

Camdessus deflates Argentine 'miracle'

by María Pérez Galindo

Argentine President Carlos Menem, who spent his mid-November trip to the U.S. boasting about his country's "economic miracle," suffered a political setback when International Monetary Fund (IMF) Managing Director Michel Camdessus arrived in Buenos Aires Nov. 29. In an interview published before his arrival in the Nov. 27 *Clarín*, Camdessus indicated that while the government's free market economic reforms were "on the right track," it would nonetheless have to apply much greater austerity and "deepen" those reforms, before it could be eligible for more funds. Camdessus was referring specifically to Argentina's desire to convert its current \$1.4 billion standby agreement into a three-year, \$3 billion extended fund facility loan. Menem had boasted in meetings in New York that the extended fund facility was guaranteed.

Camdessus wants the following from Argentina: It must increase its current fiscal surplus from \$70 million to \$2.5 billion; monthly inflation can be no more than 0.5%, and the annual inflation rate 6.5%. The plan for privatizing state sector companies and deregulating and "opening up" the economy, must be accelerated. Moreover, as a condition just for sitting down and negotiating a debt agreement in January 1992, creditor banks demand that the government pay at least \$2 billion of the \$8 billion it owes in interest arrears; and increase monthly debt payments from \$60 million to \$100 million.

Despite Menem's blather about economic miracles, the Argentine government barely complied with the guidelines it was supposed to meet in order to qualify for the next \$240 million tranche of its standby loan—and then, only with some fancy footwork. As the Nov. 27 *Financial Times* reported, Finance Minister Domingo Cavallo attained a third-quarter surplus of \$841 million only by "manipulating government accounts" and raising \$700 million from privatization of state companies, something the Fund said "doesn't count."

The Nov. 22 financial daily *Ambito Financiero* reported that "so as not to endanger the extended fund facility, the austerity from now until March will be very tough."

Another pound of flesh

Since the government is engaged in privatizing all public services, it has failed to invest in that sector. As a result, in

several parts of Buenos Aires, there is rationing of potable water and electricity. In residential areas, electricity is cut for up to five hours daily. At least 35% of the country's population of 32 million people lacks potable water, and 65% proper sewage systems. Within the last year, investment in this sector has dropped from \$400 million to \$70 million.

The new provincial governors, who are scheduled to take office Dec. 10, face tremendous financial crises. They do not have funds to pay employees, and the federal government is demanding immediate payment of what they owe for federal revenue sharing funds. Camdessus stated that he expects the government to impose even harsher austerity on the provinces, and Cavallo is already mooted that payment of wages will be postponed until January.

Argentina's physical economy has been ravaged by years of IMF austerity. Measures applied since 1989, when Menem took office, have particularly wreaked havoc in the agricultural and steel sectors. The agricultural crisis is reflected by the drop in tractor sales which, according to the Nov. 4 *El Cronista Comercial*, "are only able to cover 30% of the total supply required nationwide," and the rest "by the import at subsidized prices of tractors which are of poor quality and obsolete technology." According to the Nov. 4 *Ambito Financiero*, during the 1991-92 growing season, the total volume of Argentina's wheat production dropped by 19.3%; area under cultivation dropped 26.1% during the same period.

The Steel Industry Center reports that "during the month of October, primary steel production dropped by 12.%, the lowest level since 1986." The Nov. 21 *Clarín* reported that production of hot-rolled steel dropped by 5.9%, while cold-rolled dropped by 24.4%.

The government is counting on increasing its revenue through privatization of state companies, but this is going poorly. The Spanish airline Iberia, which bought the state-run Aerolíneas Argentinas in 1990, still owes \$187 million in cash as well as \$550 million in debt paper. Things don't look much better for privatizing the railroads, since the Spanish company Renfe, the only company which put in a bid for the General Urquiza Railroad, pulled out at the last moment because it preferred to invest in a high-speed Madrid-Seville train, even though it meant losing \$2 million in indemnification payments.

Social protest over the deteriorating economy is also growing. Every week, teachers strike for one day to demand higher wages and to protest the recently decreed "decentralization" of education which is simply a scheme to privatize the public school system. Provincial governments are in no position to finance schools now under the jurisdiction of the federal government, as Menem's decree demands. Retirees, who Menem has just decided to pay in bonds which are only redeemable in six years, are outraged and are demanding payment of their pensions in cash.