

Will Adam Smith kill Argentina?

by Mark Sonnenblick

For one faction of the Argentine military, the decision to send troops to reoccupy the Malvinas Islands on April 2 was not merely an attempt to reassert its sovereignty over some underdeveloped real estate in the South Atlantic. It represents the first step in a campaign by Argentina's nationalist faction to win the independence of their country from the destructive grip of Britain's "informal empire."

During the last century, men-of-war flying the Union Jack would often thunder into Argentine waters to enforce a London ultimatum. Such unsightly behavior has not been necessary in more recent times. The European financial oligarchy has found it far more convenient to operate through Argentinian finance ministers, who have faithfully executed the orders handed down from the London banks, the Swiss-based Bank for International Settlements, and the International Monetary Fund.

During the past six years, the "free-enterprise" policies forced on Argentina by these banks have so efficiently wiped out Argentine industry that the people of what was until recently the most advanced country in Latin America found them themselves well on the way to being transformed into a nation of shepherds, like the "Falkland kelpers" who recognized the British flag.

When the nationalists in Argentina's military saw the ax about to fall on the last viable sectors of the nation's economy—those central to the national defense—they revolted. For the most enlightened sections of the armed forces, the repossession of the Malvinas Islands from the Queen of England was *not* a "target of opportunity" to distract an angry population from the hardships of economic collapse, but rather a way of attacking British free-enterprise economics, the *cause* of Argentina's economic crisis. It is not at all to the liking of Argentina's nationalist military faction that Argentina has marched toward the status characterized by the *Sunday Times* of London as a "once-industrialized nation" by applying the free-enterprise economics that have reduced Great Britain to a pile of industrial rubble.

Military strategists like retired Gen. Juan Guglielmeli, publisher of the prestigious *Estrategia* journal, view their nation's history as a perennial battle between those

patriots like President Carlos Pelligrini (1890-92), who fought to develop and protect Argentina's industrial capabilities, and who recognized as their enemies the English "free-trade" liberals who favored locking Argentina into a pastoral existence. Although sharply critical of recent U.S. policies toward Latin America, Guglielmeli has a profound respect for the economic outlook of George Washington's Treasury Secretary Alexander Hamilton, the American System of economics which built America into the greatest industrial nation in the world. In fact, Guglielmeli's circle in Argentina, the architects of the Japanese economic miracle, and the U.S. policy makers grouped around *EIR* founder Lyndon H. LaRouche, are the only advocates of the Hamiltonian American System active in the world today.

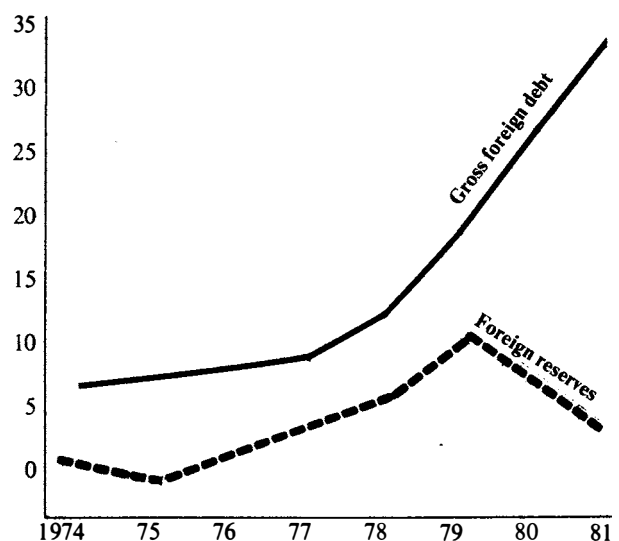
The Argentine daily *Clarín*, which has also promoted Henry Carey's formulas for the central government-directed development of industry and the productive work force, attacked the British-trained economic authorities who have strangled Argentina's industry by allowing speculators to run up interest rates. "The country cannot be guided by the 'invisible hand' of Adam Smith," wrote *Clarín*. "Rather it requires the very 'visible' hand of a finance minister who doesn't delegate his powers to the perturbed free market."

Roberto Alemann's economic disaster

The immediate target of *Clarín*, and of the military nationalists who executed the Malvinas takeover, is Argentine Finance Minister Roberto Alemann. Alemann is Swiss-born and Swiss-trained, in large part

Figure 1
Profile of Argentine foreign debt

(in billions of U.S. dollars at end of year)



Source: Banco Central

Figure 2
Argentine balance of payments

(in billions of current U.S. dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports (fob)	3.0	3.9	5.7	6.4	7.8	8.0	9.2
Imports (cif)	3.9	3.0	4.2	3.8	6.3	10.5	9.2
Trade balance	-1.0	0.9	1.5	2.6	1.5	-2.5	0.0
Service balance	-1.2	-0.8	-1.0	-1.4	-1.6	-2.3	-3.7
Net capital inflow	0.2	-0.5	1.5	1.3	4.4	2.6	0.5
Reserves changes	-0.8	1.2	2.2	2.0	4.4	-2.8	-3.8
Gross foreign debt	7.9	8.3	9.7	12.5	19.0	27.2	34.0

(at year end)

Source: Banco Central



through his stint as the Argentine representative of the Union Bank of Switzerland. Like his predecessor, José Martínez de Hoz, Alemann's allegiance to British free-enterprise economics is a matter of public record: Alemann has repeatedly asserted that Argentina's "natural vocation" is that of a deindustrialized supplier of raw materials to the world commodity markets controlled by London. Both Alemann and de Hoz used their time in office to attempt to reduce Argentina to the status of a pastoral protectorate of Great Britain.

Argentine workers felt the impact of these policies when an indefinite wage freeze was imposed by Alemann in January. Since then inflation has eroded 22 percent of their wages.

Every day additional plants close their doors. Industrialists are lectured on the Darwinist dictum of "the survival of the fittest." Both de Hoz and Alemann worked to strip away Argentina's protective tariffs and wipe out broad-based purchasing power. Industrial bankruptcies are at a record rate. Industrial employment has fallen by more than a third since de Hoz took office in 1976, as a result of plant closings. Output fell 16 percent in 1981 alone, and is still plunging. The bankrupted industrialists have been so severely weakened that their demands for new growth policies have been cavalierly ignored by finance ministers whose eyes, hearts, and bank accounts are in London and Zürich.

Finance Minister Alemann, however, stretched his luck too far when he began in earnest to sell off the country's huge military industries, its substantial reserves of oil and gas, and other sections of publicly owned industry. To the London banking houses, these enterprises are "deficit-ridden white elephants." To major factions of the Argentina military, on the other hand, they are the bulwarks of national security.

The more elements in the military had let themselves be dazzled by sweet talk from the de Hoz and Alemann

monetarists about how letting "the winds of free competition blow away inefficient and artificially sustained" civilian industry would "reduce inflation" and "stimulate modernization." But when Alemann swore to cut military budgets, slash the nuclear-energy program, sell off the state oil company, and close down the military industries, the military nationalists drew the line, and countered by taking back the Malvinas, whose territorial waters include rich oil deposits.

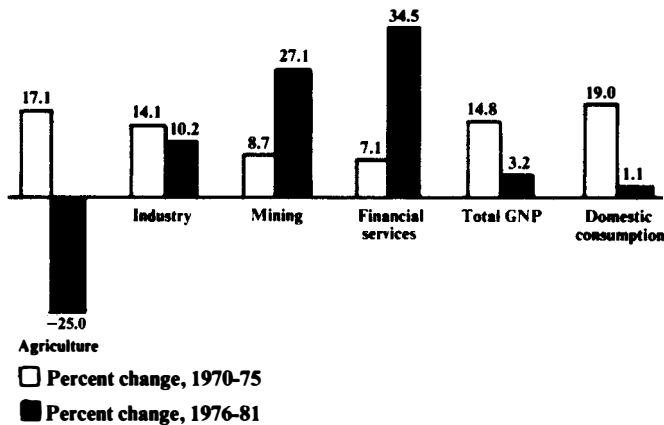
The timing of the nationalists' counter-attack on the Malvinas was also influenced by the March 30 upsurge of labor against Alemann's murderous economic policies. This made it patently obvious—even to President Leopoldo Galtieri, who had appointed Alemann—that his policies had no social base. The military nationalists let Galtieri know they were unwilling to use repression to protect Alemann—and Galtieri—from the growing rage of the population. "Alemann is more damaging to Argentina than a British submarine," declared one labor leader. Galtieri is now faced with the choice of either dumping Alemann and working with nationalist military leaders, or finding his own position endangered.

The legacy of Dr. de Hoz

Repeated efforts by Argentines to develop modern industry have been short-circuited by the polo-playing, tea-sipping oligarchy of Argentina's agricultural exporters. A prime specimen is Dr. José Martínez de Hoz, Argentine Finance Minister from 1976 until March of last year. De Hoz grew up in England with an English nanny, attended Britain's elite Eton and Oxford amidst other royal family retainers, and to this day, speaks a more perfect Queen's English than Spanish.

While in power, de Hoz eloquently articulated the "free-market" doctrines of quack Milton Friedman and fought to dismantle the industry built up under state

Figure 3
How Thatcherism has hurt
Argentine economic performance



Source: *Clarín*, March 28, 1982, from official sources

sponsorship by predecessors who had been influenced by the American system. De Hoz enjoyed safaris with Henry Kissinger and asked that Argentina become the "fourth leg of the Trilateral Commission," the round table of North American, European, and Japanese spokesmen who promote oligarchic economic interests internationally.

During his five years in office, he more than tripled Argentina's foreign debt from \$8 billion to \$27 billion. One might think this infusion of almost \$20 billion in foreign capital during a very few years would have launched Argentina into a spectacular economic take-off. Argentina is one of the few developing nations which had a literate and skilled workforce; a mature, diversified industrial base; fertile plains comparable to the American Midwest; and near self-sufficiency in

Figure 4
Industrial capacity utilization

(percent of capacity utilized during month)

Industry	September 1981	February 1982
Steel	47.0	46.6
Automotive	20.1	30.7
Cement	68.8	53.2
Paper	57.1	43.5
Meat packing	57.1	50.8
Synthetic fibers	39.4	27.4
Oil refining	75.7	72.5

Source: Instituto de Economía, UADE (Argentine Business University)

energy supplies. It was probably the Third World country best prepared to put that capital to profitable reproductive use.

Despite all these advantages, the monetarist free-enterprise policies pursued by the "wizard of Hoz" left the country stripped of industry, with a looted agricultural sector, and with a debt vulnerability that the Bank of England is now going to town with. De Hoz inserted the national economy into the "free play" of the Euro-dollar market, resulting in one of the most spectacular asset-stripping operations in the history of world monetarism.

Hot-money bubble

Starting in 1978, de Hoz organized the whole economy in the interests of international monetary speculation. He cut back on credit in the economy, which forced up interest rates to sky-high levels. At the same time he guaranteed in advance that the peso would be devalued each month at a rate far lower than the peso interest rate. This meant that any institution which follows that orientation could send \$1 million into Argentina and be sure to take out over \$1,040,000 at the end of the month. That gave the speculators an annual net profit in dollars of 30 to 50 percent, with little risk.

About \$6 billion in "hot money" flew into Argentina to make a killing on this "Argentine merry-go-round." Domestic capital was sucked into the same quick-buck whirlpool. The Wall Street banks jumped into the insanity, while on the side granting Argentina huge loans to permit the middle class to lose its bearings in an orgy of foreign shopping trips. This credit-financed consumers' spree created an aura of prosperity while usury was destroying the productive sectors of the economy.

As with all such chain-letter monetarist hoaxes, the Argentine bubble had to burst. During 1980, so many of the industrial and agricultural borrowers collapsed under the burden of their debt pyramids that banks began to crumble. De Hoz propped up his economic fraud with infusions of foreign bank loans until the closing months of his term, when he exploded the bubble.

De Hoz warned his speculator friends to pull their chestnuts out of the fire. Successive waves of panicky capital flight triggered one devaluation after another. At the beginning of 1981, you could buy a dollar with less than 2,000 pesos; at year end, you needed over 10,000. (When the legal exchange market closed down this April, it took 14,000 to buy a dollar.) Companies which had borrowed in dollars went under; factories could not afford to import needed inputs; everybody was illiquid and interest rates remained high. For nine months, President Roberto Viola and his finance min-

ister were paralyzed and unable to take counter-measures. They were driven out of office by the military.

On Dec. 11, 1981, Army Commander Leopoldo Galtieri seized Argentina's presidency in a bloodless coup. According to an Argentinian diplomat, Galtieri had been encouraged to make this move by the public endorsement given him by such figures as Gen. Vernon Walters, U.S. Secretary of Defense Caspar Weinberger, and former National Security Adviser Richard Allen during the last of Galtieri's three 1981 visits to Washington.

The coup was not so much directed against the ailing General Viola, who had already practically withdrawn from the presidency. Its primary target was the anti-speculation measures issued by Interior Minister Gen. Horacio Liendo in the early days of December. Such controls were intolerable to the City of London. As was explained to *EIR* by a senior official of a Wall Street bank, London's banking interests offered Galtieri the presidency, and six months of peace, if he appointed Swiss banker Roberto Alemann to the finance ministry once he had seized it. In London's eyes, Alemann was the perfect candidate to finish off the deindustrialization that de Hoz had begun.

'War economy' for Argentina?

But as the military nationalists have made manifestly clear to Galtieri, the Malvinas crisis has transformed Alemann from an asset to a liability for an Argentinian president who wishes to stay in power. Alemann's many enemies are calling for a sweeping series of measures to salvage the industrial and agricultural sectors, including debt moratoria, tariff protection, export assistance, and sharp penalties against speculators and currency-flight operators. They characterize such a program as a "war economy" for Argentina.

Alemann has conceded that his opponents want "a war economy, but it is a war against me." American bankers also fear that this war economy may be put into place. Belated U.S. banking efforts to aid Alemann include the April 23 decision of an American banking consortium which had previously suspended all new loans to Argentina in the wake of the Malvinas crisis to release a \$60 million 180-day credit. But this may not save Alemann. His boss President Galtieri is the son of a poor Italo-Argentine artisan. Galtieri did not fight his way up to the presidency in order to lose it in the service of British free-trade economics.

If the Argentine leader does chart a course for economic revival and national unity, his success will be in large part determined by America's willingness to help finance the reconstruction of Argentina's ravaged industrial economy. This kind of cooperation, in the spirit of hemispheric alliance, would create jobs from Buenos Aires to Milwaukee.

The free-market record

The comparison of Argentina's productive sector, Gross National Product, and consumption figures for the 1970-75 period with the 1976-81 period (see Figure 3) demonstrates the economic disaster created by the application of the monetarist "free enterprise" system in that nation. The first period was one of extreme political turbulence until the widely welcomed military coup of early 1976. But even under these conditions, Argentina's economy fared better than during the reigns of the British-allied finance ministers Roberto Alemann and José Martínez de Hoz, which began in April 1976. Since then, substantial growth has been achieved only in the wasteful "financial services" sector, which expanded by 34.5 percent, and in mining, which increased by 27.1 percent, largely in response to incentives for private oil production. Agriculture, which was supposed to be favored by the elimination of export taxes and of tariffs on inputs, grew less than during the preceding period. The tractor industry disappeared entirely.

Industrial production had shown respectable growth during the high-wage period previous to 1976, but collapsed by 25 percent during the recent professedly pro-business period. As one banker told *EIR*, "Whatever progress Argentina made in industry has taken a great step backwards over the last half-decade."

A telling indication of the level of investment in modernization of production facilities is the level of machinery and equipment output, which was down 39.5 percent in the fourth quarter of 1981 from a year earlier. The exceptions were aluminum and oil refining, which were protected by the military. By February 1982 most industries were using only 30 to 60 percent of the capacity (see Figure 40).

The impact of the economic collapse on labor has been equally dramatic. The FIEL think tank has produced statistics showing that from 1974 to 1981, the number of productive workers employed in industry fell by 29.7 percent. Since industrial production has continued to fall, the decline is probably close to 35 percent now. "Free enterprise" has been equally painful for workers who have remained employed. *Ambito Financiero*, an Argentine business daily, reported March 19 that during the year 1981 real wages for skilled workers fell by 15.9 percent, and those of unskilled by 18 percent. Malnutrition is now rampant in a population that until recently had the highest standards of living, and education, in Latin America.