

How much more can Argentina be squeezed?

by Gerardo Terán Canal and Cynthia Rush

Argentine President Carlos Menem has recently boasted of his government's "triumph" at having exceeded by \$400 million the budget surplus demanded by the International Monetary Fund (IMF) for the last quarter of 1991. Although this theoretically complies with one of the last prerequisites for Argentina joining the Brady Plan debt reduction scheme, it still doesn't satisfy the country's creditors. They in fact are quite nervous. They know that income accruing from the privatization of state sector companies will last for another two years, at best, and are worried that the government has yet to carry out a tax reform to replace that income, as well as a reform of the social security and state assistance programs which will allegedly cut budget expenses.

There's no doubt that Menem and his Harvard-trained finance minister, Domingo Cavallo, are committed to implementing such reforms. But what neither the government nor the bankers are asking is whether Argentina can physically survive the new phase of looting the IMF has planned for it.

Menem insists that Argentina is entering the "First World." But analyst Romeo Medina asserted in the daily *Clarín* on Jan. 19 that "Argentina is rapidly entering the Third World, appearing more and more like the traditionally most backward nations of Latin America." He explained that "micro-enterprises"—that is, small, labor-intensive companies employing no more than 5 to 10 people, now make up "80% of the country's industrial enterprises, and constitute the most efficient solution for the unemployment caused by recession and [government] adjustment policies."

Menem's economic plan is killing what remains of the productive economy, and there shortly will be no tax base capable of providing needed revenues.

In a late-1991 document, the Argentine Industrial Union (UIA) indicated the so-called economic recovery which Menem boasts of was reflected in "some sectors such as durable goods," but added that "there are others with large idle capacity, such as tractors, agricultural machinery, steel, machinery and equipment production." UIA Secretary General Manuel Herrera recently told *Clarín* that, despite the alleged recovery, "there is no real growth. . . . I don't think that there are more than three or four new—absolutely new—factories being built." Perhaps for this reason, UIA President Israel

Mahler recently publicly questioned the "idolatry of the free market."

A 1991 survey done by the Argentine Factory Association revealed that replacement of the country's tractor inventory was 25% below what was required, and that 60% of the country's tractors are over 15 years old. As a result, this year's wheat crop will be 8.4 million tons, rather than the 9.5 million originally estimated. Of this, the total exportable quantity will be 4.3 million tons, the lowest in the last decade.

Industrial employment disappears

In October 1991, the government boasted that unemployment was at its lowest level in years, 5.3%. What no one admits, however, is that the "informal" sector of the economy is growing at an accelerating rate, absorbing many of the skilled workers fired from the large state-owned basic industry companies, like the Somisa steel complex, or the YPF oil concern. In the Jan. 19 *Clarín*, chief economics commentator Daniel Muchnik reported that "the transfer of industrial personnel to the tertiary [services] sector, and the relative growth of tertiary employment in the economy, are concrete testimony of Argentina's deindustrialization."

Muchnik added that a nation which "reduces the importance of its labor force employed in the creation . . . of value-added manufacturing, is going through the deindustrialization phase."

The most vulnerable are hit hardest

It is hardly accidental that the number of slum neighborhoods known as *villas miseria* has increased to 20,000, in the zones surrounding metropolitan Buenos Aires alone. This has created a dangerous potential for social explosion, not to mention a grave health crisis.

Like his Brazilian counterpart Fernando Collor de Mello, Carlos Menem has no qualms about assaulting one of the most vulnerable sectors of the population—retirees—to please the IMF. He is unconcerned that there has already been one case of a retiree dropping dead while standing in one of the many interminable lines in hopes of collecting back pension payments; or that the mortality rate for people over 60 years of age increased by 70% in 1991 alone. Pension arrears now amount to \$7 billion.

Argentina's elderly are being given several insane options. If they want to be paid in currency, they will have to wait for the Congress to include this in future budgets, because only \$120 million of the \$7 billion owed pensioners was allocated in this year's budget. Or, they can request half in pesos, and the other half in bonds. Again, however, cash allocations aren't provided for in this year's budget, and, the government has decreed that pension bonds are only redeemable within 10 years. According to the Jan. 27 *El Cronista*, now the Menem government has made the generous offer of permitting any retiree over 86 years of age to collect in cash. That's fine, for those who don't drop dead first.