Under Fire
Menemismo and the Politics of Opposition in Argentina

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Menem's Great Swindle:
Convertibility, Inequality and the Neoliberal Shock

Punished by years of high inflation, Argentines enthusiastically supported Menem's anti-inflationary Convertibility Plan. The government, however, utilized the success of the Plan to peddle a larger neoliberal shock program that has enriched few and impoverished the majority of Argentines.

As prices spiraled out of control, the government assured its population that it needed to follow a new policy. The Convertibility Plan, as it was called, promised to stabilize the economy by tying the Argentine peso to the US dollar. This would mean that the value of the peso would be fixed, and all transactions would be conducted in dollars. The Central Bank would then be responsible for any fluctuations in the dollar-peso exchange rate.

The Convertibility Plan was hailed as a solution to Argentina's economic problems. It was argued that by fixing the value of the peso, the government would be able to control inflation and stabilize the economy. However, the plan had severe consequences for those who were already struggling.

The plan's success was short-lived. The economy quickly became unstable as the peso fell in value. The government was forced to devalue the peso several times, which further eroded the value of savings and pensions. At the same time, the government's anti-inflationary policies had a devastating effect on the poor and working class.

The Convertibility Plan was a deliberate attempt by the government to maintain control over the economy at the expense of the general population. It led to widespread poverty and inequality, and the country's economic situation continued to deteriorate. The legacy of the Convertibility Plan is a stark reminder of the dangers of relying on foreign currency to solve domestic economic problems.
Argentina. The government even suspended payments on its foreign obligations for a short period between 1989 and 1990 in order to overcome the crisis caused by the overvaluation of the peso. Inflation—^which had already reached the hyperinflationary levels of the 1980s—^rose to 90% in 1989 and 130% in 1990. The startling increase in unemployment and the sharp rise in prices and wages, with a consequent decline in productivity and investment, were accompanied by a sharp increase in the cost of capital, both internal and external. The result was the disappearance of sectors with the greatest technological content and/or skilled labor, like the production of capital goods such as electronics, machinery for agriculture and the dairy industry, ATM machines, telecommunications equipment, and data-processing equipment. IBM, for example, shut down its factories in Argentina which produced high-speed printers for export to Japan, Asian-Pacific countries, Latin America and Africa.

The shocks of deregulation—especially price deregulation—^had similar effects. The argument that deregulation and privatization raised foreing-investor confidence and thereby contributed to the defeat of inflation was fallacious. The inflow of capital to bolster the money supply depended less on investor "confidence" than on the recovery of the demand for money associated with the Convertibility Plan. It also depended on abundant international liquidity and the taming of the hyperinflation of 1990, which quickly produced greater returns for investors. In fact, one of the problems with Argentina—as in other newly liberalized "emerging markets"—is the excessive inflow of short-term speculative capital. Portfolio investors, looking for quick killings rather than long-term returns on investment, pour money into a variety of financial schemes, only to pull it out at the first hint of impending trouble, thereby popping the speculative financial bubbles that they themselves create.

During the nine-year rule of Menem and his Convertibility Plan, the new relations of exploitation and domination that were born of the military dictatorship came to maturity. The distribution of profits among the elite sector of the business community now has three characteristics. First, the production of nontradable goods and services is more profitable than that of tradable goods and services. Second, the production of primary exports, especially those based on renewable natural resources, is more profitable than that of other importable and exportable goods. Finally, the production of services is more profitable than manufacturing. The new Convertibility Plan, the new relations of workers, and the rich man who has just over 18.7% of the population with the richest 10% of the population raised its share of income by 30.7%, at the expense of the middle class, the traditional working class and the very poor. In 1990, the United Nations Development Program estimated that Argentina ranked fifteenth out of 155 countries in income received by the richest 20% of the population. Since then, the share of the richest 20% has grown from 51% to over 57%, while at the same time, the poorest 20% have fallen by 18.7%. Between 1974 and 1995, the percentage of Argentines below the poverty line grew from 4% to 25.8% of all families. Argentina, long known as a developing country with one of the most equitable distributions of income and wealth, is now an illustrative case of the growing socioeconomic fragmentation and marginalization caused by neoliberal economic policies.

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