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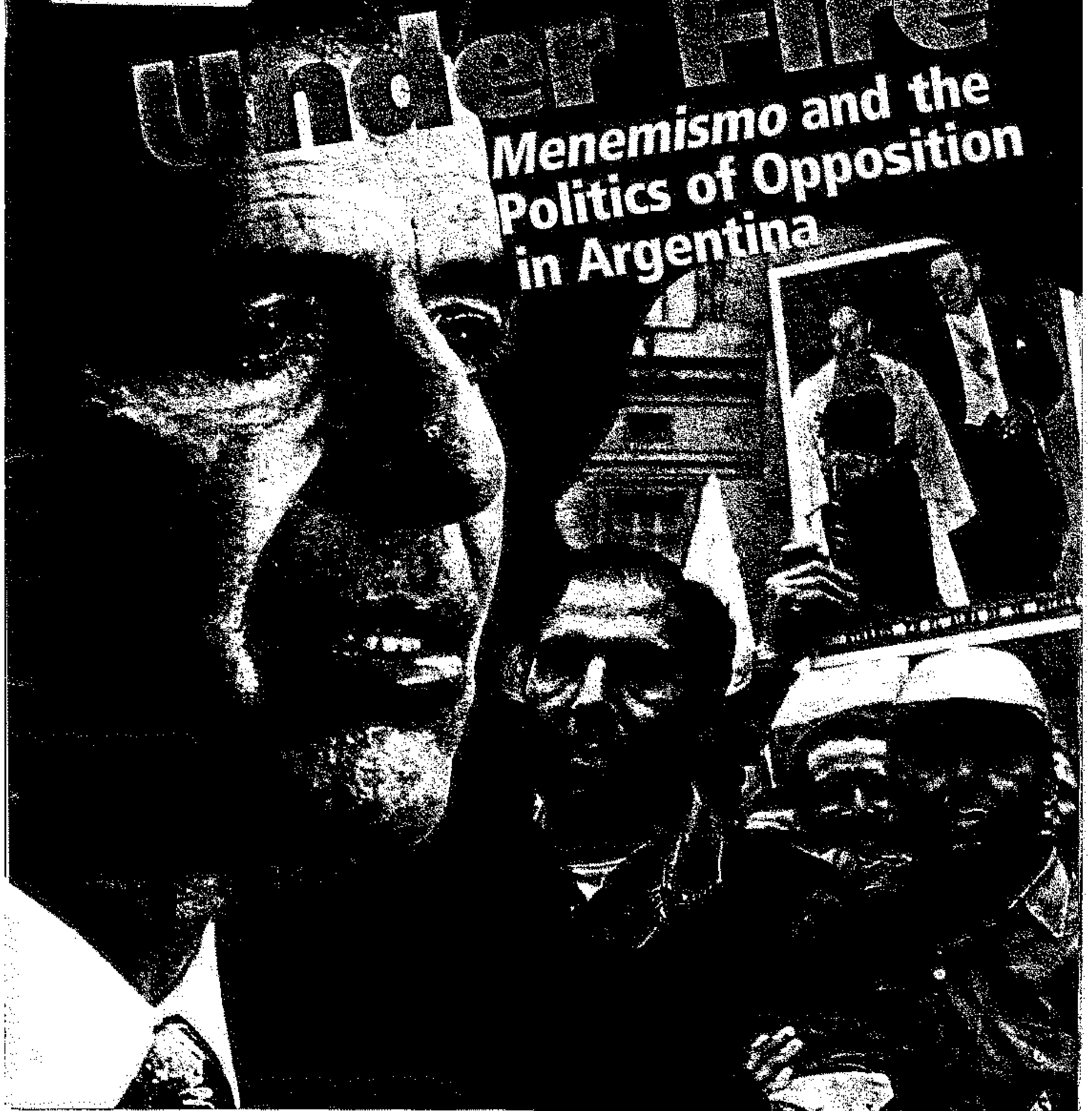
Under Fire

Menemismo and the Politics of Opposition in Argentina



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REPORT ON ARGENTINA

UNDER FIRE:

MENEMISMO AND THE POLITICS OF OPPOSITION IN ARGENTINA

The cover collage by Ettinger Design uses photographs from Impact Visuals by Rick Reinhard and Donna DeCesare.

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.

BY DANIEL AZPIAZU, EDUARDO M. BASUALDO AND HUGO J. NOCHTEFF

In April 1991, after 15 years of high inflation that included two bouts of hyperinflation in 1989 and 1990 which ravaged the national currency and destroyed internal credit, Argentina was presented with a "last-best hope" in the form of a new monetary policy. Dubbed the Convertibility Plan, the new policy established a fixed peso-dollar exchange rate—one Argentine peso for one U.S. dollar—and mandated that the country's money supply (all the bills and coins in circulation) should at all times equal the reserves (hard currency and precious metals) held by the Central Bank. The Central Bank would now buy or sell all the pesos and dollars offered and demanded by the public at the fixed exchange rate. Reserves, measured in dollars, could be held, up to a certain percentage, in public-debt bonds in stable foreign-currency denominations.

The Convertibility Plan quickly restored both currency and credit, and in less than three years brought about general price stability, reducing inflation to levels lower than those of many developed countries. The government can issue no more or no less currency than the public buys at the fixed rate. The Plan ensured that there would be no nominal devaluations—or revaluations—of the peso, and that the country's money supply would be determined solely by the demand for pesos by economic actors doing business in Argentina. Because of the abundant international cash flow, the steep rise of the local demand for money was satisfied by what the government and the public perceived as a practically infinite supply of money.

Argentine citizens, punished by years of high inflation, enthusiastically supported this new anti-inflationary policy. But, in what constitutes one of the great ideological swindles of Argentine history, the government of Carlos Menem used the success of the Convertibility Plan to peddle a larger neoliberal shock program, which its neoliberal technocrats presented as part and parcel of the Convertibility Plan. Powerful foreign and domestic investors, as well as foreign creditors such as the International Monetary Fund and the World Bank, had long been promoting a neoliberal structural-adjustment program in Argentina. Behind the veil of the popular monetary policy, the neoliberal technocrats and the international and domestic prosperity peddlers accelerated and consolidated the shock program, which consisted of massive privatizations, the deregulation of economic activities and the "flexibilization" of the labor market, and the liberalization of commodity and money markets. The whole package of neoliberal reforms—known in neoliberal terms as "institutional cleansing"—is now referred to as the Convertibility Plan.

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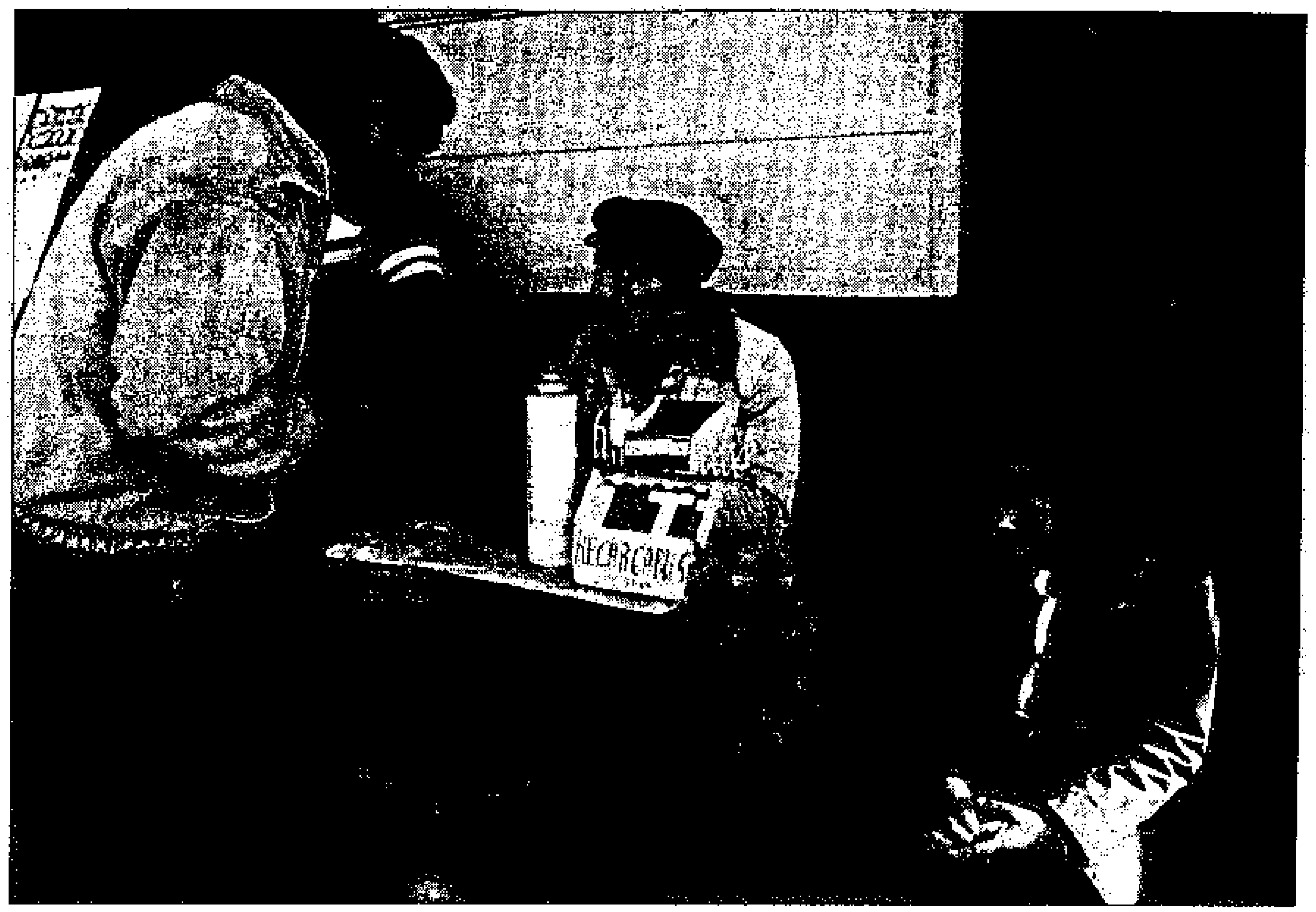
Translated from the Spanish by Fred Rosen.



As jobs disappeared, thousands of Argentines found themselves scrambling for a source of income. Pictured here is a man who makes his living refilling disposable lighters.

The past decade of economic and social turmoil in Argentina has its historical roots in the military regime that ruled the country between 1976 and 1983. During the country's infamous dirty war, in which thousands of Argentine citizens were tortured, disappeared and murdered, the military dictatorship repressed and eliminated the social forces that were demanding change. But the officers in the Casa Rosada had a more ambitious plan—to recreate Argentine society on the basis of new socio-economic relationships. The structural transformations introduced by the dictatorship succeeded in destroying the old economic model of import-substitution industrialization (ISI), setting the stage for the implementation of neoliberal economic policies. From 1981 through 1989, investment descended to unprecedented levels, lower than those required for the simple replacement of fixed capital. Even after the stabilization, during the peak of the upswing phase of the cycle in 1994, the estimated average age of the capital stock was still higher than in 1972.[1]

Over the past decade, the power of the economic groups created during the military period has been consolidated, as has the exclusionary socio-economic model put in place during the dictatorship. The regressive model deepened between 1983 and 1989 during the government of Radical Raúl Alfonsín and was consolidated with Menem's neoliberal reforms. Financial speculation and newly privatized services have become the chief sources of private profit under this neoliberal model, and its main beneficiaries have been the large economic groups—both domestic and foreign—doing business in the country. Monopolistic domestic capital, through its powerful influence on the state, largely determined the specific nature of the policies adopted through 1991, and is now the driving force behind economic policy making in Argentina.

The relation between domestic capital and foreign creditors has been complex and often contradictory. Foreign creditors have, for the most part, been marginalized from the dramatic redistribution of wealth in

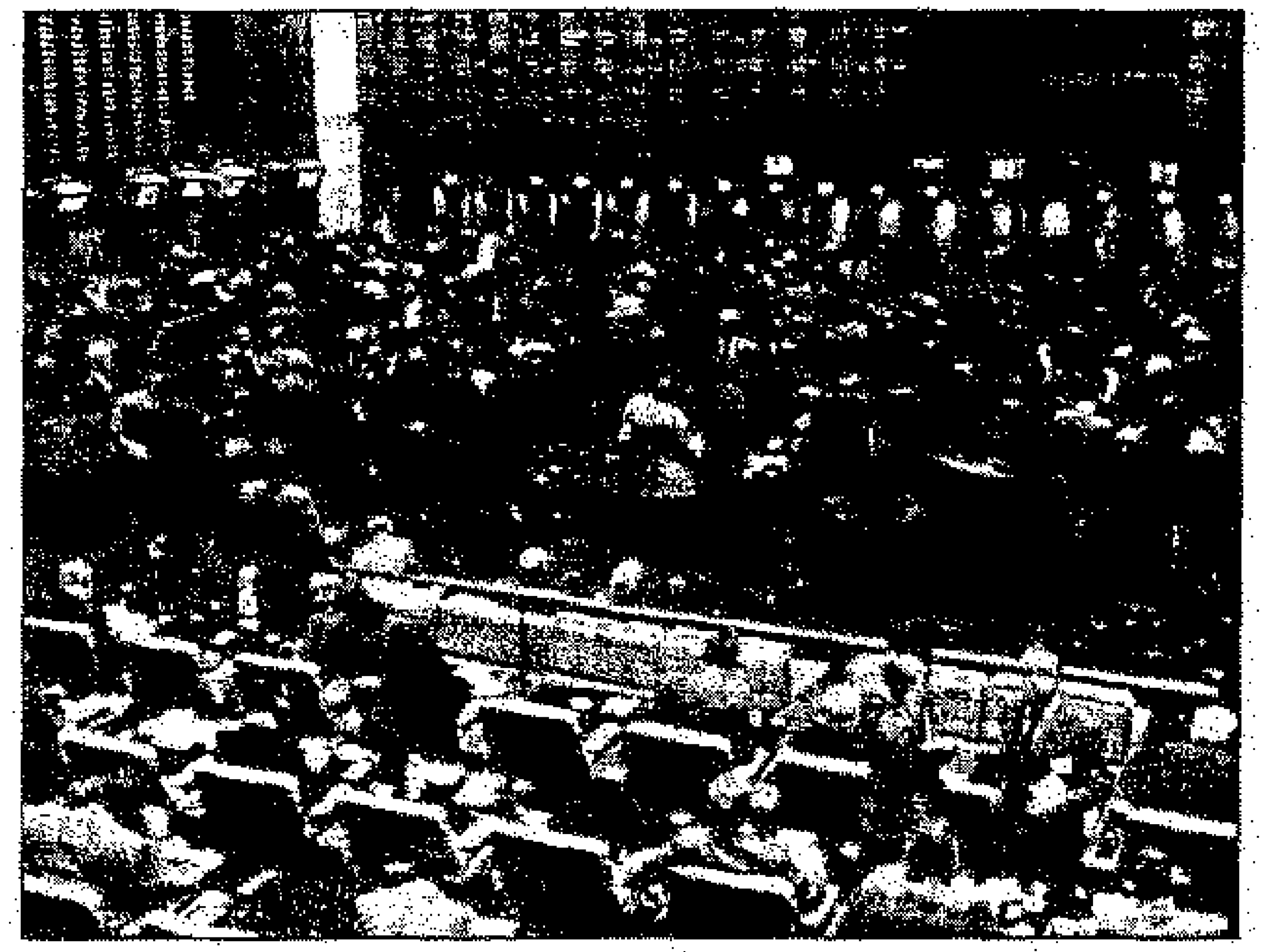
Argentina. The government even suspended payments on its foreign obligations for a short period between 1988 and 1990. These contradictions were central to the explosion of the economic crisis in 1989—the result of a run on the peso initiated by the foreign banks which set in motion the hyperinflationary process that ended with the fall of the Alfonsín government and Menem's early assumption of power.

At the same time, however, foreign creditors and domestic entrepreneurs agreed that accentuating the concentration of wealth and privatizing public companies was the only way to overcome the economic crisis. Privatization—and the capitalization of the foreign debt through foreign debt-equity swaps—was absolutely necessary for foreign creditors as a way of recovering a good part of their debt capital. It was also fundamental for domestic entrepreneurs because it allowed big domestic firms to gain access to valuable assets with great potential for profitability, including telecommunications, utilities such as electricity, gas and potable water, and the country's largest oil company.

Today, in alliance with transnational corporations and foreign financial sectors, those who impoverished and decapitalized the country have presented themselves as its saviors with the Convertibility Plan. An example of this public-relations fraud is the liberalization of capital flows. Not only was financial liberalization unnecessary to obtain price stability, but it was counterproductive. It prompted a massive entry of short-term capital, which raised the country's foreign indebtedness. This new debt, owed to short-term speculators, has heightened economic instability. This is clearly seen in the turbulence of capital markets, the decline in productive economic activity and the extremely negative impact of the Mexican and Asian crises.

Nor is it true that commercial liberalization—the reduction in the protection of productive industry—lowered inflation. Here, the lowering of protective tariffs yielded a "once and for all" reduction in the price of many internationally tradable goods, but was completely unnecessary for reducing the inflation rate. In fact, the shock of commercial liberalization created a heightened vulnerability to fluctuations in the international economy while contributing to an increase in domestic bankruptcies and the subsequent rise in unemployment, a drop in real wages, and declining profitability in the production of tradable industrial goods. The result was the disappearance of sectors with the greatest technological content and/or skilled labor, like the producers 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 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 foreign-investor confidence and thereby contributed to the defeat of inflation is 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 in 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 hints of impending trouble, thereby popping the speculative financial bubbles that they themselves create.



The Buenos Aires Stock Exchange.

In sum, if the Convertibility Plan had been applied without the rest of the neoliberal shock package, the only cost would have been smaller growth of consumption and imports in the program's first years. At the same time, the formation of financial bubbles would have been avoided, along with the fall in employment in the export and import sectors, the disappearance of a good part of the technology-intensive sector of the economy, the regressive redistribution of income, and the growth of the foreign public debt to $100 billion by 1996. Finally, had there been no neoliberal shock, the enormous transfer of income to big domestic firms would have been avoided, and with it, the ability of these groups to dominate the economy.

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 nonrenewable natural resources, is more profitable than that of other importable and exportable goods. Finally, the production of services is more profitable than manufacturing. Because of this new intra-elite distribution, there has been a concentration of investment in the economy's less technology-intensive sectors and in sectors that have less growth potential in world markets. The result is a reduction of the long-term growth capacity of the Argentine economy.

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.

Industrial firms represented 55% of the country's 200 largest firms in 1995, but their share of total sales was only 33%, and they received only 17% of profits. At the other extreme, privatized public services represented 19% of the biggest firms, with 23% of sales and 38% of profits. Their average rate of profit on sales was almost five times as great as that of industrial firms. If we add in the profits from these firms' diverse holdings, the major producers of non-exportable goods and services represent 21% of the top 200 firms, 27% of the sales and 48% of the profits.[3]

The other key component of the activity of big domestic capital—due in large part to privatizations—is oil. The companies dedicated to oil and its by-products make up 7.5% of the top 200 firms, 13% of sales and 30% of aggregate profits. The crucial importance of privatizations for domestic capital is thus undeniable. In 1995, 83% of the total profits of the top 200 firms was obtained by firms linked to privatizations.[3]

Interestingly, the profits of these top 200 firms have been relatively independent of the economic cycle. During the latest recession in 1995, for example, while GDP, investment and consumption all fell, the sales and profits of Argentina's 200 largest firms grew significantly. One key reason for this is the inadequacy of state regulation of privatized public services, allowing providers to increase prices. In addition, the absence of antitrust policies permitted monopolistic capital to displace small and medium firms.[4]

There have also been changes in labor markets. By deepening the policies applied since the military coup of 1976, the neoliberal shock of the 1990s has had dramatic negative effects on employment and income distribution. Between 1975 and 1995, real wages fell by 42%, and the unemployment rate increased 6.7 times.[5] While most jobs lost in the 1990s were stable jobs in the formal sector, most of the newly created jobs are precarious, underpaid positions in low-productivity sectors such as small-scale commerce and small repair shops. In 1997, only 29.7% of the entire population was employed in stable jobs in the formal sector—the lowest percentage since the 1940s with the exception of 1996.[6]

Since the mid-1970s, 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.[7] In 1993, the United Nations Development Program estimated that Argentina ranked fifteenth out of 155 countries in income received by the richest 20% of the population.[8] Since then, the share of the richest 20% has grown from 51% to over 57%, while the share of the poorest 20% fell by 18.7%. Between 1974 and 1995, the percentage of Argentines below the poverty line grew from 4% to 25.8% of all families.[9] 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 socio-economic fragmentation and marginalization caused by neoliberal economic policies.

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 economic, social and political disparities between big domestic capital and small competitive firms, as well as between the wealthy and the popular sectors, is now comparable to the inequalities of the mid-1940s—the period just preceding the eruption of Peronism in Argentina. ■