since 1985, the Air Force budget has dropped from \$220 million to \$90 million. Navy Chief of Staff Adm. Enrique Molina Pico announced May 23 that for the first time in a decade, the Navy would not participate in the annual *Unitas* maneuvers with the U.S. Navy, because it has no funds. With further budget cuts, Admiral Molina said, "we'll have to shut down everything . . . send [sailors] home to eat." Even trying to function with the current budget, an Army source said, "is like having the Army in intensive care, and about to be disconnected from the respirator."