Agricultural Production

The Peruvian government hopes to be able to eliminate most food imports through an increase in import-substitution agricultural production and a downgrading in the quality of foods consumed. Agricultural production grew slightly faster than population in 1976 — following a decade of stagnation — but only as a result of the most extraordinary inputs and incentives. Mechanization of production, critical in a country where only 2 per cent of the land is currently arable has been explicitly ruled out by the austerity regimen.

Excellent 1976 harvests of rice, potatoes and other foods were due to optimal weather in the first three quarters, and government incentives in the form of a 40 per cent reduction in fertilizer prices and permission to increase consumer food prices at a rate considerably faster than the general cost of living index. Credit was relatively abundant, and several of the "first phase" major irrigation projects came on stream. The good crop and lower world cereal prices and higher real prices of food in Peru permitted cuts of $100 million in food import costs.

The prospects for 1977, however, are quite somber. A severe drought beginning in October devastated the potato, corn, barley, meat, and milk-producing areas of the highlands. Although the drought appeared to be easing in January, the damage was already done. The Food Ministry estimated Dec. 17 that 35 per cent of the potatoes, 40 per cent of the corn, and 70 per cent of the southern barley (quinua) due to be harvested early in 1977 were totally destroyed, and a reported half of the cows and sheep in the southern highlands died of cold, hunger, and thirst. 40,000 hectares of rice were not planted for lack of water in the coastal valleys, and the remainder of the crop can only be saved if river levels rise in the next two weeks. Meanwhile, the new Chira--Piura irrigation project is generating foreign exchange by double-cropping cotton for export, at the expense of food production.

Even in the drought areas, the government is maintaining a rigid policy of collecting debt impoverished small farmers. Eleven of twelve cooperatives in one northern valley were subjected to government intervention after failure to meet debt payments; in anticipation of labor troubles all the agro-industrial cooperatives (like the mines and fishing ports) are now guarded by the Guardia Republicana police.

Although the situation is ameliorated by the credits readily granted by the U.S. and Argentina in order to dump unsaleable wheat and meat in Peru, consumers are beginning what will probably be their worst year since the 1930s. Meat is a luxury. Beef supplies reaching Lima are reported at one-fourth their early 1976 level, while chickens — the supposed cheap substitute for red meats — is now available only a black market prices, following the slaughter of chicks in response to a glut last year.

Argentina 1976: Inflation Down 50%, Purchasing Power Down 58%

When the Argentine military junta took power on March 23, 1976, the International Monetary Fund allowed a temporary suspension of the country's external debt payments. Since then the IMF has effectively taken control of Argentina's economic policy dictating internal austerity, cuts in capital goods imports, and de-industrialization.

When the junta took over, the country was faced with a $10 billion debt. From Jan. 1 to Mar. 23, internal reserves had fallen by $64 million to $556 million. Despite the postponement of important payments that had fallen due, the liquid funds amounted to only $23 million. Immediately after the coup the New York banks were forced to grant a moratorium on Argentina's public debt payments due between March 24, 1976 and Sept. 24, 1976, in an attempt to rebuild the country's reserves.

By the end of August the reserves were up to $1.295 billion, and the country began to repay the debts. At that time Argentina's debt was estimated at between $7.6 and $10 billion.

Since Mar. 27, 1976 the junta has received $1.743 billion in new loans — $694 million from international agencies and $1.049 billion from private banks — in the U.S., Japan, and Europe. The loans provided by private banks were extended only for foreign debt repayment. The loans are repayable in 3-4 years at 8.5 per cent interest. The other $694 million were used as shown in the chart on the following page.

Since the IMF loans totalling $424 million went directly into outstanding financial liabilities, only 270 million out of the entire $1.743 billion in loans went into investment! The Argentine debt now stands at about $12 billion with the heaviest payments falling due in 1977 and 1978. During the first week of 1977, Argentina paid $820 million in debt service. The country claims to have $2 billion in foreign reserves at this time.

How They Did It

The junta has succeeded in more than halving the 1975 inflation rate of 340 per cent inherited from the goverment of Isabel Peron, but at the expense of destroying the Argentina economy's productive base. Under the International Monetary Fund's guidelines, the junta has driven the nation's once-powerful industrial sectors into virtual bankruptcy.

The "success" of the junta's austerity program is seen

	CREDITOR AGENCY	AMOUNT (MILLIONS OF $)	PURPOSE
MARCH 27	IMF	127.6	BALANCE OF PAYMENTS ADJUSTMENTS
AUGUST 9	IMF	296.4	STAND-BY CREDITS; $186 M. PENDING BUDGETARY REFORM
AUGUST 12	IADB	87.0	CONSTRUCTION OF PIPELINE
SEPT. 23	WB	115.0	ELECTRICAL TRANSMISSION PROGRAM, 8.9% INTEREST
NOVEMBER 4	IADB	60.0	GRAIN STORAGE FACILITIES, 8.6% INTEREST
SEPT. ?	EXIMBANK	7.2	CONSTRUCTION OF GAS PIPELINE
OCT. 29	EXIMBANK	.8	CREDITS
TOTAL		694.0	

in Argentina's year-end cost of living index, which was up 404 per cent. When the junta seized power, the Argentine population was already suffering from a 1975 cost-of-living rate of an increase of more than 80 per cent! A junta-imposed wage freeze, the release of all price ceilings, the institution of automatic monthly rate increases for all public services and the announcement of a so-called rationalization scheme aimed at reducing the payroll of Argentina's large state sector brought about an abrupt, if temporary, halt to the galloping inflation rate but left the labor force reeling from the IMF's prescribed "shock treatment." Official 1976 statistics show that service rates for gas had increased 1300 per cent, subway fares 472 per cent, water and electricity 725 per cent. Meat, which had always been considered a staple in every Argentine worker's home, was no longer within the income reach of the large majority of working class families. Food costs generally were up by 365 per cent, clothing costs were up 290 per cent and rents, freed by the junta from the strict controls imposed by the Peron government, soared to 453.7 per cent.

The soaring cost of living, combined with the junta's strict wage freeze, led to a 58 per cent drop in consumer purchasing power by mid-1976. Within a single two-month period consumer sales reportedly fell a record 70 per cent. The effect on Argentina's consumer goods industries had already begun to show. The plastics industry was registering sales losses of up to 40 per cent, leather goods sales were down 80 per cent, and consumption of gas and diesel oil fell 30 per cent and 50 per cent respectively.

Severe production cutbacks were the unavoidable results of drastically decreased demand and government-imposed restrictions on imports to a mere 40 per cent of *1974* levels. Auto production, the largest industrial employer in the country, was reported operating at less than 60 per cent capacity. Feeder industries whose production is integrally linked to that of auto also began cutbacks in production. Only 66 per cent of the oil and coal industries were operational, basic metallurgical production fell to 72 per cent of its installed capacity and glass and ceramic plants were using only 68.5 per cent of their production capability.

Dismantling Of The State Sector

The gradual dismantling of private sector industry has been carried out with relative ease. The 1.5 million workers of the state sector are the junta's "second phase" target in the "fight against inflation." The huge public deficit, fed at regular intervals by the printing presses of the Argentine treasury to keep it "manageable", is considered by the IMF to be one of the most serious obstacles to Argentina's economic recuperation. An aggressive campaign by the government-controlled press against the "parasitic" state sector has set the stage for that sector's dismemberment.

Part of the junta's plan is to auction off entire sections of the state sector, such as the national petroleum company YPF, to the highest bidder. Most recently, the junta has trained its sights on the state-owned Argentine railroad system, the continent's largest network. A full 25 per cent of its track has been slated for the scrap heap because the continued operation of the debt-burdened company has been judged unprofitable by the junta.

Although the new 1977 budget has not yet been released, a leak to the national press reports that the Social Welfare Ministry has had its budget allocation slashed by 90 per cent!

The "Profitability" Of A Rural Economy

The IMF's determination to convert Argentina's capital-intensive technology-oriented economy to a labor intensive agricultural export economy has already scored a major success in forcing a 32 per cent reduction in Argentine imports in 1976. Argentina's traditional imports are largely capital goods. The effects of that reduction will appear later this year as factories grind to a halt for lack of replacement parts and industrial unemployment begins to rise in the cities.

Aiding the IMF's plans is Planning Minister Diaz Bessone who, fresh from taking personal charge of slashing the state sector's budget, called last month for the transferance of the capital city of Buenos Aires, with its 8.5 million inhabitants, to "the interior of the country." As part of his decentralization policies, Bessone has cut federal budget allotments to the provinces by 80 per cent as a guarantor of provincial "independence."