Argentine devaluation: unelected government begins assault on living standards

By Rafael Azul and Bill Vann
8 January 2002

Assuming power after mass upheavals throughout Argentina forced the resignation of four presidents within the space of barely two weeks, an alliance of discredited Peronist politicians, backed by the Radicals, the country's other bourgeois party, has spelled out a new economic program that will mean even sharper attacks on the living standards of millions of Argentine workers and middle class people.

The newly installed government of President Eduardo Duhalde announced the devaluation of the Argentine peso by nearly 30 percent January 7, just days after the country formally entered into default on its $141 billion foreign debt. "We are in collapse. Argentina is bankrupt," the government's economy minister Jorge Remes Lenicov declared.

The devaluation, which had been considered a foregone conclusion for the past week, had been preceded by a widespread mark-up of prices and shortages, including of critical medical supplies such as insulin for diabetics. While the new government has claimed that supermarkets and other retailers have pledged not to raise prices, except on imported goods, many Argentines anticipate a return to the hyper-inflation of the 1980s and those with money went on buying sprees in the days leading up to the devaluation's announcement.

The default and the devaluation represent a severe blow to the US proponents of the capitalist "free market" as the solution to the vast economic and social crisis gripping Latin America and the rest of the so-called developing world.

Argentina was the shining example of free market policies promoted by both Washington and the IMF for years. Under the Peronist government of Carlos Menem 11 years ago, Buenos Aires introduced one-to-one dollar-to-peso convertibility, declaring, in the words of one minister, that it had entered into "carnal relations" with the US The economic move was accompanied by Menem's slavish support of the US war against Iraq.

The country became the source of super profits for foreign transnationals, international banks and money market funds as it privatized state enterprises and offered double-digit profits on bonds used to finance the ballooning national debt.

Menem, who until recently was under house arrest for his part in illegal gun running to Ecuador and the former Yugoslavia—only one of many illegal schemes carried out under his gangster regime—was lionized by world bankers and US politicians as Latin America's most forward-looking leader.

The same policies led to the vast impoverishment of the Argentine people, with the official unemployment rate approaching 20 percent and more than 40 percent of the population living under the poverty line.

The dollar-to-peso convertibility priced Argentine exports out of the market, as the value of the US currency rose 35 percent over the last five years. The real wages of Argentine workers, meanwhile, were slashed by an equal amount.

The attempt in early December by Menem's successor, Radical Party president Fernando de la Rua, to impose yet another series of austerity measures following a decision by the International Monetary Fund and the Bush administration to deny Argentina new credits provoked a popular revolt. At least 26 people died in confrontations with police and during clashes outside supermarkets and stores that were looted in nearly every part of the country.

The nationwide convulsions culminated in a massive protest in the Plaza de Mayo in Buenos Aires, forcing De la Rua to flee the presidential palace.

The appointment of Duhalde followed the resignation of another Peronist, Adolfo Rodriguez-Saa, who lasted barely a week, quitting amid mass protests in Buenos Aires calling for throwing all the politicians out. Two parliamentary officials each held the office of the presidency for a matter of hours.

The rise of Duhalde, who has proposed a "government of national salvation," is charged with irony. As a presidential candidate in 1999, he lost to De la Rua by the widest margin recorded for any Peronist candidate in the party's history.

He had previously served as vice president in the administration of Menem, whose corrupt regime introduced dollar-to-peso convertibility that has been widely blamed for strangling the country's economy.

Duhalde will not submit to an election, which had previously been proposed for March, but instead intends to serve out the last two years of the remaining term of De la Rua, without any popular vote.

The devaluation means that workers' real wages will face another 30 percent cut. The full weight of the new policy will fall upon the working poor and the unemployed and the large sections of the impoverished middle class who have no access foreign currency.

The General Confederation of Workers, or CGT, the Peronist-led trade union movement, has made it clear it will mount no opposition to this policy. The corrupt and wealthy bureaucrats who head the unions are fully integrated into the same political machine as Duhalde, who is himself a labor lawyer.

While the round of protests leading to the rise of Duhalde did not directly result in any more deaths, one incident gives a measure of the extreme social tension that exists throughout the country. In the Buenos Aires neighborhood of La Floresta a retired police officer working as a security guard at a gas station murdered three youths of between 20 and 25 years of age who were denouncing police brutality at the Buenos Aires protests.

That afternoon, angry neighbors and friends of the victims surrounded the police station where the murderer was being held. Nearby streets were blocked by burning tires while protesters assembled banging pots and chanting, "the police are murderers!" This in turn led to a brutal response from the police against the demonstrators.

On New Years Eve almost two thousand protesters massed in La Floresta from all over Buenos Aires for a torchlight march honoring the youths and denouncing police brutality.

The selection of Duhalde, meanwhile, gave the protests outside the

Congress a new and ominous twist. As he was being appointed, a goon squad of about 200 of his supporters, bused in from the interior, clashed with left-wing demonstrators. The goons, armed with slingshots, nuts, bolts and ball bearings, wounded over thirty of the leftists. Police joined in the attack, directing tear gas and baton charges at the protesters while "separating" the groups.

The street clashes between right-wing Peronist thugs and left-wing protesters is an ominous echo of the social and political antagonisms that ripped the country during the early 1970s, giving rise to death squads, first organized by the Peronist bureaucracy, and then to one of Latin America's most blood-thirsty military dictatorships.

On the economic front, Duhalde has maintained the restrictions on withdrawals by savings account holders, while promising that the regime may in the coming weeks increase the amount that depositors may withdraw monthly from $1,000 to $1,500.

Current bank reserves are very low. It is evident that had the government not ended a run on the banks on December 1, Argentine banks would have run out of funds. Without an injection of dollars from either the US Treasury or the International Monetary Fund, continuing pressure on the nation's currency may lead the banks to confiscate savings accounts, or pay depositors pennies on the dollar. The banking industry has proposed that it be allowed to hold on to savings accounts for up to a year, at three-percent interest. The government may shorten that period to six months, according to some reports.

Thirteen months ago, the De la Rua government began imposing severe austerity measures, tax increases and drastic budget cuts. With an economy that has not grown for more than a year, this meant the drastic slashing of education and health services. It also created a downward push on prices. Under those deflationary conditions, borrowers effectively subsidize lenders with a higher real rate of interest because each peso that the latter get back, bought more commodities than it did previously.

The economy continued to stagnate; tax receipts fell; and the massive debt could not be serviced. Increasing cuts in expenditures did not begin to convince investors. Financial capital began to flee the country, leaving the banks with even fewer funds. The government measures, which followed International Monetary Fund prescriptions, protected bondholders but increased the recession. The IMF insisted on the payment of the debt when, given usurious interests that have been imposed, Argentina has probably paid more in interest and service charges than the total debt that it originally incurred.

Since the Argentine peso was rigidly "dollarized," the flight of dollars from the economy further restricted domestic demand, reduced tax receipts and made it impossible for the government and the private sector to meet their obligations. Currently, Argentina owes about $220 billion, including private ($62 billion), Federal ($132 billion) and provincial debt ($27 billion). For the foreseeable future, an increasing portion of pensions and salaries will be paid in Federal bonds.

As money becomes scarcer, everyday transactions become impossible. For example the nation's Pharmaceutical Federation (COFA) announced last week that stocks of many medicines are being depleted because wholesalers are refusing to make deliveries unless paid in dollars.

The restrictions on the banks and last week's decision to default on debt payments cut Argentina off from the world market. Given the complexity of global trade, no modern economy can function without credit for long without suffering disastrous consequences. Under current conditions, Argentina will soon run out of essential supplies for its industries.

Exporters to Argentina now require the advance payment of dollars that can only be obtained on a parallel black market at a deep discount.

In the case of the highly competitive cereal market, there are fears that exporters will lose market share to their international competitors, particularly in the international market for wheat and soybeans.

Many of Argentina's fruits are exported on consignment and stored in gigantic refrigerated warehouses in the Dutch port of Rotterdam. From there they are sold over a period of time, giving exporters the flexibility to respond quickly to favorable prices. Under present conditions, the warehouses cannot be restocked.

The situation is even more severe for exports of capital goods, such as a recently sold nuclear plant to Australia. Those goods are typically financed through complex long-term financial arrangements that have been made impossible by the controls on financial flows.

While Duhalde has promised policies to protect Argentine industries and require firms laying off employees to boost compensation, it is maintaining the "zero deficit" policy of its predecessor and has pledged to resume interest payments on the foreign debt once its economic emergency measures are in place.

The impact of the financial implosion is beginning to be felt in Brazil, Chile and in Spain, countries with close economic ties to Argentina. Spanish banks and companies with large investments in Argentina saw their share prices plummet on the Madrid stock exchange in the aftermath of the devaluation. Duhalde's proposal that debts incurred in dollars (up to $100,000) will be transformed into pesos, and that utility bills cannot be increased to compensate for the devaluation has raised the prospect of a banking collapse and severe losses for foreign companies that bought up privatized companies.

Spanish capital is by far the largest foreign investor in Argentina, pouring a total of $41 billion into the country to take over formerly state-owned telephone, oil, gas and electrical companies.

Between the hammer blows of last week's social protests and the IMF's intransigent demands for further spending cuts, the ruling elite agreed on this "government of national salvation," with the knowledge and consent of the Bush Administration. Duhalde's appointment was favorably received in Wall Street; the price of Argentine bonds increased and the Argentine stock index, the Merval, rose in the aftermath of his installation.

Nonetheless, the Bush administration has signaled that it has no intention of proposing a new plan to bail out Argentina. The abandonment of what was once Washington's closest ally on the continent increases the prospects of the crisis and defaults on debts spreading to other Latin American countries.

Meanwhile, with the further reduction in the already depressed incomes of the masses of the Argentine working and middle classes, and a government of discredited politicians in charge, a deepening of the social clashes that have rocked the country in recent weeks is inevitable.