
Book Review

Argentine foreign minister attacks mercantilism, defends grain cartels

by Florín Doro

La Argentina que pudo ser; los costos de la represión económica

by Domingo Cavallo, Roberto Domenech and Yair Mundlak

Buenos Aires, Ediciones Manantial S.R.L., 1989
160 pages

Domingo Cavallo, the lead author of this mercifully brief econometric analysis of the Argentine economy from 1913-1984, is today that country's foreign minister. Yet he and his co-authors have produced a policy statement—*The Argentina That Could Have Been; The Costs of Economic Repression*—in favor, not of their nation, but of the giant international grain cartels which, for decades, have looted the Argentine economy dry.

Cavallo et al.'s argument is unabashed. Protectionism, exchange controls, and government spending have been bad for Argentina, "repressive." (This is where the book gets its not-very-subtle subtitle from). What is needed, they say, is the standard British liberal fare, an "open economy and fiscal discipline," which will favor the agricultural exporting sector above all:

"It is known in Argentina, when there is prosperity in the agricultural sector, the rest of the economy also benefits. . . . The improvement in agricultural prices is translated into an improvement in the rate of return in the sector, and this leads to higher levels of investment in the entire private sector of the economy."

A sort of Argentine version of the old saw, "What's good for General Motors, is good for the United States."

The policy conclusion which the authors derive from this analysis is that Argentina would have fared far better than it did, if, after 1930, it had fully pursued its "agricultural vocation"—i.e., abandoned industrially oriented inward growth of the economy in favor of remaining a semi-colonial agro-exporter. Cavallo and associates reserve particular ven-

om for the 1945-55 nationalist government of Gen. Juan Perón, complaining that he imposed "strong restrictions on foreign trade" (protectionism), "frequent limitations on the international movements of capital" (capital and exchange controls), and "very expansionary fiscal policies" (dirigist government spending). This led to an unfortunate "strategy of inward development," when it would have been better to have "an economy more integrated with the world markets." Cavallo et al. use their model to "demonstrate" that Perón could have achieved higher growth rates—if he had only cut real wages by nearly 10% per year!

There is a special irony to this. Cavallo is foreign minister in the nominally *Peronist* government of President Carlos Menem, who has, in fact, adopted policies quite similar to those proposed by Cavallo, over the growing objections and hostility of the very Peronist base which elected him. Furthermore, the Cavallo book is clearly designed to intervene in this Argentine economic policy debate, and in the related one raging throughout all of Ibero-America, between the policies of British liberalism à la the International Monetary Fund and those of a growth-oriented mercantilism.

The authors are much more comfortable with the policies imposed on Argentina in the early 1970s by Finance Minister (and Rockefeller intimate) José Martínez de Hoz. They praise Martínez de Hoz's "attempt to open up the economy" internationally, but criticize him for not imposing tighter domestic credit and government spending policies: "An economic opening accompanied with fiscal and monetary discipline would have allowed output to expand to a 10% higher level."

Econometric foolishness

How do the authors reach their erudite conclusions?

Their "analytic framework" is as follows:

- 1) The economy's overall and sectoral *growth rates* are determined by investment decisions taken.
- 2) *Investment decisions* are primarily a result of the relative sectoral prices of wages and capital.
- 3) The key determinant of these *sectoral prices* is the "real exchange rate," which reflects the parity between the

Argentine currency and the dollar.

- 4) The *real exchange rate* is determined, in turn, by government policy decisions, in particular:
- protective trade tariffs;
 - the exchange rate and controls on it; and
 - government spending.

This framework is then employed in a relatively standard econometric model, which suffers from all of the flaws that underlie such British liberal economic theory.

● A classically nonsensical *production function* is employed, which is premised on fixed, linear input-output relations which exclude what is actually the fundamental driver of all economic development: deliberate technological change. The authors write, "A production function relates output with amounts of productive resources and technologies employed to obtain it. . . . The choice of technology is dictated by the economic conditions. . . . Argentina is a taker of technology."

● The *demand function* is equally garbage, complete with "marginal propensities to consume" which are "exogenously" determined. As the authors confess in their own words: "Private consumption and investment are determined through models which follow conventional theoretical approaches." Under this approach, "net exports emerge as a residual" after consumption and investment are posited—no mention of the fact that Argentina has been driven to export madly *at the expense* of consumption and investment in order to pay its foreign debt.

● And then, of course, there is plain, old *fudging*, to make the results fit the desired policy conclusions. For example, Cavallo et al. note that in one hypothetical model run, it was arbitrarily "supposed" that "these policies" (the ones they argue should have been implemented) "also avoided the financial crises of 1931-32 and of 1981-82, and the periods of deflation and very high inflation."

Looting through foreign debt

As incompetent and boring as what this book does say, what it leaves *unsaid* is even worse: There is *no* mention of Argentina's gigantic foreign debt, nor of the devastating amount of wealth extracted from the country in the form of debt service over the past 15-20 years. There is *no* mention of the upwards of \$20 billion in outright capital flight which was also looted from Argentina in this period. There is no mention of IMF-imposed austerity policies, which have dismembered the country's once-strong industrial sector. In fact, anticipating the argument enunciated by the Trilateral Commission in its March 1990 report on Ibero-America, the book argues explicitly that Argentina's economic woes "should be attributed to misguided internal policies, rather than to the influence of adverse external conditions."

What the thoughtful reader is left with, is the nagging question of just who or what is behind Cavallo and friends' apologia. The book's prologue informs us that the study

was funded by Cavallo's own Mediterranean Foundation, the International Food Policy Research Institute (IFPRI), and the CINDE. The Washington, D.C.-based IFPRI, is one of the grain cartels' leading think-tanks, advocating policies to "manage"—not eliminate—hunger, disease, and poverty. IFPRI insists, for example, that nations not be *permitted* to enact national food self-sufficiency programs based on national production, but must rely instead on the world "free market" for their food supplies.

And a glance at the bibliography reveals that most of Cavallo's earlier studies on the Argentine economy were, appropriately, published by the IMF's sister institution, the World Bank.

Finally, our attention is drawn to the following analysis of the Ibero-American economies as a whole: The causes of Ibero-America's economic crisis do not lie in external factors, but rather in "long-festering flaws in the region's economic institutions and its whole conceptual and policy approach to the question of development. . . . The roots of dysfunction lie deep within the region, its governments and its development policies . . . [and can be] traced from the mercantilist practices of their former colonial rulers."

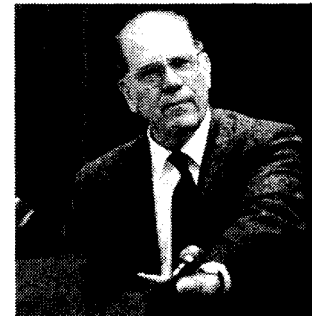
If this sounds like a quote taken from the Cavallo book, well it might. But it is actually taken from the March 1990 report on Ibero-America published by—the Trilateral Commission.

'From the prison in which the politician's career expires, the influence of the statesman is raised toward the summits of his life's providential course. Since Solon, the Socratic method has become the mark of the great Western statesman. Without the reemergence of that leadership, our imperiled civilization will not survive this century's waning years.'

—Lyndon H. LaRouche, Jr.

IN DEFENSE OF COMMON SENSE

by Lyndon H. LaRouche, Jr.



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