
Argentina/Brazil

The Austral and Cruzado Plans: wrecking the economy to be popular

by Lorenzo Carrasco

The International Monetary Fund (IMF) and the international banking oligarchy have found a new, more effective way of imposing their austerity measures on our most indebted allies in Ibero-America. Regimes previously weakened by the monetary policy are accepting turning their economies and countries over to usurious capital, in exchange for a fleeting political popularity based on demagogic wage-price control programs. This new cosmetic treatment has been accepted by Argentina and Brazil, with their respective Austral Plan and Cruzado Plan. Now, a big movement is afoot in international financial circles to convince Mexico to apply the so-called Azteca Plan.

The new model is not even new; it is patterned on the policy which the League of Nations—which in the past played the role of the IMF—imposed on the countries of Central Europe after World War I. The new monetarist prescription is only greasepaint covering the actual “economic adjustment,” or contracting 25-30% of the physical activity of the economy at one fell swoop. The reduction of wages and public and private investment is part of this shrinkage.

A wage-price freeze—while one fails to take effective measures against domestic high interest rates, and tolerates the drain of vital resources in the form of debt service payment—is nothing more than a short-term measure. It is as short-term as the popularity in the public-opinion polls it is bringing to Presidents Alfonsín of Argentina, and José Sarney of Brazil.

In Argentina, President Alfonsín was induced to adopt the plan in the face of the parliamentary elections late last year, while President Sarney adopted the Cruzado Plan to stave off the imminent destruction of his government, with elections to the National Constituent Assembly coming up. Sarney hopes that the psychological effect of the plan will help him in the November elections. In Mexico's case, the IMF and its disciples have convinced certain financial authorities to adopt an Azteca Plan to finally tear the heart out of the suffering Mexican economy. The political effect here is a bit different. As MIT economist Ruder Dornbusch pointed out at a recent seminar in Rio de Janeiro: “The adoption of the Azteca Plan would make Treasury Secretary Jesús Silva Herzog the next President of Mexico.” He stressed that “President de la Madrid is so weak that the Azteca Plan is

necessary.”

But, aside from the immediate political aspect, the new plans have already started to show their true results. Under the Austral Plan, the longest in effect up to now, the decomposition of the Argentine physical economy has gotten so bad that Argentina is on the verge of losing its famed food-producing capacity.

Parallel negotiations with the IMF

As the cases of Argentina and Brazil show, the plans were put into effect through parallel negotiations with the IMF, while the “official” negotiations continued their course. It is as if nations' dealings with the IMF were modeled on the behavior of devalued Ibero-American currencies: The “official” market is obeyed by nobody, and all transactions occur in the parallel “black” market.

Thus, the “official” negotiations continued normally, while the “black market” negotiations with the IMF, in accord with the true conditions of “economic adjustments,” went on in absolute secrecy. In this “heterodox” way, the Alfonsín and Sarney governments vaunted their freedom from signing up with the IMF, and basked in the luxury of public clashes and even threats of breaking with the Fund. The only purpose of this charade was apparently to build up the popularity of the economic programs they imposed in their own name—the same measures the IMF had demanded.

The governor of the U.S. Federal Reserve, Paul Volcker, advised and personally supervised the parallel negotiations and the implementation of these plans. It was for this purpose that Volcker visited Argentina in November 1985. As former Argentine Chancellor Oscar Camilión pointed out—at the cited seminar in Rio de Janeiro—the Austral Plan was imposed by the bankers. Camilión was very explicit and mentioned Henry Kissinger: “Good relations with the United States constituted an implicit condition of recognition of the whole scheme, which, moreover, had been negotiated concretely with the Federal Reserve Bank.”

Turning over economic sovereignty

Under the agreed-upon conditions, the Austral and Cruzado Plans start from the premise of “adjusting to what exists,” in available external resources, causing the whole plan

to revolve around the religious payment of debt service, which today means about 60% of the trade surplus of both countries. Besides this measure, the programs try to reduce the federal budget deficit through cuts in investment and increased utility rates.

Up to now, the most outrageous case is Argentina's, where the State gave up all its remaining sovereignty over credit. The text of the Austral Plan, made public on June 14, 1985, expressly prohibited the State from issuing money or credit not backed up in foreign currencies. Alfonsín said at that time: "The central bank would not require more currency to satisfy the requirements of the Treasury. . . . Public spending should only have genuine financing, which should absolutely not rely on the possibility of issuing [currency]. The credit capacity of the economy will be the product of a genuine monetarization; i.e., credit will also not be the consequence of printing money."

Minister Sourouille is the one who defined what Alfonsín meant by "genuine": "The government proposes to achieve a fiscal deficit of about 2.5% of Gross Domestic Product (GDP) in the second half of the year. This figure includes the deficit of the central bank and will be financed by the use of foreign credit granted by international institutions and banks. Starting now, the public sector will have to meet its expenses with genuine resources—taxes and tariffs—and with external financing. Therefore it will not be necessary to require credits from the central bank."

"In other words, there will be no need to issue currency to finance the public sector. The government is convinced that the success of the policy being initiated depends decisively on control over fiscal accounts. This is its conviction and also its commitment."

This policy meant subjugating the economy and the currency directly to the dollar, and converting the central bank into a mere branch of the U.S. Federal Reserve, a policy which reached the ridiculous when the Argentine Treasury had to issue payments in dollars to its own central bank to cover pending internal debts. Brazil has been adopting a similar policy since the Bank of Brazil lost its capacity to issue credit for economic development purposes, when the "transfer-accounts" were shut down.

Interest rates rise

By limiting the issue of money and credit, the Alfonsín government guaranteed the most wretchedly recessive economics, which are today suffocating Argentina in the worst economic crisis of its history. The credit austerity provoked a brutal rise in domestic interest rates, doubling them in real terms. While nominally the interest rates fell from about 30% in May 1985, to 8.9% in June and 7.2% in July, in reality, monthly interest rates jumped from 1.8% on the controlled market and 2.6% on the free market, to 3.6% and 5.8% respectively in the same period. For starters, the packet doubled interest rates to producers. And in Brazil, the story will

not be very different.

In sum, these monetary measures provoked the flight of productive investments toward financial investments. While Argentina is undergoing total economic paralysis, the stock market has gone up by 300% since the Austral Plan has been in effect.

Wage reductions

The reduction of the public deficit is being achieved by cuts in productive investment, tax hikes and the creation of new taxes, increases in public service tariffs, and above all, by cutting wages. As was to be expected, the first months of the Austral Plan produced an increase in tax revenues, but less than a year after its adoption, and as a sequel to production collapse, the tax revenues are falling to below the levels collected before the Plan.

But the most scandalous aspect of both plans is wage robbery by decree. At the moment of the wage freeze, both countries' unions were fighting to gain back the cumulative loss in wages since 1983. At the time of the freeze in Argentina, wages were 30%-35% below the levels of January 1984; in Brazil, the minimum wages stayed frozen at the equivalent of \$56 monthly, the lowest in Ibero-America and the lowest in Brazil itself since the end of World War II. To carry out the same plan, Mexico would freeze real wages at 67% of the 1983 levels.

As a direct effect of the adopted policy, the jobless rate in Argentina has risen 1.5% over 1984 and underemployment to a similar extent: in both cases, the highest rate in modern Argentine history. In Brazil, the unemployment and underemployment rate is higher than in 1978. Although we cannot yet evaluate the increases provoked directly by the Cruzado Plan, it is clear that the great epidemic diseases were not frozen by the packet, and, today, all the great industrial cities of Brazil are in a state of alert because of pandemic outbreaks.

Economy shrinks by 30%

The "economic adjustments" are the reduction of the physical economy by 20-30%. Thus, we have in Argentina, between 1980 and 1985, a more than 10% drop in total production, and 20% in industrial production. The general standard of living is 10% below that of 1980, while investment has fallen by more than 50%. In the last five years, capital-goods investment in Argentina has been negative. With the collapse of at least 25% of grain production—the mainstay of the Argentine economy—the Austral Plan is reaching its end.

The international financial institutions hope that Argentina will become more and more docile, to apply the final solution to its own economy. Will Brazil follow the same suicidal path as Argentina? Will Mexico be willing to impose the final Aztec sacrifice? Or will all three join the policy of Peru's President Alan García, to limit payments on interest on foreign debt?