

Resistance grows to Argentine austerity

by Cynthia R. Rush

Analysts and investors on Wall Street and in the City of London were badly rattled on Aug. 8, when Argentina's labor movement paralyzed that country in a successful general strike. Called by the Peronist-run General Confederation of Labor (CGT) to protest the Menem government's July 12 announcement of draconian austerity measures, the strike was 80-90% effective, especially in the country's interior provinces, where the economic depression is most visible. Labor Minister Armando Caro Figueroa was forced to admit that the strike "was the most important one [the CGT] has organized against us." What most bothered international bankers is that the strike didn't just target specific austerity measures; it went after the entire government economic program, known as convertibility, labeling it "fundamentalist capitalism," and demanding changes.

Convertibility pegs the peso to the dollar in a one-to-one relationship, and prohibits sovereign issuance of currency unless it has 100% backing of foreign reserves. The fascistic Mont Pelerin Society has lauded it as the reason why Argentina remained "stable," in the wake of Mexico's 1994-95 devaluation crisis.

The Aug. 8 strike was the first time in over a decade that the CGT, once the country's only, and most powerful trade union confederation, had shut down the country. Particularly after the 1989 election of Peronist Carlos Saúl Menem as Argentina's President, the CGT leadership has been generally supportive of the convertibility program for political reasons, even while the policy increasingly destroyed living standards and productive economic activity, pushing the official unemployment rate to over 18%. A study published by the daily *Clarín* on Aug. 18, revealed that in 1980, there was little unemployment among the country's middle class. Today, one in four Argentines is poor; one in five workers is unemployed; and one in every four unemployed is a member of the middle class.

When convertibility's architect, Finance Minister Domingo Cavallo, announced austerity measures on July 12, eliminating family subsidies and abolishing a tax-free food voucher program upon which many people rely to pay for their marketing, this was the last straw for many Argentines.

A nationwide backlash forced Menem to axe Cavallo on July 26, naming the monetarist central bank president, Roque Fernández, as his replacement.

Perception and reality

After the successful general strike, CGT Secretary General Gerardo Martínez warned the government that the labor protest should be seen as a "wake-up call." The government "will have to admit that there is hyper-unemployment and misery," he said, and if the austerity decrees aren't revoked, there will be more protests. But on Aug. 12, Roque Fernández announced yet another package of austerity measures, and the CGT announced that it would call another general strike, this time for 36 hours. A mid-September date has been tentatively set, although the government has been feverishly negotiating to avert it.

The reality of the Argentine situation is very straightforward. The convertibility model, dependent on inflows of foreign capital, and horrific looting of the country's physical economy and human resources, *is finished*. By June, the government faced a \$2.5 billion budget deficit, a violation of its accord with the International Monetary Fund (IMF), projected to go as high as \$6.6 billion by year's end. The Menem government will not only have to ask the Fund to grant it a waiver for missing fiscal targets for the first half of 1996, but also request less stringent goals for the second half of the year.

The new austerity measures are supposed to generate \$1.2 billion in additional revenue by increasing gasoline prices by 18.5%, diesel fuel prices by 46.6%, raising value-added taxes on previously exempted items, and removing all industrial and export-promotion subsidies. Tax-free imports of capital goods have been eliminated, together with incentives and tax breaks for specialized industries. The package also establishes a ceiling on statutory transfers of tax revenues to the provinces.

Even if the government does raise \$1.2 billion, however, it still needs another \$5.4 billion to cover the anticipated \$6.6 billion deficit. Since by May, it had already borrowed abroad up to the \$6.6 billion *annual limit* set for this year, Roque Fernández will now have to ask Congress for authorization to borrow another \$4 billion, to cover the deficit.

The loss of the nation

In an article written for the magazine of the FIDE think-tank, published in its July edition, respected economist Daniel Muchnik accurately described convertibility as "a model which strips us of our identity. It has taken away a vital sense from people; it has killed projects, destroyed the foundation of a certain style of national life, and infected certain sectors with a dreadful foolishness, superficiality, and cruel egotism." Addressing the globalist nature of the model, Muchnik added, "Now it is said that we are citizens of 'a market' and not a 'nation.' Some say that if Argentina were

a 'nation,' the state would take care of the sick, the elderly, and the outcast."

The globalists demand that the model be defended, however. In an interview published on Aug. 12 in the La Plata daily *La Capital*, IMF adviser Frank Williams warned that if imposition of austerity is not accelerated, Menem "will not only be defeated in 1997, and 1999, but even the [Peronist] Justicialista Party will disintegrate." If people protest against greater austerity, too bad, Williams sneered. "People have to understand clearly that the solution will be traumatic."

With fascist overtones, Guillermo Calvo, an adviser to Roque Fernández, told *Clarín*, "When there is a fiscal deficit, we have to squeeze whatever is necessary out of people to finance it." Arguing on behalf of bankers, Calvo threatened that Argentina's "ability to borrow abroad depends on their view of us. . . . [Bankers say] if [Argentina] doesn't save, we don't pay." If bankers perceive that Argentina's leaders lack resolve in applying austerity, Calvo warned, "then the game is all over."

The government has baldly announced that it intends to smash the labor movement, through legislation deregulating health and job benefits now centrally controlled by trade unions, and by eliminating job security. On Aug. 20, unidentified individuals provoked a violent confrontation between leaders of the CGT and independent trade unions, meeting to decide on the date of the next strike. "Clearly this was orchestrated ahead of time in an attempt to cancel the strike," one union leader commented.

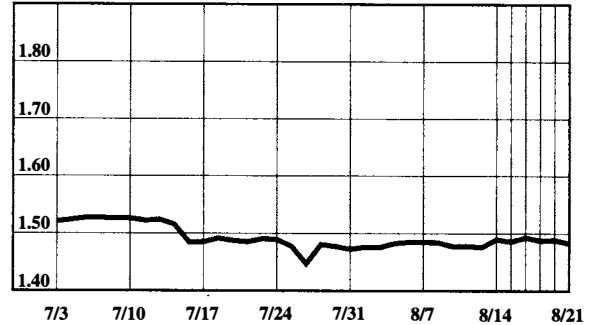
For all the bludgeoning, there is no guarantee at all that the Menem government can enforce the announced measures—and Wall Street knows it. During the week of Aug. 4-10, more than \$1 billion fled the country, while the stock market plummeted the following week, after the new austerity measures were announced. Argentine economist Luis Secco told the *New York Times* that "the name of the game in Argentina will be volatility for the next few weeks." Other foreign economists complain that the new measures aren't sufficient to "close the budget gap."

The Peronist bloc in Congress publicly vowed to "support the President." But there are intense negotiations going on between congressmen and the government to modify some of the harsher measures, a fact which caused a panicked London *Financial Times* to report on Aug. 20, "Argentine Austerity Plan Falters." Peronist governors met in emergency session with Carlos Menem on Aug. 15 to express concern over what the measures will do to already failing regional economies. The mood at that meeting was revealed when one governor reported, "I don't know how I can go home and face the farmers," who will be badly hurt by hikes in the gasoline and diesel oil prices. When Industry and Commerce Secretary Alieto Guadagni told the governor "what matters is what foreign investors think," not Argentine farmers, the governor's retort was, "Well, with that criterion, why don't we just kill off one retiree every day?"

Currency Rates

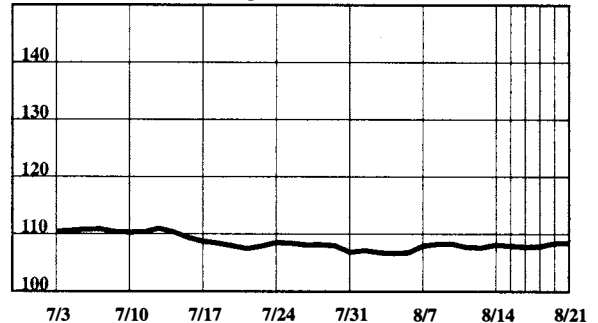
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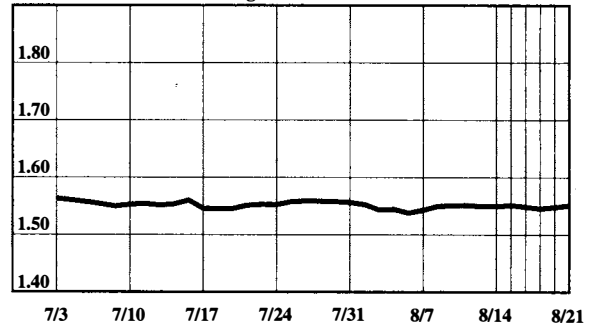
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