

The Alfonsín era: IMF policies wrecked Argentina's economy

by Dennis Small and Peter Rush

When Raúl Alfonsín assumed the presidency of Argentina in December 1983, there is no doubt that there was great hope in the country that he would put a stop to the terrible looting and destruction of the national economy by Finance Minister José Martínez de Hoz and Co. The net results of seven years of "Chicago Boy" monetarist policies had been devastating. Over that 1976-83 period:

- The country had been bled by *capital exports* (including both foreign debt service and capital flight of \$47.3 billion, and yet the total foreign debt had grown by \$37.6 billion.

- This foreign looting of the economy had resulted in a contraction of *per capita Gross Domestic Product (GDP)* by more than 10%.

- The crucial *manufacturing sector* of GDP had dropped, per capita, by more than 20%, and within that, its most important sub-sector, that of *machinery and equipment*, had dropped per capita by more than 25%.

- The all-important *gross domestic investment* had crumbled by more than 30%, as measured in terms of the national currency, the austral.

- The absolute number of *workers employed in industry* had plummeted by a shocking 33%.

After such a disaster, it was hard to imagine that Alfonsín could possibly make things any worse. But he did. Alfonsín worsened things to the point where Argentina is now faced with nothing less than national economic disintegration. The federal government has so bankrupted the provinces that many of them have been forced to adopt their own currencies in order to survive. Alfonsín continued the Martínez de Hoz policies of utter servility to foreign financial interests in general, and to the International Monetary Fund (IMF) in particular, and continued the destruction of Argentina's productive economy—albeit at a slightly slower rate than during the 1976-83 military junta known as the Proceso. The end of 1988 figures show that, during the 1983-88 Alfonsín term:

- Argentina continued to be bled white by *capital exports* totaling \$23.4 billion, and yet the foreign debt contin-

ued to grow by another \$14.1 billion.

- *GDP per capita* kept falling, by about 4% during this period.

- The *manufacturing GDP per capita* collapsed by 9%, and the crucial *machinery and equipment* sub-sector by 11%.

- Both *gross domestic investment* and the number of *workers employed in manufacturing industry* remained stagnant at their low 1983 levels.

The net result of Alfonsín's term of office, is that the economy is in far worse shape today than it was five and a half years ago, when he took office. The global figures, such as those just mentioned, do not fully capture this, however, because Alfonsín's policies, on IMF command, targeted for special destructive treatment precisely those areas of the economy most vital to economic health, and most needed for recovery: the scientific and nuclear sectors, the skilled labor force, the production of capital goods, and so on.

Even more significantly, five and a half years of Alfonsín disaster undermined the cultural optimism which most Argentines still felt at the beginning of the 1980s. Under the guise of restoring "democracy," the Radical administration and its Socialist International supporters launched a kind of *liberal cultural warfare* against the population, which deliberately attacked the traditional Catholic moral values of the nation. In fact, Alfonsín's phony democracy was that sought by the U.S.-based Project Democracy apparatus, whose "secret government" ran the notorious Iran-Contra affair and other illicit operations. Project Democracy has targeted for destruction all national political movements and sovereign institutions in Ibero-America, particularly the armed forces and the Church, considered to be an obstacle to its sordid strategic arrangements with Moscow.

In Argentina, British economic liberalism was accompanied by British moral liberalism and hedonism, and together they opened the doors to the spread of drugs, pornography, and other kinds of cultural decay. Thus, we saw the Alfonsín government promote a law whose purpose was to legalize the laundering of drug money and other funds of questionable

EIR issues new edition of Argentina program

We are pleased to announce the imminent publication of the second edition of *La Argentina Industrial: eje de la integración iberoamericana (Industrial Argentina: Axis of Ibero-American Integration)*, first published in 1983. The article alongside this box is a new chapter that has been added to the revised edition, reviewing the disastrous economic program of the outgoing Alfonsín regime in the six years since the first edition appeared. The chapter, and other revisions, have been coordinated and written by Dennis Small, presently in jail in Alexandria, Virginia along with Lyndon H. LaRouche, Jr. and other political prisoners. He was assisted by Peter Rush.

The first edition was issued in October 1983, a few days prior to the elections in which Raúl Alfonsín defeated the Peronist candidate. It put forward the recommendations to revive Argentina's economy and make the country a leader once again in the developing sector, in industrial development and high technology applications. The measures proposed remain completely valid today, with the proviso that the economy is in substantially worse shape today.

However, Alfonsín opted to ignore, point for point, the recommendations made in the first edition. It was as if Alfonsín used the book as a manual to do *the opposite* of the book's recommendations.

As the preface to the second edition states:

"Specifically, where we emphasized *the driving role of science and technology, and of the nuclear sector in particular*, Alfonsín's budget cutbacks have almost killed that capability.

● "EIR urged *strong investment in manufacturing, and in the capital goods sector in particular*; both have collapsed dramatically over the last five and a half years.

● "We proposed *raising agricultural output by expanding that sector both extensively and intensively with modern technology*; under Alfonsín, agriculture has declined in both dimensions.

● "We delineated a series of *great infrastructural projects, especially hydraulic ones, designed to raise productivity and integrate Argentina with its Ibero-American neighbors*—projects which stalled totally under Alfonsín.

● "On the financial front, *EIR urged putting a unilateral stop to the foreign debt looting of Argentina*, including taking steps to form an Ibero-American debtors' club and Common Market. Alfonsín kneeled before the IMF, kept paying the foreign debt tribute, and sabotaged all efforts at true integration.

● "And *EIR insisted that domestic monetary reform, including tight exchange controls and much lower interest rates*, were necessary to stop inflation and speculation, and to favor productive economic activity. Alfonsín instead chose free-market economics, high interest rates, and the destruction of the national currency."

We are re-issuing the book at this time, at the point of changeover to a new administration, in hopes that the lessons can be learned, and Argentina pulled back from the abyss.

origin, into the national banking system, while the Supreme Court legalized the possession of certain drugs in quantities for "personal consumption."

We can single out three nodal points of economic policy decisions during the Alfonsín years, which determined the mentioned results.

The first, and most decisive, came on June 30, 1984, when the new Alfonsín government caved in to massive domestic and foreign pressure, and decided to meet its staggering debt service payments to its international creditors, in order not to incur the wrath of the banks and the IMF. For the first half of that year, Alfonsín had kept his options open; he had negotiated with the Peronists as to the shape of national economic policy, and even went so far as to meet at the end of June 1984 with then-U.S. presidential candidate Lyndon H. LaRouche—over the violent objections of the IMF and the U.S. State Department—to discuss the options for a debt moratorium and Ibero-American integration.

Unfortunately for Argentina, and all Ibero-America, Alfonsín did not listen either to LaRouche or the Peronists, but agreed instead to do the bidding of the IMF and the international creditor banks for the rest of his term in office.

This decision to put debt repayment ahead of Argentina's development needs, in fact ahead of its very survival, led inexorably down the path that led to the second nodal point, the June 1985 Austral Plan. Under this deflationary IMF shock therapy, implemented by Finance Minister Juan Vitale Sourrouille, the productive economy and living standards were sacrificed in order to maintain the flow of debt service payments. The program in fact went beyond what the IMF had demanded in its Memorandum of Understanding with Argentina, signed during the first week of June. Interest rates were increased to 6-7% monthly, 4% above inflation, which restricted credit for productive activity. Industry was decapitalized, and a wage freeze, preceded by a 20-40% increase in utility rates just a few weeks before, effectively cut wages

by 30%. The austral shock did lower inflation from nearly 700% per year in 1985 to “only” 90% in 1986—but by wreaking havoc with the productive economy. Such classic recessionary measures continued for the next few years, coupled with continued looting through net capital exports.

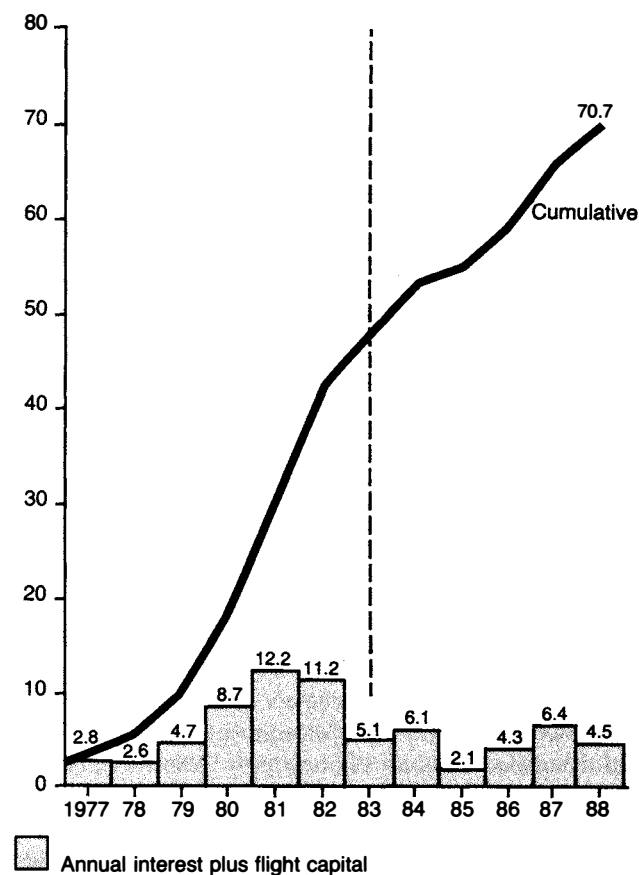
The third nodal point was the IMF-dictated August 1988 Spring Plan, which, under the guise of reining in inflation, worsened the situation with another round of austerity measures including a 30% increase in utility rates, a 10% currency devaluation, a partial wage-price freeze, and creation of a two-tier exchange rate which had the effect of immediately appropriating \$1.4 billion from the agricultural sector. The bedrock of the plan was attracting speculative funds from abroad with ultra-high short-term real interest rates, which jumped from being negative in July 1988, to 9.1% and 7.3% positive a month in September and October, respectively, and which brought in over \$2 billion in free reserves in the

central bank in the first few days alone. One month later, in a move that brought public praise from Martínez de Hoz, the technocrats at the finance ministry proceeded to tear down the “Anexo II” series of 2,600 protective tariffs for key industrial imports, as a first step toward opening up the economy as demanded by foreign creditors.

The Spring Plan lasted only until early 1989, when it was scuttled after the disgusted industrial sector officially withdrew its support. It was replaced with one after another pathetic excuse for a plan, but the economy continued on its downward spiral. The lawful consequences of this string of disastrous economic policy decisions is seen in today’s hyperinflationary explosion coupled with profound economic recession. Between February and June 1989, the austral lost 90% of its value. Monthly interest rates reached levels surpassing 150%, while citizens stopped trying to keep up with price increases that changed on an hourly basis.

These policies must now either be reversed immediately, or Argentina will disappear as a viable nation. The shattered remnants of the Argentine economy will then be handed over to foreign creditors, as speculative international capital (narcodollars especially) will flood the country, to have a field day in newly established casinos, free banking zones, and so on.

FIGURE 1
Export of capital, yearly and cumulative
(billions of dollars)



Sources: BCRA, own elaborations.

The foreign debt, genesis of disaster

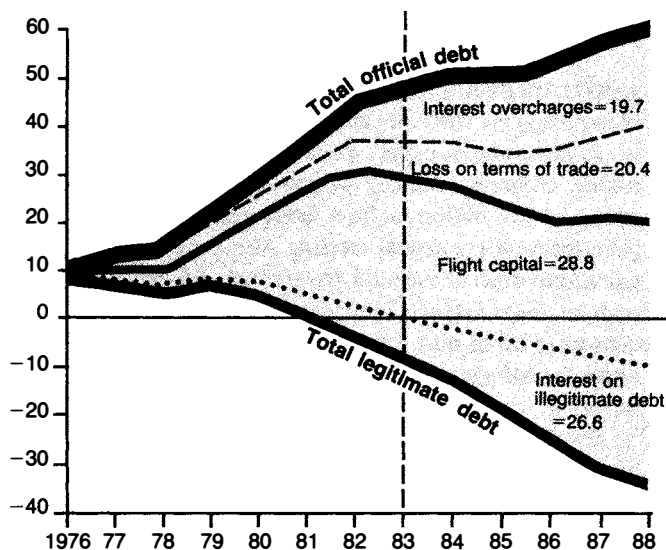
In 1976, Argentina had a foreign debt of only \$8.3 billion. From 1976 to 1988, Argentina ran a cumulative net surplus of \$21.7 billion in its merchandise balance of trade. Adjusting for net non-interest services (including shipping, tourism, etc.), Argentina still netted a \$19.4 billion cumulative surplus. And even if one assumes that Argentina had paid its 1976 interest level of \$500 million per year on its foreign debt of \$8.3 billion, every year from 1976-77, there still would have been a cumulative current account surplus of \$12.9 billion, available for increasing reserves or for additional imports for major development projects. There was no legitimate reason to borrow a single dollar more in foreign debt.

What actually happened over the last 12 years is something altogether different. Between 1976 and 1988, Argentina actually exported a cumulative total of \$70.7 billion in capital, made up of \$41.9 billion in interest payments, and \$28.8 billion in pure capital flight (see Figure 1). And yet, while all this capital was being exported, all this debt service being paid, the country’s foreign debt grew, by a staggering \$51.7 billion on top of the 1976 level, to reach \$60.0 billion today.

To state the same point differently, Argentina was looted of \$70 billion in capital exports over 12 years: The entire cumulative trade surplus of \$20 billion was sucked out of the country, and then \$50 billion in new debt was contracted—and also looted right out of the country! At the end of the process, Argentina was \$70 billion poorer, and \$50 billion

FIGURE 2

Total foreign debt, legitimate and illegitimate
(billions of dollars)



Source: ECLA, BCRA, World Bank, own elaboration.

further in debt. Not a penny went to development.

It should be noted that this is different from the cases of Mexico and Brazil in important ways. These two nations' monetarist oligarchies also squandered lots of their borrowed money; but, at least part of their debt accumulations did go to purchase needed imports of investment goods prior to 1983. The only parallel to Argentina in Ibero-America is the case of Venezuela, which also ran a large trade surplus over the past 12 years.

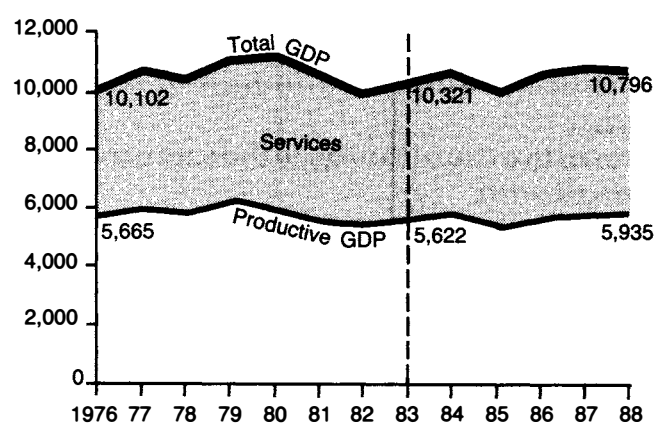
This is what is known as the debt looting mechanism. It is what Martínez de Hoz and Sourrouille and company specialized in for the last dozen years. These facts alone constitute adequate, *prima facie* evidence of the fact that the entire Argentine foreign debt is illegitimate; but more can, and should, be said on this subject.

Figure 2 shows our calculation of the total illegitimate foreign debt, compared to the official foreign debt. If we total all sources of illegitimate debt, we find that Argentina could have paid off its \$8.3 billion debt of 1976 and gone on to accumulate a surplus of \$35.5 billion by 1988. While flight capital is the largest single item of illegitimate debt, there are two other sizeable categories.

Excessive interest rates are another major source of illegitimate debt. Had international interest rates merely stayed at the mid-1970s level of 6.8% (already much higher than the 1950s rate of 3-4%), rather than being jacked up into the 20% range by U.S. Federal Reserve chairman Paul Volcker, Argentina would have saved \$8.7 billion in interest payments

FIGURE 3

Gross Domestic Product, total and productive
(in constant 1970 australs*)



Source: BCRA, *Tendencias Económicas*.

*Inflation since 1970 has been so severe that one constant austral of 1970 is equivalent to 70 million australs of 1988, and more than 300 million australs as of June, 1989.

from 1979-83, and a further \$11.0 billion during the Alfonsín years, for a total of \$19.7 billion.

Since 1976, Argentina has also lost heavily on declining terms of trade, mainly because so much of its exports are agricultural products, whose price has plummeted, especially after 1984. As shown in Figure 2, losses due to declining terms of trade total \$20.4 billion since 1976. This is based on taking 1980 as a base year, and calculating what the dollar value of imports and exports would have been had relative prices remained as they were in 1980. The difference between the much larger surplus that Argentina should have enjoyed, and the actual surplus, is the loss on terms of trade.

Then there is the \$28.8 billion in capital flight.

There is a final component of illegitimate debt, namely the accumulated interest charges on the above three categories of illegitimate debt, which represents an additional \$26.6 billion in illegitimate debt.

Total illegitimate debt can thus be seen to be \$95.5 billion. That is, Argentina ought to have \$36.0 billion in reserves, instead of its present \$500 million; and it should have no foreign debt, rather than today's unpayable \$60 billion. Of course, in reality, under such conditions, the country would have spent a large part of its \$36 billion in legitimate reserves on additional capital goods imports, and thus could have refitted the entire industrial economy at the most modern level. This looting directly represents investment that was not made in domestic industry and agriculture.

One further point should be made regarding the impact

of this foreign debt looting on the domestic economy. It would appear from Figure 2 that there has been little net capital flight under the Alfonsín administration. More likely is that sizeable outflows were balanced by inflows of specu-

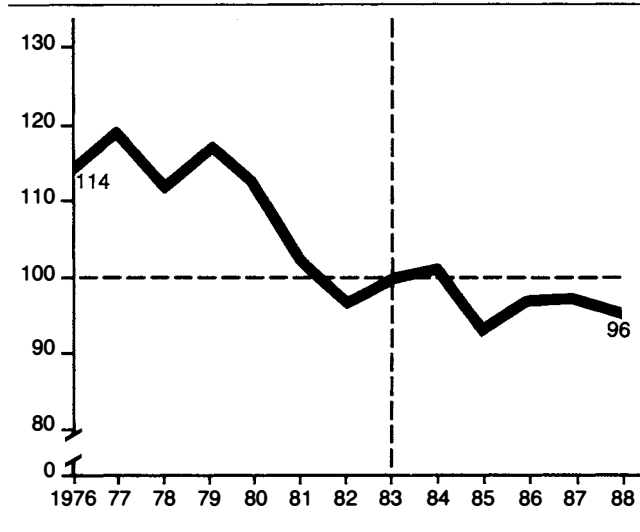
lative capital in certain periods, seeking lucrative rates of return on government debt at high internal interest rates. It is known that billions returned in the first several months of the "Spring Plan," for example, and the same probably happened at earlier points when domestic interest rates were sharply positive.

However, this transaction has been far from "neutral." In general, the money flowing back has not been for the purpose of investing productively in the economy, but only financially, in government paper. To attract this money, the Sourrouille economic cabinet created an *internal debt* well in excess of \$10 billion, at high interest rates. As a result, the net effect of flight capital entering the country, and leaving it again, has been to increase government debt by \$10 billion or more under Alfonsín, albeit not in external debt. If internal debt were taken into account, the true cost of flight capital under the Alfonsín administration would be in this \$10 billion range.

Finally, the cost to the economy of the debt burden is not completely totaled without pointing out that inflation and the government deficit are also primarily the result of servicing the debt. To pay the debt, the government, already in some deficit, has, in effect, printed money in order to extract dollars to send abroad as interest payments—a highly inflationary venture. The increase in the internal debt is likewise inflationary. And of course, the combined foreign and domestic debt payments are the major component of the fiscal deficit.

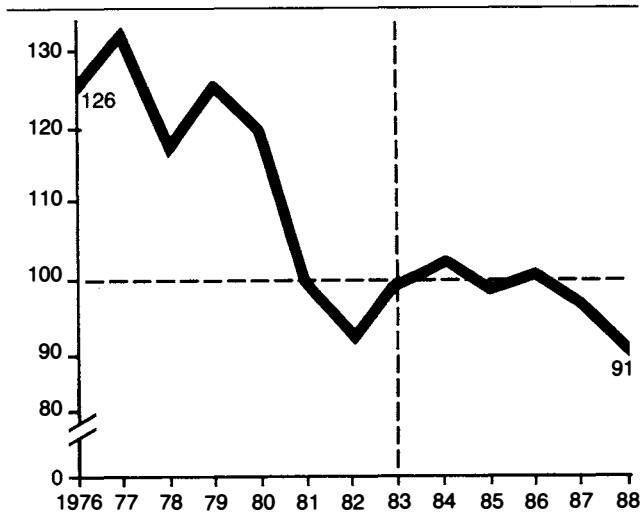
Similarly, the forced devaluations of the currency, which are the result of an absurd open exchange policy, putting Argentina at the mercy of international speculative capital, have also kicked off a self-feeding hyperinflationary spiral, which, as of this writing, is utterly out of control.

FIGURE 4
Productive Gross Domestic Product per capita
(Index 1983=100)



Source: BCRA, *Tendencias Económicas*.

FIGURE 5
Manufacturing GDP per capita
(Index 1983=100)



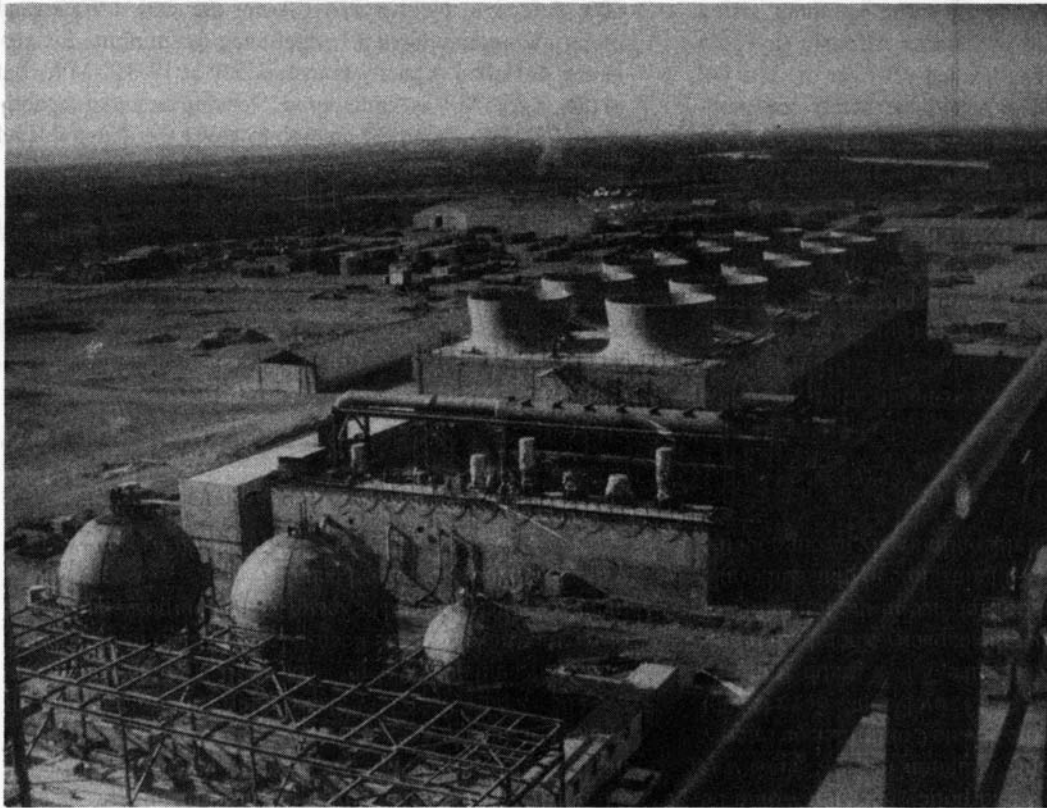
Source: BCRA, *Tendencias Económicas*.

Production shattered

Perhaps the most useful way to see what Alfonsín and his economic czar Sourrouille did to the economy is by looking at the essential parameters, divided into two time frames: the 1976-83 period of Martínez de Hoz policies (he was economic czar only from 1976-81, but his policies prevailed through to the end of the Proceso in 1983); and the 1983-88 Alfonsín era, during most of which time Sourrouille reigned supreme.

Thus, in Figure 3 we see that total GDP, measured in constant 1970 australs, was virtually stagnant both in the Martínez de Hoz period and under Alfonsín, rising by only 500 australs to 10,800 at the end of 1988—only a 5% rise in five years, far less than the rate of population growth.

A better measure of actual economic activity is what we call *productive GDP*, a measure which subtracts from total GDP the amount corresponding to financial, personal, and administrative services, as well as other overhead expenses. As can be seen in the shaded portion of Figure 3, these total services account for nearly half of total GDP throughout the period. The productive GDP actually fell slightly under Mar-



Until recently, the electricity industry was the one growth spot in the Argentine economy. But maintenance budgets have been slashed, and during the past year, shortages and blackouts have been experienced by every consumer. The nuclear sector in particular has been hit hard. Shown here is construction of a heavy water plant in Arroyito, Argentina, during the early 1980s.

CINEA

tínez de Hoz, and rose only minimally under Alfonsín.

An even more revealing measure of actual economic performance, however, is productive GDP output per capita, which we have graphed, both for the total productive GDP and for its component sectors, in **Figures 4-8**. We have chosen to index the figures to 1983 = 100, in order to show most clearly in what condition Alfonsín received the economy in that year, and what he and his economic team did to it over the next five years. It should be emphasized that these figures show the *output* per capita in each area—not the amount *consumed* within the country. That amount would be smaller still, because of the vast net exports that the banks kept sucking out of Argentina to pay the foreign debt.

Figure 4 shows that *productive GDP per capita* was in steady, significant decline during the Proceso, and that Alfonsín in no way reversed this trend.

Of the sectoral graphs, the most disturbing is **Figure 5**, which shows what has happened to *manufacturing*, the sector most vital to economic well-being and which must lead the way in any real industrialization effort. Not only did manufacturing GDP decline under both Martínez de Hoz and Alfonsín, but it did so more sharply than productive GDP as a whole. Martínez de Hoz's wholesale slaughter of Argentine manufacturing, where per capita output dropped from 126 to 100, was continued under Alfonsín, bringing the index down

to 91 in 1988. Most tellingly, manufacturing GDP as a percentage of total GDP fell from 24% in 1976, to 21% in 1983, and to a disastrous 20% in 1988.

This decline occurred in almost all sub-sectors. *Light consumer goods* (food products, textiles, leather goods, etc.) were essentially stagnant from 1983 to 1988. The physical volume of output of *basic industrial products* (cement, oil, sulfuric acid, etc.) was also flat straight through from 1976 to 1988, with the single notable exception of steel, which grew from 3.0 to 3.6 million tons per year output between 1983 and 1988. But the worst sub-sectoral collapse occurred in *machinery and equipment* (**Figure 6**.) This is perhaps the single most critical area of a nation's productive activity, because its output is the key to the ability to grow in other areas. And yet under Martínez de Hoz it crashed by 29%, and under Alfonsín by another 14%. This sub-sector actually declined as a percentage of the already stagnant total GDP, from 6.7% in 1976, to 5.3% in 1983, to an abysmal 4.9% in 1988.

The worst collapse of all occurred in the *construction* sector (**Figure 7**), which plummeted during this period at a rate which almost defies the imagination, and certainly reflects the sorry state of Argentina's infrastructural activity.

The only sector to show significant growth occurred in the *electricity* sector (**Figure 8**), which, until recently, was

the only relatively bright spot in the entire economy, rising both under Martínez de Hoz and under Alfonsín (by 14% over 5 years), although it has leveled off over the last 1-2 years. This growth, as well as higher electricity consumption, is explained in part by the cheaper electricity rates maintained under the Alfonsín regime, a fact which may have encouraged some businesses to convert to electricity, out of more expensive forms of energy. Activities which function as part of the expanding "informal economy" have also most likely illegally tapped into the national electricity supply. It is also the case that certain energy infrastructural projects were in the works well before Alfonsín came into office, permitting growth in electricity production to be maintained despite dramatic budget cuts.

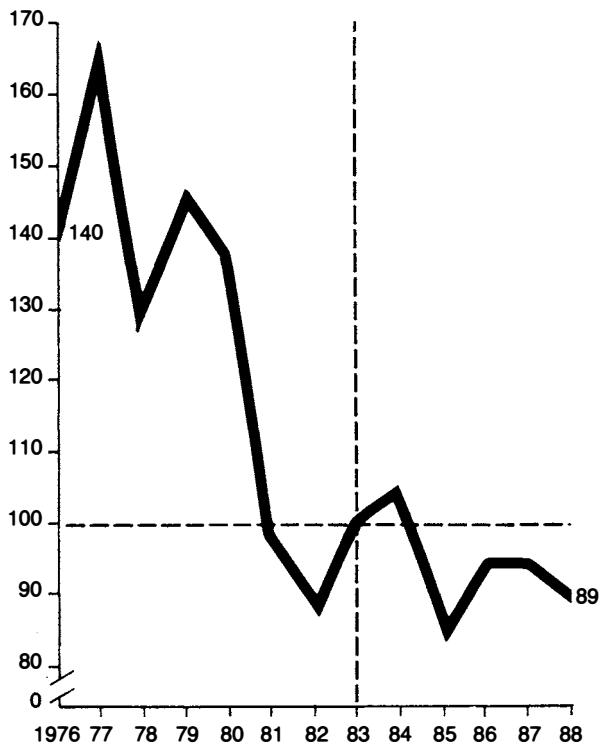
Outstanding is the complete lack of investment in the maintenance of the existing plants (e.g., the Atucha I nuclear plant), and of the electrical grid, due to IMF-enforced drastic budget cuts. In 1987, for example, this meant a 50% cut in the maintenance budget of the state-run electricity company, SEGBA—despite the fact that Buenos Aires' underground cables are an average of 60 years old, and are believed to be

60% defective. Neither SEGBA nor the state's Water and Energy Company have a budget even for minimal maintenance. Installed capacity is technically at 13,310 MW, but of this, 4,600 MW is "indisposed," leaving an actual capacity of 8,677 MW—scarcely enough to cover the demand level of 8,200 MW.

The results have been seen, and felt, by every Argentine. In late 1988 and early 1989, shortages of electricity enforced blackouts of up to five hours per day in Buenos Aires.

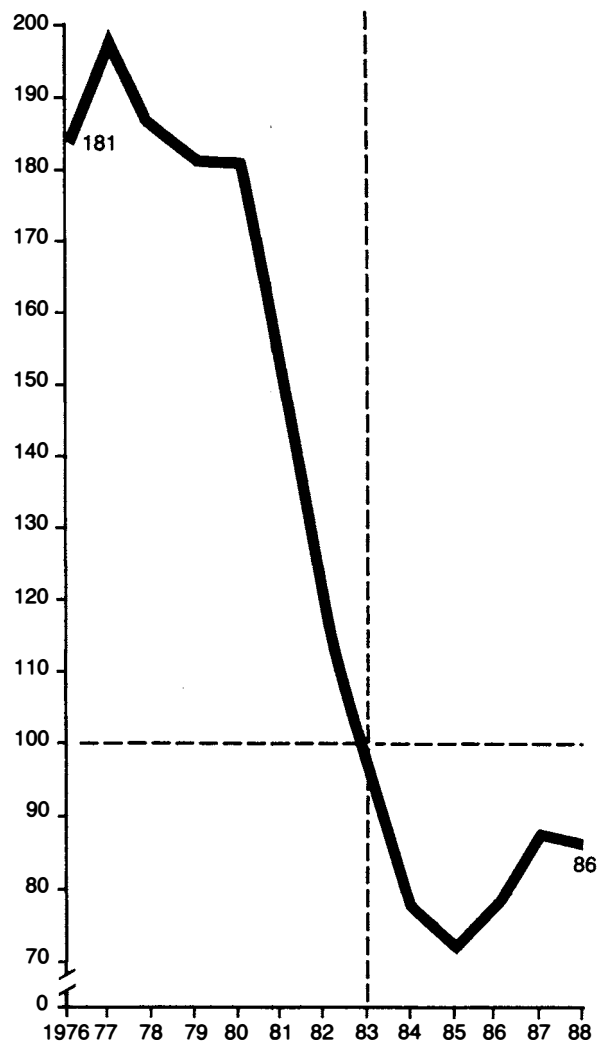
The budget cuts have hit new projects even harder than the maintenance of existing ones, and the nuclear sector in particular has been badly crippled, if not yet fully destroyed.

FIGURE 6
Machinery and equipment GDP per capita
(Index 1983=100)



Source: BCRA, *Tendencias Económicas*.

FIGURE 7
Construction GDP per capita
(Index 1983=100)



Source: BCRA, *Tendencias Económicas*.

Among other things, this has produced a "brain drain" from Argentina, as skilled engineers, physicists, and technicians seek employment abroad. Over the past decade, the budget for the National Atomic Energy Commission (CNEA) has been cut by almost 70%. Crucial projects such as the Yacyretá dam and the Arroyito heavy water plant have been relegated to limbo. Other projects, such as the Piedra de Aguila plant, which will provide 2,100 MW, have only been able to go forward because of foreign financing. The Atucha II nuclear plant is now not scheduled to come on line until 1993.

Over recent years there have been some advances in the critical nuclear sector, mostly in the international area. Thus, the Argentine test reactor, built by Argentine and Peruvian technicians in Huarangal, Peru, is operational, and there are promising prospects of sale of nuclear technology to Algeria, Egypt, Iraq, and so on.

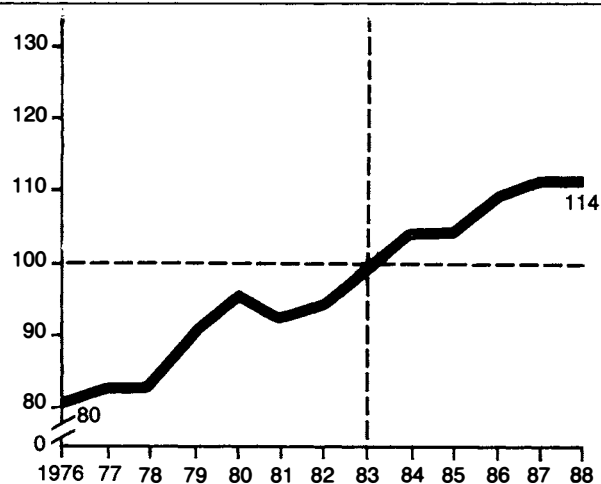
The average annual growth parameters of productive GDP per capita are summarized in Table 1. It should be no comfort that the shocking global average decline of 1.9% per year under Martínez de Hoz, was slowed to an annual average decline under Alfonsín of "only" 0.8%. The same policies (IMF monetarism) produced the same results (economic collapse), if at a slightly different rate, during the two periods. Under Alfonsín every sector, with the exception of electricity, declined steadily.

The investment nightmare

Our discussion of the way inadequate maintenance pre-empted a major problem for the electricity sector in the near future, should now be broadened by looking at the investment picture for the entire economy. Investment figures do not reveal what immediate productive GDP figures will be, but they are the determining factor for the productive apparatus one or two cycles down the line. In this sense, an economy which fails to adequately invest in its own future is as insane as a parent who kills and then eats his own child, in order not to go hungry today.

Such economic cannibalism occurred uninterruptedly under both Martínez de Hoz and Alfonsín. As Figure 9 shows, the figure for *gross domestic investment* (which includes both maintenance and replacement of the existing capital stock as well as net new investment) dropped dramatically from 2,200 1970 australs in 1976, to 1,500 in 1983—a one-third drop! This 1982-83 level of gross domestic investment barely covered the maintenance and replacement capital costs, and corresponds to *zero* net new investment. Even if we assume no increase in the required absolute maintenance and replacement costs in the Alfonsín years (although they surely did rise, if for no other reason than the aging of plant and equipment), we can see in Figure 9 that for the entire Alfonsín period, the gross domestic investment was *less than* the mere breakeven level of 1982-83—in fact, it averaged about 15% per year under this level for the five-year period, with a low point one-third under breakeven in 1985, the year that Sour-

FIGURE 8
Electricity GDP per capita
(Index 1983=100)



Source: BCRA, *Tendencias Económicas*.

TABLE 1
Average annual rate of growth
of productive GDP per capita, by sector
(percent)

Sector	1976-83	1983-88
Agriculture	0.1%	-0.4%
Mining	1.6%	-1.9%
Manufacturing	-3.3%	-1.9%
Construction	-8.2%	-3.0%
Electricity	3.2%	2.7%
Transportation	-0.7%	-0.8%
Total productive GDP	-1.9%	-0.8%

Source: BCRA, *Tendencias Económicas*.

rouille's infamous Austral Plan was launched. In other words, *there was substantial net disinvestment every year under Alfonsín*—just as there were net capital exports every year, too. Pure economic cannibalism.

Agricultural decline

The pathetic state of investment is also seen in the fact that, under Martínez de Hoz, as bad as it was, the average annual rate of investment (as a percentage of GDP) was 23.3%; under Alfonsín, this dropped to the average level of 12.2%—barely half the Martínez de Hoz level.

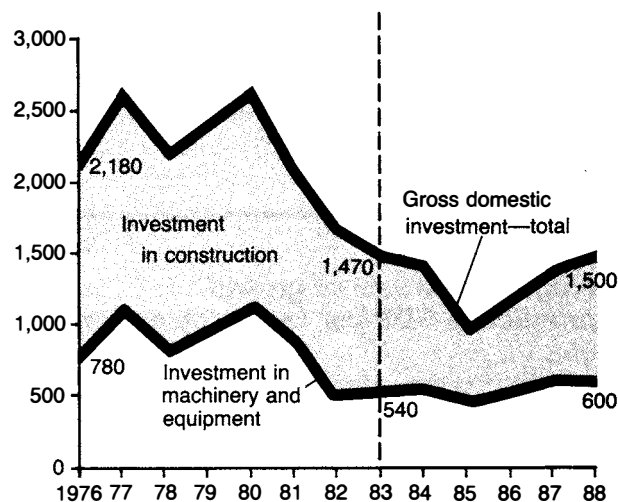
One of the areas hit hardest by the lack of investment is

agriculture. One external factor affecting output was the trade war carried out beginning in 1985 by the United States and the European Community, whose subsidies of agricultural exports at a time when the Argentine government continued to tax its exports, affected international prices and made it impossible for Argentina to compete. This trade war, compounded by the government's fixing of prohibitively high interest rates and its policy of taxing agricultural exports at 20% or more, led to a more than 50% collapse in grain and oilseed exports, and a corresponding drop in the area under

cultivation and in output from 1985 to 1988 (Table 2). The severe drought of late 1988 has now plunged 1989's output to a new low.

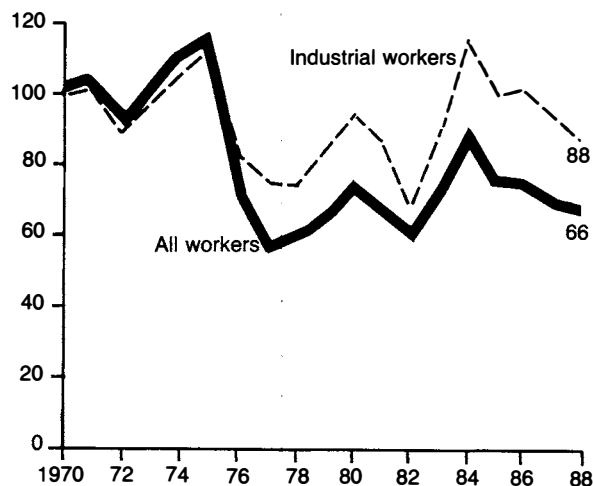
In particular, for grain and oilseed production, which accounts for almost 85% of all land under cultivation, total area under these crops dropped from 22.9 million hectares in the 1983-84 season, to 19.1 million hectares in the 1988-89 season—a 17% drop. The production of these crops also fell 18% in this period from 40.8 to 33.4 million tons. Grains were the hardest hit. Wheat, perhaps the country's most

FIGURE 9
Gross domestic investment
(in constant 1970 australs)



Source: *Tendencias Económicas*.

FIGURE 10
Real wage levels 1970–88
(Index 1970=100)



Sources: *Tendencias Económicas*, ILO, own elaborations.

TABLE 2
Production of grains and oilseeds
1983-88

	Area under cultivation (millions of hectares)			Production (millions of tons)		
	83/84	88/89*	% change	83/84	88/89*	% change
Wheat	7.2	4.5	-38%	12.3	7.7	-37%
Corn	3.5	2.6	-26%	9.5	7.7	-29%
Sorghum	2.6	1.2	-54%	7.4	3.4	-54%
Sunflower	2.1	2.2	0%	2.2	2.7	20%
Soy	2.9	4.9	69%	7.0	10.1	44%
Others	4.6	3.7	-20%	2.0	1.8	-25%
TOTAL	22.9	19.1	-17%	40.8	33.4	-18%

*estimated

Sources: BCRA, *Tendencias Económicas*, SEAGYT.

important crop, fell by 38% in area cultivated, and by 37% in output; maize, by 26% in area, and by 19% in production; and sorghum sank by an amazing 54% in both area and output. The only major crop with any meaningful growth was soy beans, which grew in area under cultivation by 69%, and by 44% in output.

Argentina's beef industry fared little better under Alfonsín. The total number of head of cattle, for example, dropped from 53.8 million in 1983 to 50.8 million in 1988, a 6% decline. And the significant drop in per capita consumption of meat which occurred the last years of Martínez de Hoz's rule, was in no way reversed by Alfonsín. Thus, in 1980, Argentines were consuming 84.2 kilograms of meat annually per capita, but in 1988 this had fallen to 70.5 kg—a 16% decline, in Ibero-America's premier meat-producing and -consuming country.

Workforce targeted

But perhaps the worst damage of all that has been done, is to the labor force. This is one case where it would be misleading to present the picture only from 1976 to 1988. This is because there was a dramatic drop in wage levels (by about 50%) that overlapped the 1975-77 period. We have therefore presented a picture going back to 1970 **Figure 10**, a year which we have indexed to 100, and take as the minimal wage level required to sustain the workforce.

As can be seen from Figure 10, the average real wage when Alfonsín took over had already dropped to about three-quarters of its minimum necessary level of 1970, and in his

term of office it dropped further, to where today it is less than two-thirds of the 1970 level.

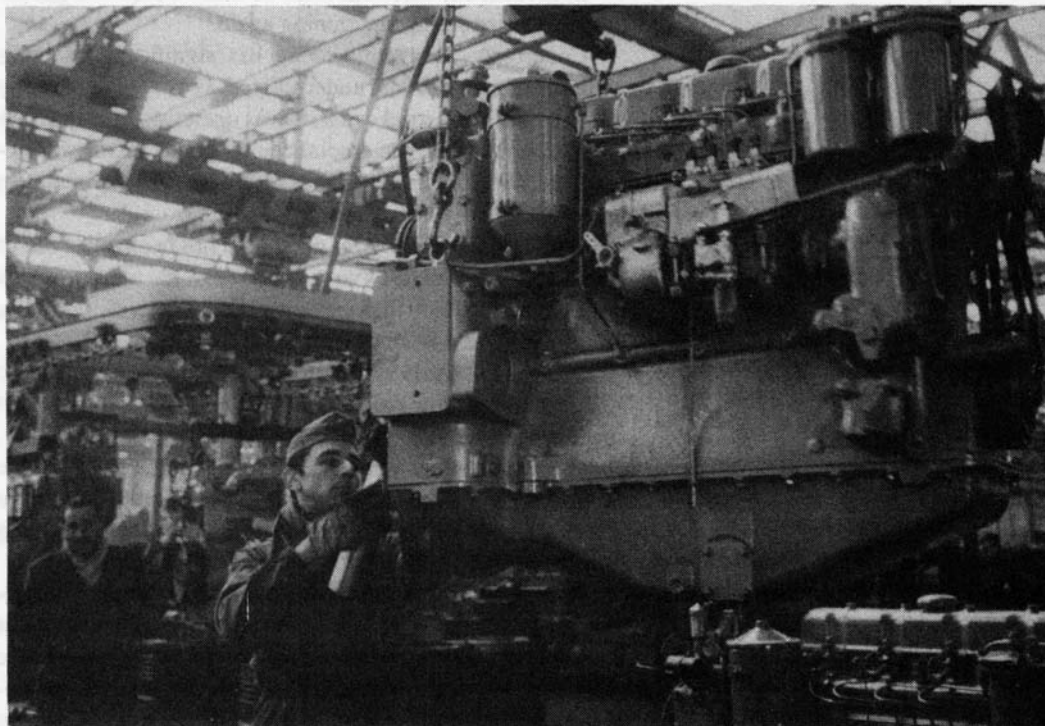
This figure is an average for the total employed labor force, and the less skilled workers fared worse than the average. The figure for common laborers, for example, shows a 50% collapse in real wages from 1970 to 1988.

The real wage of industrial workers fared better than the average ("only" a 12% drop from 1970-88). But this was a wage level that a drastically diminishing number of workers was receiving, as employment shifted out of the industrial sector into unproductive and service jobs (driving taxis, street vending, etc.) and unemployment.

Thus, **Figure 11** shows that actual employment in the industrial sector dropped by one-half from 1976 to 1988.

As shown in Figure 11, employment in the manufacturing sector fell one-third from 1976 to 1981, where it has stayed, with slight variations, ever since, hitting only 66.4% in 1987, the last year for which statistics are available. (Unemployment is reported to have skyrocketed, of course, in the aftermath of the February 1989 monetary blowout, but no global figures are yet available.)

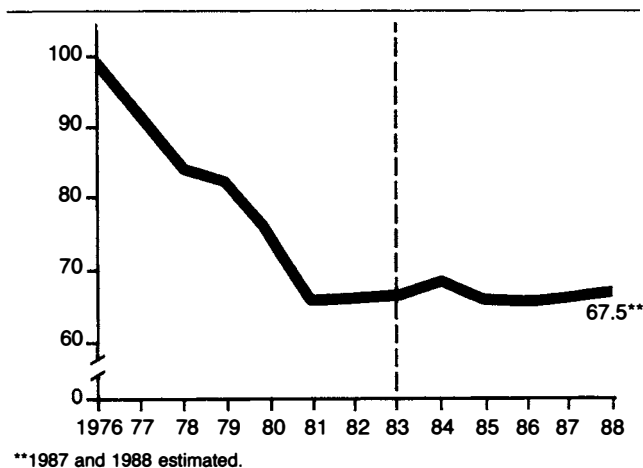
However, *real* unemployment is actually extremely high. Official unemployment rose to an all-time high of 6.8% in 1988, with underemployment officially also at an all-time high of 8.3%. If underemployment is assumed to represent a worker employed at two-thirds of his normal hours or less, then underemployment is equivalent to 3.2% unemployment, bringing the total official figure to 10%. However, since 1980, there has been a terrific increase in disguised unem-



Employment in manufacturing is falling, as unemployment rises and jobs shift into the "service" sector. Meanwhile, average real wages for the workforce have fallen to less than two-thirds of the 1970 level. Shown here is a Fiat tractor plant near Córdoba, Argentina, in the 1960s.

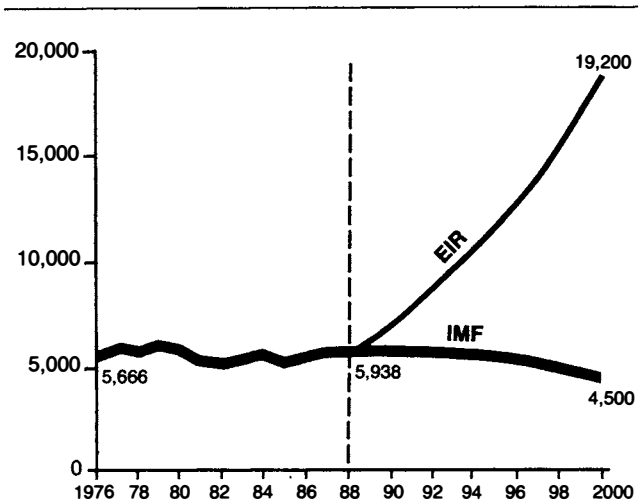
ployment, in the form of job creation in the so-called services sector, unmatched by productive growth of the economy. Since the economy has effectively stagnated for eight years, and dropped in key sectors like manufacturing, there has clearly been no increase in productive employment. The increase in unproductive employment—from driving taxis to unneeded increases in government payrolls, added to the

FIGURE 11
Manufacturing employment
 Index 1976=100



Sources: INDEC, *Coyuntura Económica*.

FIGURE 12
**Productive GDP projections:
 two alternatives 1976-2000**
 (in constant 1970 australs)



informal sector of kiosk venders, drug pushers, and micro-industry workers—is all, effectively, unemployment from the standpoint of the real economy. Adding the increase in unproductive workers to open unemployment gives the global figure of 29% *real* unemployment.

Even this figure understates the real state of affairs, because even in 1980, there was a sizeable component of superfluous jobs in the service sector. No precise figures are available for Argentina in 1980, but for all of Ibero-America, misemployment in services has been estimated at 14% in 1980, rising to 17.5% in 1985. Clearly, productive job creation must be Argentina's number-one development task, as it is for the rest of the continent.

Options for the future

Despite all of the damage wrought by Alfonsín, and as bad as the situation is today, it is still possible to pull Argentina out of its current mess. The crisis has been created, in both the Martínez de Hoz and Alfonsín periods, by two basic causes:

- 1) Most of the economic surplus actually produced by Argentina has been looted, shipped out of the country;
- 2) The little that was left behind has been horribly misinvested in unproductive and speculative activities.

The first two steps to economic recovery are to simply reverse these policies:

- 1) The looting must be stopped dramatically, by declaring a unilateral debt moratorium (and forming a debtors' cartel and an Ibero-American Common Market as quickly as possible), and by imposing air-tight exchange controls;
- 2) Investment decisions must be made which will get the productive apparatus functioning again.

Concretely, Argentina today has significant resources which are simply un- and underutilized. For example, in early 1989, overall industrial capacity was operating at only a 58% utilization rate, and the crucial capital goods sector was operating at 49% of capacity. Thus, there is the basis for almost immediately doubling output in these areas.

Similarly in agriculture, good land has been taken *out* of cultivation over the last five years (17% of the total)—which is the equivalent of idle capacity. So, too, with the labor force, whose real unemployment rate is at least 29%.

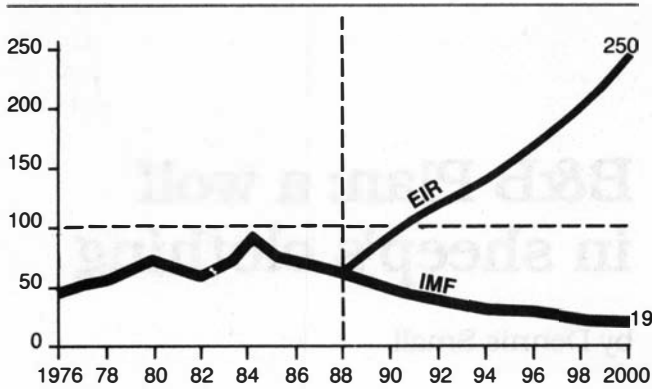
So, it is relatively straightforward to increase utilization: Just rein in the domestic financial oligarchy from its worst speculative excesses of the past decade, and put idle labor, capital, and land back to work again. This will surely create economic growth, much as President Alan García did in Peru . . . for a year or two. But it will *not* solve the underlying problems, and it will run out of steam within a few years.

Rather, such a burst of easy growth must be taken advantage of as a crucial breathing space, in which the urgent medium and long-term measures are implemented. Those measures—both economic and monetary, domestic and international—are documented in detail in the chapters that

FIGURE 13

**Real wages, projections:
two alternatives 1976-2000**

(Index 1970=100)



follow [in the book from which this chapter is taken—ed.].

If such steps are implemented, both over the short and longer term, it will be possible to get Argentina back on the path of economic growth—with per capita productive GDP

growth rates of 10% per year, between now and the year 2000, and manufacturing output growth of 15% for the first two to three years, and dropping down to the 10-12% range thereafter. This would lead to a more than tripling of productive GDP per capita by the year 2000, and a growth of manufacturing GDP per capita by over 3½ times. Similarly, real wages would rise by about 20% in each of the first two years—thereby returning to the minimally necessary level of 1970—and then would rise more slowly, at about 10% per year.

These possibilities are shown in **Figures 12 and 13**, contrasted to what will happen if the Martínez de Hoz-Alfonsín policies are continued. This “IMF” option is premised on some sort of short-term stabilization of the current hyperinflationary explosion, followed by a resumption of a more “normal” (e.g., neo-Keynesian) IMF conditionalities policy. If the hyperinflationary shock wave is not stopped, virtually all economic activity will cease within months—for which no meaningful projection curves can be drawn. Moreover, it is impossible that the IMF option can be played out for anywhere near the next 12 years, as relatively soon the continued sharp reduction in real wages implied even after a stabilization plan would lead to social explosions like, and probably much worse than, what has already occurred this year in



The continued decimation of living standards must inevitably lead to social and political explosions like that which took place in Argentina and Venezuela earlier this year. Shown here is rioting in Caracas, Venezuela in March 1989. In Argentina in May, rioting and looting broke out, leading to the suspension of constitutional guarantees.

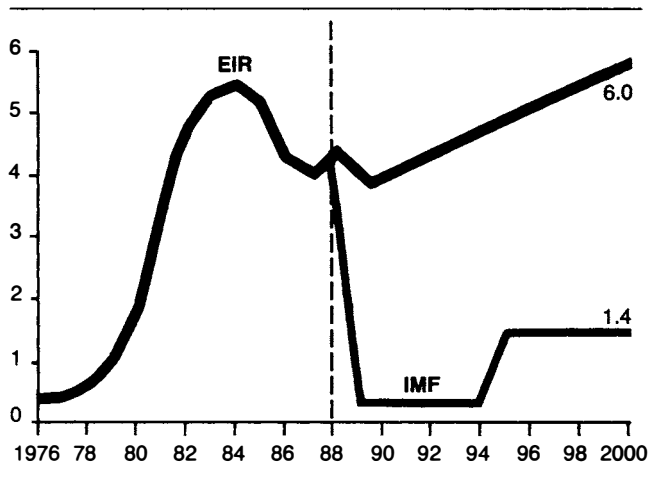
Venezuela and Argentina, making long-term projections problematic. We have disregarded this factor in our extrapolations, in order to show the inherent tendency of the IMF option if it could be somehow sustained.

A similar choice of policy options on the debt front is presented in **Figure 14**. We briefly elaborate why the “EIR” curve for projected interest payments has the shape it does.

We have shown above that Argentina doesn't legitimately owe anybody anything. Argentina has already paid off its debt to the banks—debts that should never have been contracted in the first place—virtually in interest payments alone, half of which were nothing but usury. And Argentina paid again, in the form of massive capital flight, which ended up in the same creditor banks in the form of deposits in secret bank accounts. If the banks really want to collect a third time, let them seize the numbered accounts in their own banks, and appropriate the nearly \$30 billion which Argentina's looters have placed there. But neither the Argentina government nor the Argentine people are obligated to pay those debts yet again, at their current amounts and terms, and at the cost of further destroying the Argentine economy and people.

Argentina should pay its legitimate debts on its own terms, which means: 1) Declare a five-year full moratorium on all debt service payments, except trade credits, estimated at about \$200 million a year; 2) at that point, issue long-term, low-interest government bonds at 2% interest, which would replace the existing \$60 billion in foreign debt, and whose servicing would therefore cost \$1.2 billion a year; 3) conduct an in-depth audit of the foreign debt, to determine what part of it is legitimate, and what isn't, and to prosecute those responsible for the latter.

FIGURE 14
Interest payments, projections:
two alternatives 1976-2000
 (billions of dollars)



B&B Plan: a wolf in sheep's clothing

by Dennis Small

Argentine President-elect Carlos Saúl Menem has named Miguel Roig to the crucial post of finance minister in his incoming cabinet. Roig is a prominent businessman who formerly worked as executive vice-president of Bunge and Born, the giant international grain cartel and agro-exporter with extensive holdings in Argentina. Ten years ago, Bunge moved its headquarters to São Paulo, Brazil, where Roig also resided. He remains closely associated with Bunge and Born, so much so that the economic plan which he has proposed to Menem, and which the latter has reportedly approved in outline form for his administration, is known as the Bunge and Born Plan, or, for short, the B&B Plan. It was reportedly developed with the aid of the econometric modeling approach of Nobel Laureate Lawrence Klein of the Wharton School of Economics at the University of Pennsylvania, and it indeed reflects the incompetent, standard neo-Keynesian approach for which Klein is known.

The most generous interpretation of the B&B Plan is that it is a well-meaning attempt to reestablish growth in the devastated Argentine economy, which will in short order fail miserably to achieve these results, and will leave the economy once again in a shambles.

Another view has it, however, that the B&B Plan is nothing but a wolf in sheep's clothing, just as Keynesianism more generally presents itself as a less draconian alternative to Friedmanite monetarism, only in order to be accepted and then be able to apply essentially the same policies.

In point of fact, few concrete details of the Bunge and Born Plan have been made public. It is said that it will last 18 months, and that its goals are to achieve by that time annual GNP growth rates of 7½%, average wage increases of 9½% per year, and to lower inflation to about 12½% per annum. These are laudable goals, if somewhat low: EIR's program would increase GNP by about 10% per year, wages by 20% in each of the first two years, and slash inflation to next to nothing. But the question is, are these objectives