

Argentina's Economy

**Why an economy with such potential is performing so poorly,
and policy proposals for recovery**

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This paper can be found at
<http://hedges.org/argentina.html>

EXECUTIVE SUMMARY

This paper examines the economic history of Argentina in an attempt to understand the events that led to the current crisis. It concludes that the grave recession sprang not from irresponsible government spending (as is often argued), but rather from the country's inability to adjust to external shocks, and its history of debt accumulation that was exacerbated in the 1990s by the overvalued exchange rate and rising interest payments.

The paper argues that the reestablishment of International Monetary Fund aid to Argentina is both justified and necessary. Furthermore, the demands of the IMF that Argentina decrease government spending and cut jobs is poor policy; this would just worsen the recession. It also argues that within the broader context of sound fiscal and monetary policy, breaking up the foreign-owned monopolies created by privatizations is an important tool for stimulating Argentina's economic growth.

History and Background

In this amazing world in which we live, there are few nations that can rival the potential of Argentina. This breathtakingly beautiful country stretches from deserts and jungles in the north to the modern metropolis of Buenos Aires, down through the fertile Pampas, and finally ends at the glaciers of Tierra del Fuego. Argentina is blessed with abundant natural resources- oil, minerals, agriculture, livestock- and a highly educated and energetic workforce. And yet with all of this potential, the country is mired in an economic wasteland- the recession has been steadily worsening for four years, unemployment is over twenty percent, poverty is rampant, and the prospect for growth seems bleak¹. It is as if the country has personified the tango- one knows not whether to cry for the beauty or for the tragedy. How has this happened? What can be done to salvage Argentina?

To ever understand the present, one must first understand the past. The history of Argentina's economy is one of dependence on the outside world. Argentina was founded as a Spanish colony, and until its independence its purpose was to send goods to Spain. After independence in the nineteenth century², Argentina's whole economy remained centered on its exports³. The country flourished as its cattle and grain exports to England and other countries made Argentina one of the richest nations in the world (in 1913 it was one of the 10 wealthiest- richer than France and Germany)⁴. But this dependence had its costs- when Europe boomed, so did Argentina, when Europe's economy went

(1800s – 1929)
Argentina's first
economy was
centered on
agricultural
exports

downhill, Argentina's did as well⁵. The first World War and then the Great Depression greatly decreased the world's demand for Argentine goods. Furthermore, it became evident that Argentina's agricultural economy was at a natural disadvantage with respect to manufacturing countries- demand for manufactured goods increased more than demand for primary goods⁶. The country decided that the agricultural export-led economy, with its lack of industries and which made Argentina so dependent on the performance of other countries, needed to go.

(1929 – 1989)
The economy
turned inward
with
protectionism
and state-run
industries

In 1929 the country turned inward, and with a series of protectionist and industrial policies, Argentina attempted to create an independent, internal market⁷. Forming massive industries, the state encouraged development away from agriculture towards manufacturing⁸. These industries were protected from foreign competition and for the most part were state-run monopolies; thus the industries lacked both competition and incentive for profits and productivity (indeed, the industries ran at losses to the government and the quality of goods produced was relatively low).

The populism of the Peron era (1943-1955)⁹, which continued the protectionist policies, inefficient industries, and massive government spending, did not help. The following decades were characterized by economic and political instability¹⁰. The violently brutal, and fiscally irresponsible, dictatorship that ruled from 1976 until democracy was restored in 1983 witnessed the rapid buildup of what turned out to be

(1989 – current)
After the failings
of the state-run
economy,
Argentina again
opened its
economy,
instating a wide
program of free-
market reforms

an unsustainable level of foreign debt¹¹. The “lost decade” of the 1980’s saw continued borrowing. Argentina’s rate of growth was not high enough to repay past loans and incur the new debt needed for new projects¹²; Argentina’s protected economy simply cost more to run than it produced. The government tried to solve its fiscal problems by printing more and more money- the hyperinflation reached 3,000% in 1989¹³.

Under the protectionist policies that governed Argentina from 1929 until 1989, the economy ironically remained dependent on the outside world- dependence on exports was replaced with dependence on capital imports and foreign debt. But more importantly, Argentina’s state-run industrialization had failed to deliver expected rates of economic growth¹⁴. In response to these failures, in 1989 the government began a complete overhaul of the economy, transforming it from a state-run to a market-driven one. Markets were opened to the outside world, tariffs were reduced, price controls were eliminated, capital controls were lifted, public-owned industries were sold to private firms, and the currency was placed on a one to one basis with the dollar¹⁵.

The government
ended
hyperinflation
by pegging the
peso to the
dollar

Monetary and Fiscal Policy

from the impotence of the 90s to the challenges of today

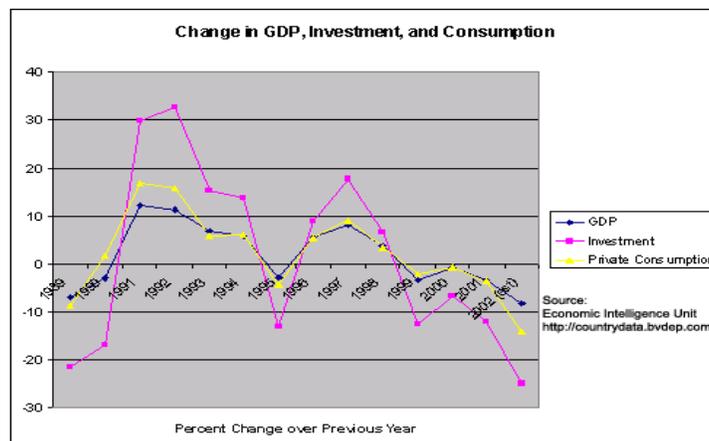
In 1991, President Menem and his Economic Minister, Domingo Cavallo, successfully ended the hyperinflation by

pegging the peso to the dollar. Through a currency board independent of the Central Bank, the money supply could only be increased if the U.S. dollars held in reserve were increased; the temptation to finance the economy by printing more money was thus removed¹⁶. In the streets and shops of Argentina, for all practical purposes the peso was indistinguishable from the dollar- if a drink cost \$4, one could pay for it with a two peso note and two US dollars; the "Convertibility" made them the same. Inflation hovered around zero percent¹⁷. This price stability was not only a welcome relief to inflation-weary Argentines, but also to international investors as well, who invested heavily as a result.

No monetary
policy under
convertibility;
inability to
adjust to
external shocks

However, since under convertibility the government was not free to independently control its own money supply (the printing of an additional peso required the acquisition of an additional dollar)¹⁸, this program killed Argentina's ability to use monetary policy¹⁹. Think of the positive influence the Federal Reserve and Alan Greenspan had on the US economy during the 1990's, and then imagine that this power was removed. Such was the case in Argentina. This inability to adjust to external shocks was a major reason for Argentina's decline. For example, when foreign investors pulled out of Latin America due to concerns over the

Mexican banking crisis²⁰ (better known as “the Tequila crisis”) in 1994/1995, Argentina was powerless to respond with monetary policy. If Argentina could have controlled its own money supply, the government could have changed its interest rates to spur growth. Another example occurred when Brazil devalued its currency in 1999²¹. Since prices became relatively lower in Brazil than in Argentina, the incentives for international investors to invest in Brazil over Argentina increased. Why would a company build a factory in Argentina when both the capital and labor were much cheaper in Brazil? Why would consumers buy an Argentine good when its Brazilian counterpart was much cheaper? If Argentina had control over its monetary policy, it could have devalued its own currency, which would have made the Argentine market more competitive to the international market.



In the 1990s, the performance of Argentina’s economy was affected greatly by volatile international investment. Notice the four years of huge investment increases beginning in 1991 (partly due to the price stability the 1 = 1 convertibility offered investors, coming immediately after a bout of hyperinflation, also partly due to the privatizations and other free market reforms), and the huge plunge in 1995 (“Tequila Crisis”) and 1999 onward (first the Brazilian devaluation, and then investor fears of an Argentine default). At the highest, investment composed 20% of total GDP (1994, 1998), at its lowest, 14-15% (1990, 2001).

But the convertibility forced the 1 to 1 ratio, and thus the peso remained overvalued (in Argentina at this time goods cost basically the same as in the United States, which is relatively expensive compared to prices in the rest of Latin America).

Furthermore, since for every peso a dollar was required, maintaining the convertibility was a huge cost to the Argentine government, and contributed to the ever-growing debt. It was not just an expensive system for the government, but for the Argentine people as well. When I lived in Buenos Aires (from March until August of 2001), I was always struck by how expensive everything was. The cost of living was as high in Buenos Aires as in many parts of the United States (for example, \$7 for a movie ticket, \$1 for a can of beer), but the workers were paid much less. My Argentine girlfriend had a good job in the city, and it paid just \$500 a month (her monthly telephone bill alone averaged \$120 a month solely for local and internet calls). It always amazed me how Argentines had to get by on so little with prices so high.

The convertibility policy program was praised in its early years (Minister Cavallo was somewhat of an economic superstar), but as the need for independent monetary policy became more and more apparent, and as Argentina became suffocated with the

debt needed to sustain such a convertibility, the costs of this policy began to take their toll. At its inception, convertibility's price stability lured international investors, but the expense of the overvalued peso then scared them away. These international investors also took note of the mounting debt, which in 1999 reached 52% of GDP²², and this furthered the investment exodus²³. Argentines as well worried that a devaluation was imminent, and began sending their money outside the country (it is estimated that on November 30th 2001 alone a billion dollars left for foreign bank accounts²⁴). In response to the capital flows exiting the country, in December President De la Rúa and the newly reinstated Cavallo (having left in 1996 after seeing his policies boost the economy in the early 1990's, he was called back in to try and tame his creation which had become increasingly more Frankenstein than Cinderella) froze bank accounts, placing limits on the amount Argentines could withdraw²⁵. Also in December of 2001, the IMF ended their aid (one of the several reasons²⁶ for this was Argentina's failure to balance its budget²⁷). These events, coupled with the deepening recession and growing unemployment, were finally too much for the Argentine people. The economic crisis exploded into the political and social realm.

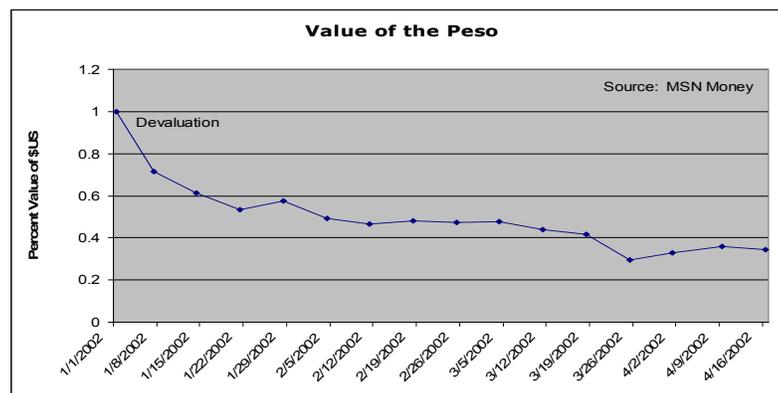
(Dec. 2001)
Capital flight;
IMF ends aid;
banking
restrictions;
violent riots;
government
overthrown;
default;
devaluation

Violent riots and government upheavals rocked the country.

Twenty-seven were killed; the government was ousted. In two weeks the country saw several interim Presidents, one of whom, Adolfo Rodriguez Saa, declared a default on the debt²⁸. He too left power, and the presidency settled on Eduardo Duhalde. One of his first acts was to devalue the peso- an end to the 1 to 1 convertibility.

Permanent convertibility proved an impossible task. Regrettably, the devaluation has hurt many Argentines in the short run. For example, the relative price increase of imports coupled with the struggling economy's poor consumption made vital medical imports, such as insulin, difficult to come by²⁹. In the long term, however, devaluation was probably the right step. It makes exports more affordable, and once again Argentina has control over its own monetary policy.

A key role for current monetary policy should be containing inflationary pressures on the peso³⁰. Given the circumstances, the Argentine Central Bank so far has done a good job³¹.



The exchange rate was originally set at \$1 to 1.4 pesos; after the peso was allowed to float freely it fell to around 2.8 pesos per \$1.

In the face of large domestic demand for dollars³², the Bank has been able to keep it around 2.8 pesos, but in order to do so requires many banking restrictions*. For example, it is illegal to send dollars outside of the country, and the Bank converted private debt and savings in dollars into pesos (if the Bank had kept the private debt as dollars, after the devaluation the relative amount of debt would have multiplied. Imagine an Argentine with a debt of \$500 dollars and a monthly salary of 500 pesos. Under Convertibility the debt could be paid with a month's salary, after the devaluation, if the debt is kept in dollars it would take several month's salary of 500 pesos to pay down the \$500 dollars. However, in order to afford this protection, the Bank also had to convert private savings in dollars into pesos, thus decreasing many an Argentine's personal savings³³). Retail price inflation for the month of March was 4%³⁴. Considering the devaluation, which saw the peso lose some 70% of its value on the international market, this is a small amount. I visited Buenos

Devaluation gives Argentina a more competitive exchange rate and control over its own monetary policy; the challenge ahead is maintaining low inflation and a stable currency

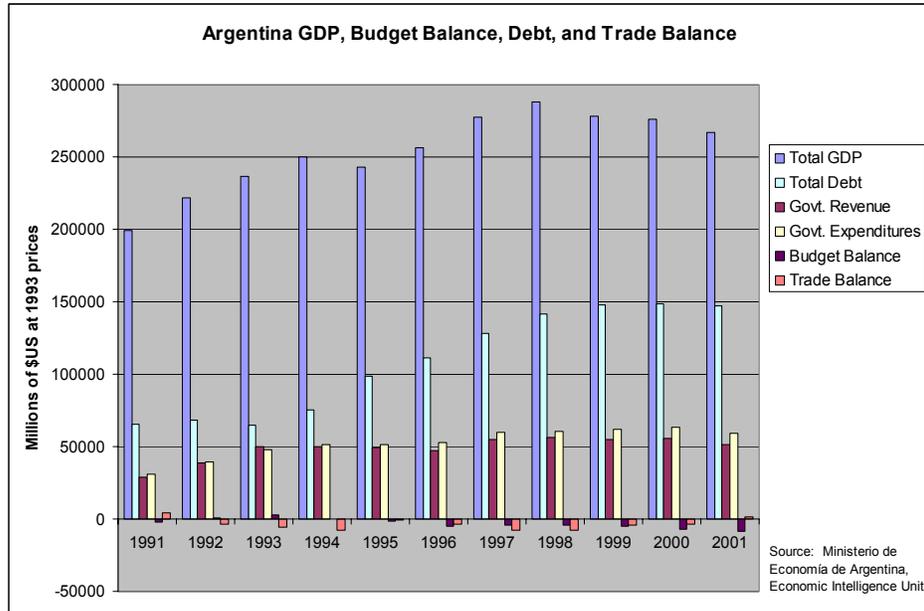
* Author's note: At the time of this paper's completion, the Argentine government had closed all of the country's banks and financial markets. How, when, or whether Argentines will have access to their savings is unknown. A scary possibility is President Duhalde's suggestion to convert savings into government bonds. A paper specifically dedicated to the banking crisis will be available at <http://hedges.org/argentina.html>.

Aires last month, and found that the prices at my favorite restaurant had not changed- a steak still cost five pesos. The difference was that under convertibility the steak cost me five dollars, with the devaluation it cost me around two dollars. However, prices of some goods, and especially imports, are showing problematic price increases.

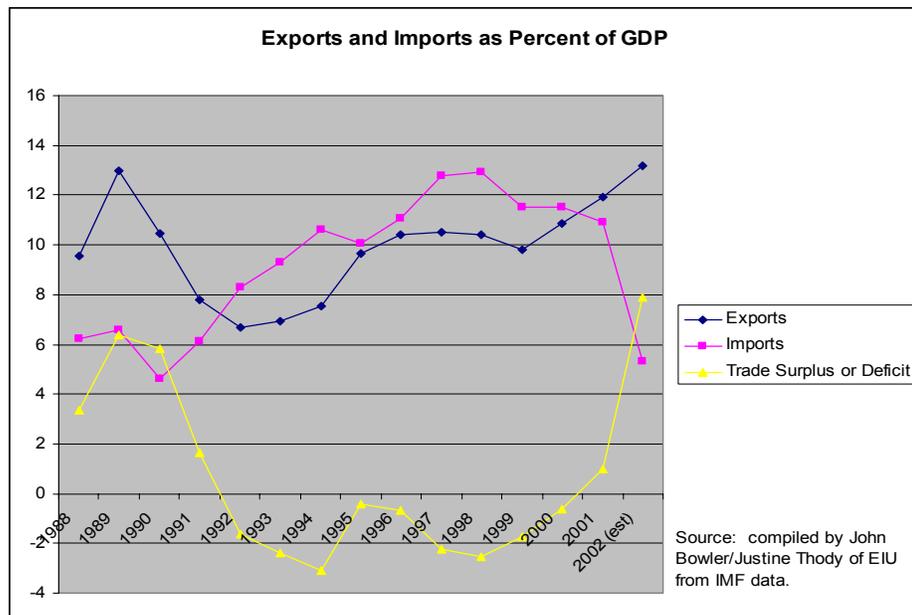
So far, the Central Bank and the Argentine government have shown they are serious about keeping a stable currency and keeping inflation in check. Ensuring currency stability and that inflation does not worsen will be a continuing challenge for monetary policy.

Argentina's monetary policy in the 1990's had been nonexistent- coming after the hyperinflation of 1989 and 1990, the government had surrendered its ability to affect money supply in order to insure currency stability. Fiscal policy, however, was very much in play in the 1990's; unfortunately, it was a disaster. "Failures of fiscal policy constitute the root cause of the current crisis³⁵," declared Anoop Singh, the head of the current IMF mission to Argentina. Argentine fiscal policy throughout the 1990s and up to the end of 2001 is best characterized by running deficits and huge debt accumulation.

Problems of
fiscal policy



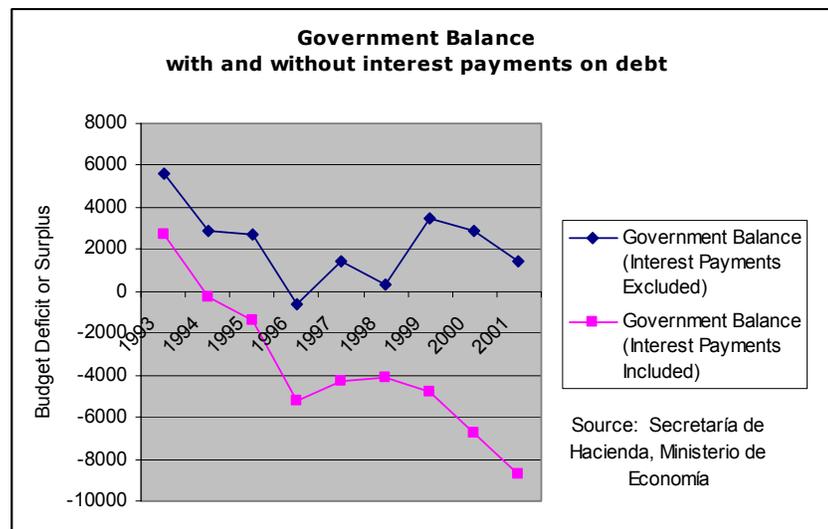
Government and trade deficits have composed a small percentage of GDP, while debt reached over 50 percent. For a more comprehensive breakdown of debt history, please see Appendix A1.



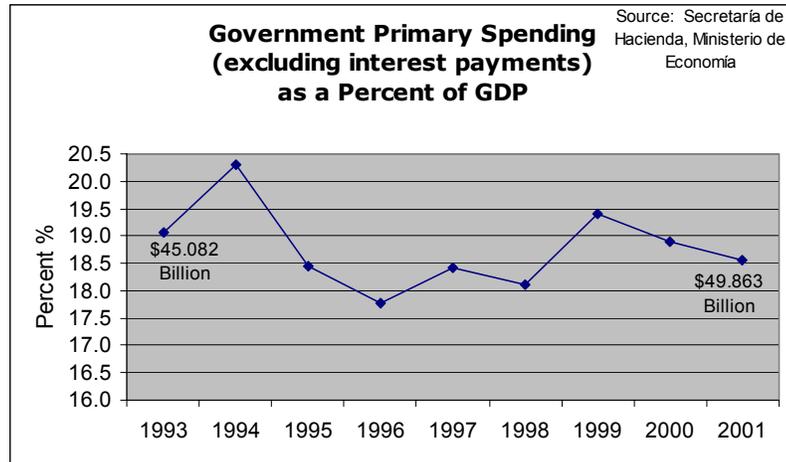
The open market policies of the 90's led to trade deficits. This is likely to change now that the peso is devalued, and thus Argentine exports are less expensive to the world market. It is estimated that in 2002 Argentina will have a trade surplus of \$19.5 billion, or 8 percent of 2002 GDP. More of this surplus is estimated to come more from a decrease in consumption of imports (which became relatively more expensive to Argentines after the devaluation, also due to the recession) than from an increase in the sale of exports.

The government spent more than it took in, even running deficits during growth years. The trade liberalization of the 90's opened the global market, which resulted in a trade deficit (due largely to the convertibility; the strong peso/dollar made imports relatively inexpensive and exports relatively expensive). But both government deficits (at its largest in 2001, it comprised just -3.0 percent of GDP³⁶) and trade deficits (at its largest in 1994, it comprised just -3.1 percent of GDP³⁷) can only account for so much³⁸. And if one looks a little deeper at the numbers, one will find that if the interest payments on debt are not taken into account, the Argentine government *actually ran surpluses* throughout the 1990s (the exception being 1996).

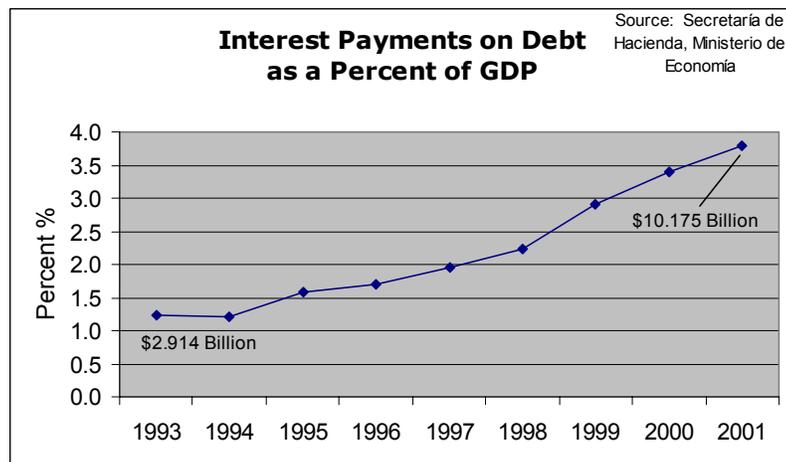
Government deficits incorrectly blamed for crisis; the deficits were small, and created not by government overspending, but by increases on interest payments on the debt



Deficits increased in the 1990s not due to government overspending, but to increases in interest rate payments on the debt.



If you include interest payments, Argentine government expenditures for 2001 were 21.7% of GDP. In comparison, in 2001 government expenditure as percent of GDP was 18.4% in the United States, 19.3% in China, 40% in the United Kingdom, and 42.6% in Japan. However, US government expenditure during the recession years of 1982 and 1991 was 22.5% and 22.3%, respectively. (EIU data).



In 1993, interest payments on debt were equal to 1.23 percent of GDP, in 2001 this had increased to 3.8 percent.

Yet still, many point to the fiscal deficit as the reason for Argentina's woes. As Mark Weisbrot, co-Director of the Center for Economic and Policy Research in Washington DC, testified before the Subcommittee on International Monetary Policy and Trade Committee on Financial Services³⁹, this perception that

irresponsible government spending is to blame is simply not true. As shown above, the government deficits were small relative to GDP, and were driven not by government overspending but by increases in interest payments on debt. The problem was not the deficits- the problem was the debt.

It was the debt, which reached over 50% of GDP, that caused the meltdown. Payments on the debt suffocated the government. Investors noted the growing debt, and pulled out of the country. It was the inability to pay the debt (after the IMF did not disburse the scheduled loan for December 2001, the reason being that the Argentine government did not reach zero deficit⁴⁰) that led to the default and devaluation⁴¹.

Why and how did the debt grow at such a rate?⁴² Conditions outside of the Argentine's control significantly contributed to the skyrocketing debt. Increased interest rates were the main culprit. These occurred because of several external shocks. In 1994 the US Federal Reserve doubled US short-term rates (from 3 to 6 percent); Argentina was effected due to the uncertainty the hike created in emerging financial markets. The cost of the government's borrowing, just to roll over past debt, rose by both the Federal Reserve's 3 percentage points as well as by the increasing spread between Argentine

government bonds and US Treasuries of the same maturity. The Mexican crisis of 1994/1995 caused an increase in perceived risk in Latin America. Within weeks of the "Tequila crisis," Argentine banks lost 18 percent of their deposits. Recovery resumed in 1996, but the country was then hit with the Asian crisis, which sent Argentina's risk premium and cost of borrowing up again. By this time the peso was clearly overvalued, which undermined confidence in the exchange rate. From 1993 to 2001, interest payments increased 250 percent⁴³. A vicious cycle of increases in debt interest rates was occurring- as rates rose, lenders worried more and more over a default, and thus the risk premium and rates rose even more, and so on.

As stated by the Center for Economic and Policy Research in Washington, DC:

It must be emphasized that the whole downward spiral that led to Argentina's economic collapse occurred without any new borrowing by the government to finance primary (non-interest-payment) spending. In other words, the increased interest rates, and consequent increasing interest payments and debt, resulted from a combination of external shocks, and the dynamics of the fixed exchange rate system itself ... Repeated attempts to restore confidence in the

overvalued peso through spending cuts, and loans arranged through the IMF ... could not reverse the downward spiral. In 2001 there were accelerating withdrawals from the banking system, leading to riots, political crisis, the collapse of the government, default, and devaluation⁴⁴.

The current economic crisis caused primarily by the inability to adjust to external shocks (an inherent flaw of the Convertibility) and the rise in interest rate payments on debt

And so we see that yet again Argentina's economy was damaged by its dependence on the outside world, this time due to the inflexibility of the convertibility and the resulting inability to adjust to external events which raised interest payments to a level at which the debt burden could not be overcome. And so the IMF is right- the current crisis was caused by failings of fiscal policy. However, the failure was not overspending by the government, but the decision to peg the peso to the dollar, which entailed vulnerabilities to the outside world and an inescapable debt trap.

Yet there are other, not-so-obvious yet still important failings of Argentine fiscal policy in the 90's. One is the government's inability to fight tax evasion- for example, in 2001 it was estimated that the government failed to collect \$25 billion in tax revenues⁴⁵. In comparison, the government deficit was \$8 billion. Also, as any Argentine will tell you, government

corruption is a very significant problem- according to many Argentines *the most significant* (but a problem which will not be tackled in this paper).

Another important yet oft-overlooked fiscal policy flaw of the 1990's were the mishandled privatizations-

The Problems of Argentina's Privatizations- or why Argentina privatized and what went wrong

A key component in Argentina's plan to transform into a free market economy was privatization, that is, selling the state industries to private firms. The theoretical justification for privatization is simple. The state-run industries that existed throughout Latin America were uncompetitive, inefficient, and usually operating at a loss to the government. Privatization would increase productivity and decrease government debt, which would in turn spur growth⁴⁶. In the case of Argentina, the government also privatized in order to show the world (and its investors) that it was serious about the new market reforms. "Several macroeconomic imbalances, such as hyperinflation, declining economic activity and large fiscal deficits (to a great extent explained by public utilities losses), placed privatization at the centre of a broader programme of reforms⁴⁷." Argentina

privatized telecommunications, petroleum, airlines, railroads, ports, the postal service, manufacturing enterprises, television, water and sewage, roads, trucking, and gas and electric⁴⁸. The bulk of the privatizations occurred from 1989 until 1993, the proceeds of which totaled US \$18 billion, or 7.6% of 1993 GDP⁴⁹.

The theory of privatization is economically sound- private firms, unprotected by government monopolies, are forced to become more productive in a competitive market, this leads to higher levels of output and higher quality. Coming out of the failed era of protected industries, the majority of Latin American countries decided to privatize⁵⁰. Chile began the process first in the 1970s, and has eventually seen the theoretical benefits come to fruition. Investment, productivity, and growth of quality and services have resulted from the privatized firms. Chile required that foreign investors commit to investments to improve services; workers gained through a shared-ownership program⁵¹. Competition was encouraged. For example, in 1994 the government passed the Telecommunications Law, which licensed multiple domestic and foreign carriers for all types of service⁵². In stark contrast to Argentina, Chile in the 1990's has seen continued GDP growth, and moderate levels of unemployment between six and a half and ten percent⁵³.

Argentine sold its public industries to private firms; however, instead of creating competition, they created private, and often foreign-owned, monopolies

In an article on the current Argentine situation, The Economist raises the problems of the privatizations but in the end dismisses them as a possible cause of the economic crisis, since they worked elsewhere (“A decline without parallel,” 2/Mar/2001). Yes, it is true, privatizations have worked elsewhere (Chile and the UK, amongst others)⁵⁴. But the Argentine privatization process was a very different animal. It did not follow two essential requirements for successful privatizations- the government did not set up a basic regulatory system for the new private firms, and did not require competition. What occurred in Argentina was basically the transformation of public monopolies into private monopolies. “The government’s objective was to show they wished to rapidly complete the sale of the state assets... making firm their promise of quickly bringing a radical change in the role of the state⁵⁵.” Sufficient regulation was not imposed⁵⁶. “The result of the privatization policies was thus a change in ownership but not in the relationship between the firms and the market: the new private firms were no more competitive than their public counterparts during the previous era of protected industry⁵⁷.”

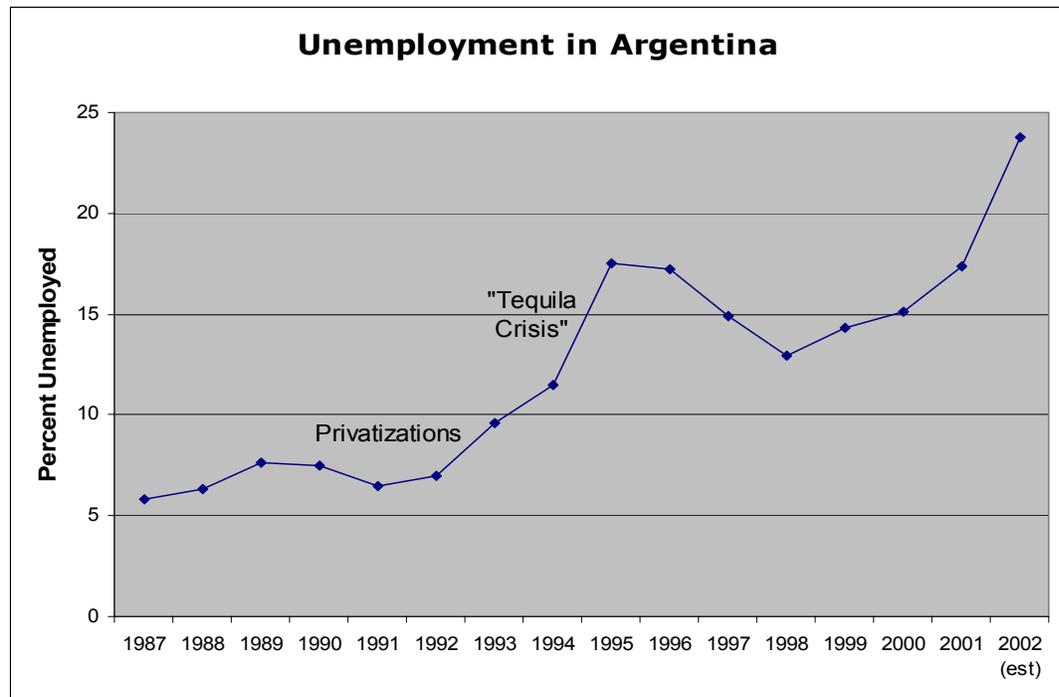
Three evident primary effects of the privatizations were an increase in investment, an increase in productivity, and an

increase in unemployment. Foreign direct investment increased greatly⁵⁸. Productivity increased, but not by the amount that would occur if competition existed. Quality of services also increased, but again, not by the amount that would occur under competition. A large part of increasing productivity was laying off of excess workers (for example, in the case of the privatization of the petroleum industry, massive amounts of employees were laid off in areas of the country where the entire community revolved around the industry⁵⁹).

The new firms were largely foreign-controlled; the lack of regulation would allow the profits (including monopoly rents) to leave the country instead of being pumped back into the domestic market. Prices are exorbitantly high for consumers (telecommunications costs in Argentina are quite possibly the highest in the world⁶⁰; it is estimated that Argentines overpay about \$1 billion per year due to the telephone monopoly- with excess profits going to the firm's owners in Europe⁶¹).

The privatizations increased unemployment, but failed to effectively reemploy the workers⁶². For decades workers were protected by the government⁶³; when this protection was removed, no competitive infrastructure was constructed to take its place. What occurred was the worst of both worlds- a

monopoly system without worker protection. There was no vehicle for sustained growth. Argentina could have created a competitive domestic market; instead, the government sold the firms to foreign enterprises, which simply turned the former public monopolies into private ones.



Currently, almost 25 percent of Argentina's workforce are unemployed. Underemployment (Argentines employed, but working less than they would like), and inefficient distribution of workers (lawyers having no other option but to drive taxis) are also huge problems.

The fact that many of the private monopolies are foreign-owned is also a factor, and not just because profits leave Argentina. The fact that many of Argentina's largest industries are foreign-run has created a sense of alienation, a psychological effect that arguably creates negative economic effects. When one asks an Argentine what he or she thinks about the privatizations,

after first hearing the general response that the privatizations were bad for the country, one is likely to hear- either said with a sigh or a shout- "*Nada nuestro*⁶⁴." *Nada Nuestro*, "Nothing is ours." There is a widespread lack of faith in the Argentine economy, a belief that there is nothing for *Argentines* in Argentina⁶⁵. Hordes of young people have left the country or are trying to leave⁶⁶. When an economy sees its educated, future workforce desiring to leave, something is terribly wrong.

The privatizations, because of the economic losses caused by the monopolies, should be reevaluated

And so the privatizations should be reevaluated mainly because of the economic losses attributed to the monopolies and lack of competition⁶⁷ (higher prices, lower quality). They should also be reevaluated because of the unemployment caused by the privatizations and the resulting labor market's apparent inability to reemploy these workers, and by the possible problems resulting from a large percentage of a country's industries being foreign-owned.

The telephone monopoly should be broken up, and several competing firms created

While all of the privatizations should be reevaluated, this paper specifically recommends the breakup of the telephone monopoly⁶⁸. There are several reasons for specifying this particular privatization. The basic assumption is that by creating competing firms in telecommunications, prices will fall and quality of service will rise. Also, telecommunications is not a natural

monopoly to the degree that some of the other privatized industries are (such as waterworks). Furthermore, the early privatization (1990) of Argentina's telecommunications was done with less regulation than later ones⁶⁹. For another, there is a history of telephone monopolies being broken to form competing firms, with positive economic benefits (AT&T, Chile). And finally, the breakup has been proposed before from the highest levels of Argentine government⁷⁰, and the benefits of such a breakup have seemed so apparent that many take it as a given eventuality. "The introduction of up to eight competing international companies should not only increase service but also lower prices⁷¹." The opening up to competing firms would also hopefully raise employment⁷². Requiring that some of the firms are Argentine-run would ensure that profits are recycled in the domestic economy, and also reinstate a degree of Argentine pride in their own economy.

Breaking up monopolies created by the privatizations is a politically feasible policy. The Argentines, who have lived through the massive layoffs, who have been forced to bear dramatic price increases, and have witnessed their major industries taken over by foreign monopolies, do not need to be convinced. The government will be much more likely to break up the

privatizations if they have the consent of the IMF⁷³. Who needs convincing is the IMF and the international community. If they reevaluate Argentina's privatizations, and realize the problems inherent with the system, perhaps they too will argue for a privatization policy change.

Conclusions

policy proposals in light of the current IMF mission to Argentina

The long-term goal for the Argentine economy should be sustained growth, independent of international aid. However, in the short-run there is little doubt that outside funds are required to help Argentina's struggling economy return to positive growth. Argentina's government⁷⁴, governments throughout the world⁷⁵, and outside observers⁷⁶ all say this. Without the support of fresh aid, the "bankrupt"⁷⁷ economy is likely to continue to sink. IMF financial support is required to bolster the ailing banks and keep inflation in check⁷⁸. IMF support for the peso will also boost national and international confidence in the newly free-floating currency.

The IMF has hinted at several requirements before new aid will be disbursed⁷⁹, the majority of which this paper agrees with. As the IMF sees government overspending as a chief reason for

International aid to Argentina essential for growth; however, the IMF should not require the government to further cut spending and government jobs

the current crisis, they are pushing for the Argentine central government and provinces to decrease deficits⁸⁰. They are also asking for government jobs to be cut⁸¹. However, as shown above, the government deficits were small, and caused not by overspending but by rising interest rates on debt payments-increases caused by external events outside of Argentina's control. Furthermore, cutting government spending and jobs in a recession does not make good economic sense; it is usually argued that a government should *increase* its spending in order to boost the overall economy. Furthermore, budget cuts and more government job cuts is not politically feasible in Argentina right now. The IMF, by requiring this, puts the Argentine government between a rock and a hard place- on one hand, it desperately needs the loans, on the other, the cutbacks in government spending in a recession might lead to "greater woes⁸²," and would definitely enrage Argentines to a degree that the government, if it did decide to cut government spending, might find itself out of power⁸³. The IMF, in order to fulfill its purpose of preventing international monetary crises⁸⁴, should aid Argentina- specifically to prevent the collapse of the Argentine banks and financial markets- but should not require government cutbacks.

In conclusion, although Argentina's economy has amazing potential, it has failed. Argentina has an economic history of dependence on the outside world, dependences which have damaged the economy. The recent crisis was caused by the difficulty to adjust to external events, which was caused by the convertibility (due to the nonexistence of monetary policy and the inability of fiscal policy to counter international events which increased interest payments on debt to an unsustainable level). Privatizations, which created private, foreign-owned monopolies, also played a problem. Reevaluating these privatizations should be a policy in upcoming negotiations.

Argentina is again dependent on the outside world- this time on aid from the IMF and the international community to bolster a bankrupt financial system. If the cost of this dependence is cutting government spending and jobs, then once again Argentina's economy will be damaged by outside forces.

About the Author:

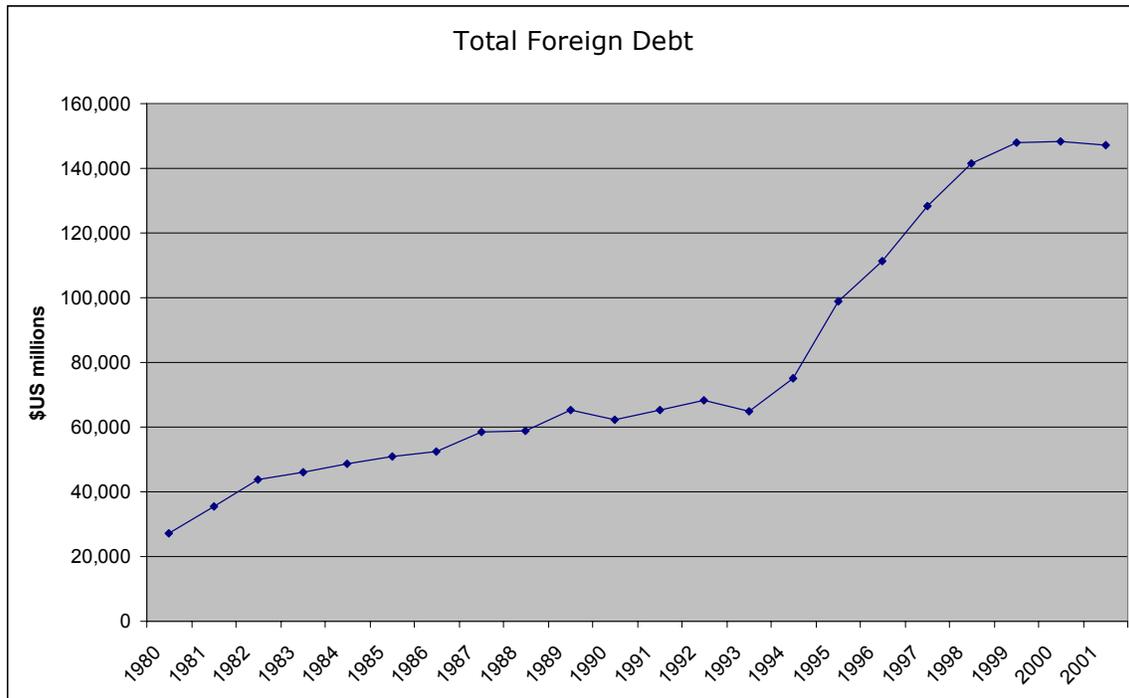
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Appendixes:

(A1) Argentina's Debt History



Data Source: Economist Intelligence Unit.

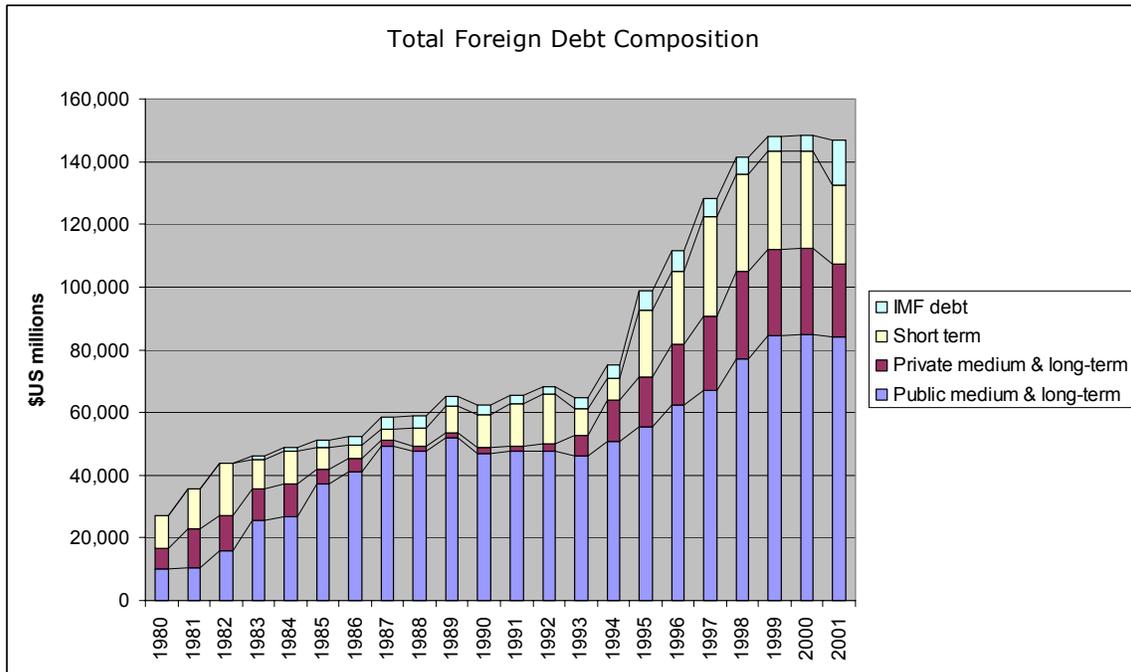
Argentina's restored democracy (1983) inherited a large debt burden from the fiscally irresponsible dictatorship. At the start of the dictatorship, Argentina held a foreign debt of \$8 billion. Six years later, the debt had risen to \$46 billion. From 1983 until the convertibility in 1991, total foreign debt rose 42 percent, or on average 6 percent a year. From Convertibility's start in 1991 until 1994, debt rose 14.9 percent, or on average 5 percent a year.

From 1994 to 1995 debt increased 31.5 percent (from \$75.1bn to \$98.8bn). In 1994, Mexico's banking crisis sent Argentina into its first recession since the market reforms had begun, as investors pulled out of the entire region (see pages 6 and 7 above). Furthermore, this investor uncertainty in Latin America caused a rise in interest rates as perceived risk rose. This was coupled with a rise in US interest rates (from 3 to 6 percent), which also raised the interest rates on loans to Argentina. A numerical example: in 1994, the lending rate for short and medium term financing of the private sector (line 60p in the IMF's International Financial Statistics) rose from 10 percent to 17.85 percent.

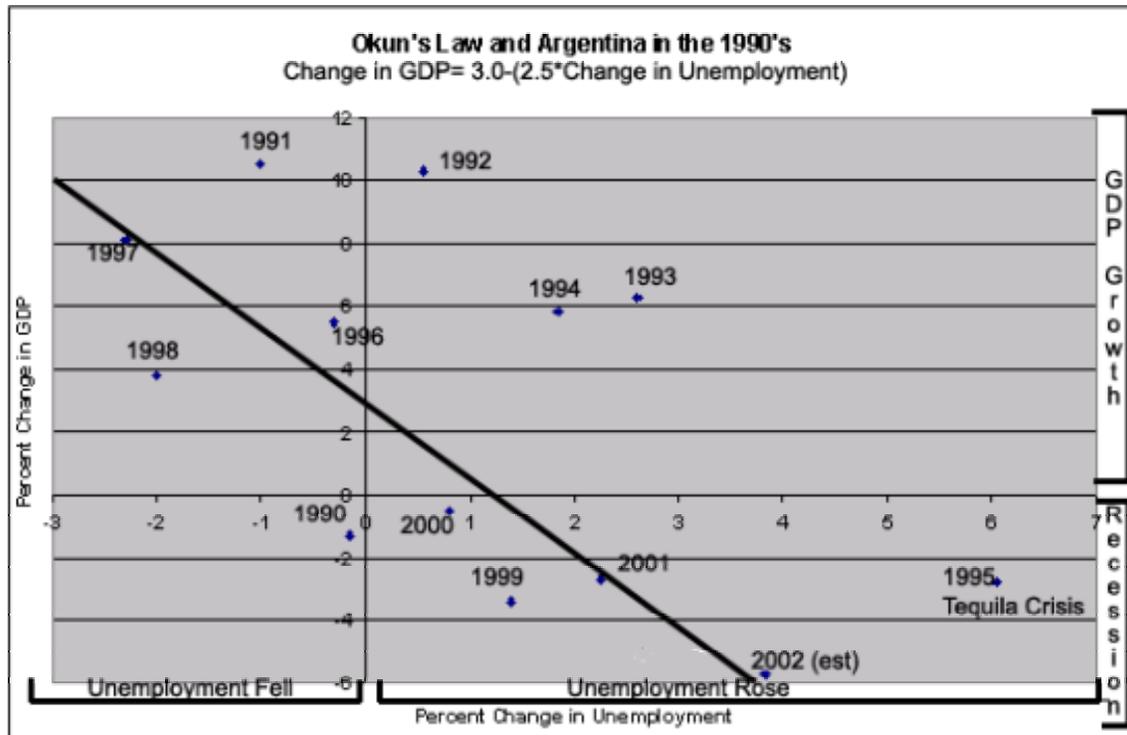
From 1995 to 2001 debt increased 49 percent, on average 14.4 percent per year from 1995 to 1998, and 3.8 percent per year from 1998 to 2001.

By 2001, as Argentina's inability to shoulder its debt grew, the IMF loans rose to \$14.4 billion. Also in 2001, the lending rate for short and medium term private debt rose from 11 percent (2000) to 35.9 percent (third quarter, 2001). More importantly, the country risk (rates over those charged to the United States) that markets were charging Argentina rose from 8 percent (April) to over 40 percent (December, pre-default).

December 2001: IMF does not disburse the month's aid; Argentina unable to pay past interest debt; default.



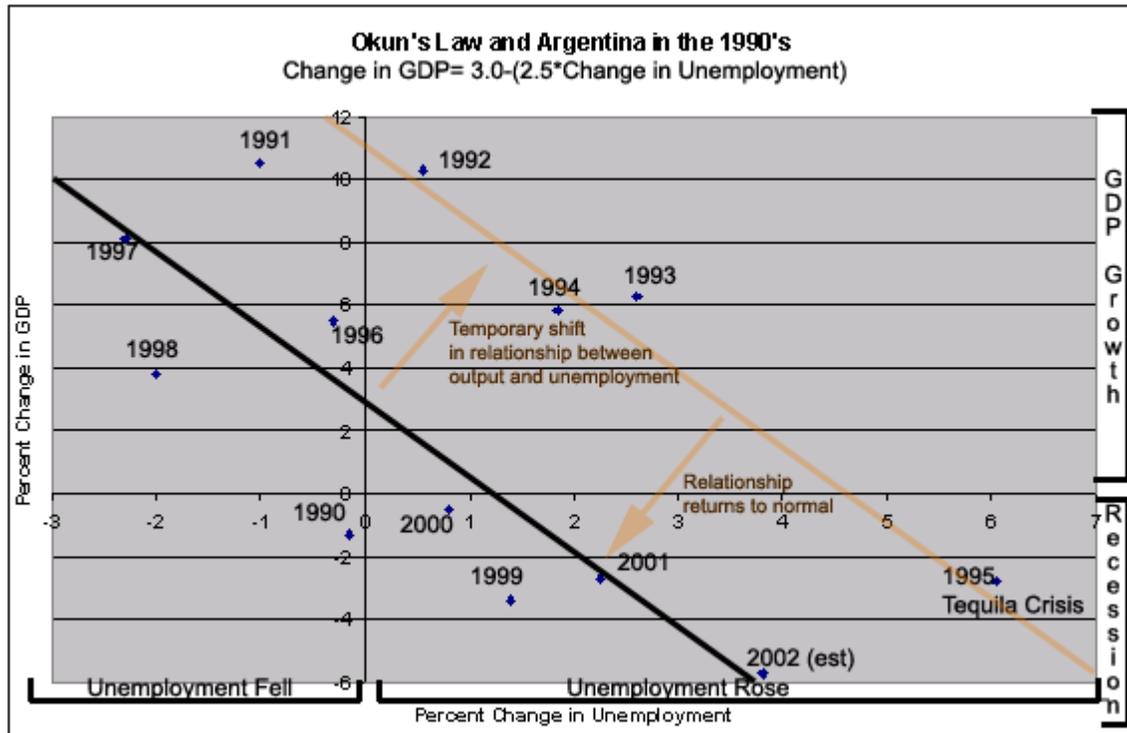
(A2)
Unemployment and GDP Growth (Okun's Law)



Okun's Law is an economic formula that relates the change in unemployment to the change in GDP. It predicts that for each one percentage point that unemployment increases, GDP decreases by 2.5 percent, and vice-versa. The line crosses at 3 percent, since that is considered the average growth rate of full-employment output in the United States. Over the last fifty years, Okun's Law has been amazingly accurate in the United States⁸⁵. Obviously differences exist between the US and Argentina and thus one should not put too much weight on applying our formulas to their economy, but nonetheless, this graph is very useful in that it allows us to see the relationship between unemployment and growth in Argentina over the last 12 years.

As shown on the graph above, the recession of the last four years has shown more or less the expected relationship between unemployment and GDP. But what is intriguing is what happened from 1991 until 1995. In 1991 the free-market model of the Argentine economy was born- the peso was pegged to the dollar, the markets were opened up, and the privatizations had begun. Investment skyrocketed. From 1992 until 1994 we see an economic anomaly-

rising GDP and rising unemployment. That is, as the economic output increased, more and more people lost their jobs. From 1991 until 1995 there was a source of GDP growth apparently independent of employment (the light brown line is the same slope as the predicted black line, just shifted up).



This is easily explained- the privatizations during this period laid off thousands of workers. At the same time, productivity increased (partly attributed to increased worker productivity due directly to the layoffs). Investment boomed as international investor expectations rose due to Argentina's new free market, and to the direct foreign investment as foreign corporations came and took over the industries. The gains from productivity and investment outweighed the costs of rising unemployment. Macroeconomic theory would predict that the increase in productivity would then in turn increase the demand for workers, and unemployment would begin to fall. But this assumption assumes perfect competition, something lacking as the country's biggest industries simply mutated from public to private monopolies. No internal market was created to reemploy these workers, and no economy can thrive, no matter the gains in investment and productivity, with over 20 percent of your workforce not working.

(A3)
Privatization Data

Argentina's privatization programme January 1990–December 1993 (millions of US\$)

Sector	Privatization method ⁽¹⁾	Sales value			Total	Debt recover'd (nominal)	Total equity value
		Cash	Debt recov'd (market)	Firm's transferr'd debt			
Telecom	Sale	2.271	1.257	–	3.528	5.000	3.919
Airlines	Sale	260	483	–	743	1.610	892
Railways	Concession	–	–	–	–	–	–
Electricity	Sale	855	1.853	1.476	4.185	3.707	6.439
Ports	Sale/concession	14	–	–	14	–	14
Roads	Concession	–	–	–	–	–	–
Radio/television	Concession	14	–	–	14	–	14
Oil, exploration	Contracts	2.041	–	–	2.041	–	3.205
Oil, YPF	Sale	3.040	884	–	3.924	1.271	6.711
Water & sewerage	Concession	–	–	–	–	–	–
Natural gas	Sale	300	1.541	1.110	2.951	3.082	3.956
Petrochemical	Sale	55	28	–	83	140	265
Shipyards	Sale	60	–	–	60	–	60
Steel	Sale	143	22	–	165	42	199
Conductors	Sale	12	3	–	15	4	15
Real estate	Sale	184	–	–	184	–	184
Others	Sale/concession	65	2	–	68	12	68
Total		9.313	6.074	2.586	17.973	14.867	25.940

Source: Ministry of Economy and Public Works and Services (1996: 23).

Notes: ⁽¹⁾ The concessions of railways, water and sanitation services and roads were granted according to bids based on investment programmes.

Source of table: Delfino, José A. and Casarin, Ariel A. "The Reform of the Utilities Sector in Argentina," Discussion Paper No. 2001/74, United Nations University: WIDER (World Institute for Development Economics Research). Sept. 2001.

(A4)

Related Articles

“Rebuilding Argentina”

By Eduardo Duhalde [President of Argentina]

The Washington Post

Monday, April 22, 2002; Page A19

Argentina is in a deep crisis. The economy is in its fourth year of a devastating recession; unemployment and poverty affect more than a third of our people; many, if not most, Argentine companies are facing bankruptcy; and the nation has defaulted on its international obligations. Many Argentines have lost confidence in their nation and wonder what kind of country their children will inherit.

The answer is that Argentina's future can be as bright as its past, but only if Argentines recognize two facts. First, our crisis is home-grown -- made in Argentina, by Argentines. Second, our solutions will also be home-grown -- made in Argentina, by Argentines. My government is committed to designing and executing a restructuring plan that, as first steps, will stabilize the economy and reestablish credibility with the international financial community. Once this is accomplished, we aim to re-ignite economic growth, leveraging Argentina's strong resource base to spur a broad recovery.

Initially, we have been implementing policies in five areas. We have floated the peso after a decade of equality with the dollar. We are developing a disciplined fiscal framework that encompasses both the federal and provincial governments. We are implementing strict monetary policy that will be based on a single national currency, with a single-minded focus on containing inflation. We are beginning to restructure the banking sector. And we are taking many specific actions to strengthen the rule of law.

Once we finish the first phase of our program, we will work with Argentina's creditors to restructure our country's international debts and to establish a framework to reorganize the debts of our private sector. We are in the painful process of moving from an economy based on the dollar to one based on our own currency. Why? Because the fixed exchange rate we had for 10 years had become an economic straitjacket that meant Argentina would never again grow. We were not competitive enough to be pegged to the most productive economy in the world. At the end of the day, we had no choice but to free the peso and begin the process of restructuring our entire economy.

Arguably, the biggest challenge Argentina faces is not economic but political. What economic decisions are politically viable in a country with almost 30 percent

unemployment? Raising taxes, cutting spending and reducing payrolls are not only unpopular but also enormously difficult in a country under massive economic stress. Yet we have done all that and more. We are proving every day that we are willing to take tough decisions and eager to move forward.

What seems lost on many international commentators who demand more austerity, more quickly implemented, is that Argentina is a democracy. I was elected president by the Congress after my popularly elected predecessor resigned. This is a process entirely consistent with the Argentine constitution, though an unusual one. It means that my government has a particular need to consult closely with our lawmakers. And it means that, as in the U.S. federal system, the governors and legislatures of our 23 provinces must consider national policies that affect local welfare.

The fact is that our Congress and governors are working closely with my government to approve and implement an economic strategy that offers the only possibility of returning Argentina to growth. They are making tough decisions, but they are making good decisions. This is not an easy process -- it is noisy and sometimes frustrating -- but it is a democratic process. I believe it is the only process that will ensure Argentina's stabilization and recovery.

Just as we need to reestablish the confidence of Argentines in their nation, we need to reestablish the confidence of the rest of the world in our program. We will grow only if we are firmly embedded in the global economy, with an economy and a society where the rule of law is paramount. This is as important to Argentines as it is to international investors and creditors.

Now we need the support of the International Monetary Fund, World Bank and Inter-American Development Bank. I ask the international agencies to assess our program, look at our actions, evaluate our commitments and measure our performance. Argentina needs to move ahead rapidly, based not on promises but on performance.

I know that the people of Argentina are not happy; there is no reason they should be, since they are living through incredibly difficult times. But I believe they will support our economic strategy, because it offers a difficult yet realistic path forward. That is the foundation of our reconstruction program -- and the basis for our reentry into the international financial system.

The writer is president of the Republic of Argentina.

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Introductory Remarks on the Role of the IMF Mission in Argentina

Anoop Singh, Director for Special Operations, IMF
Press Briefing, Buenos Aires, April 10, 2002

I greatly welcome this opportunity to meet with representatives of the media today. It provides the occasion to explain our assessment of the present situation in Argentina, present our views on the kind of overall economic program that is needed for Argentina to emerge from its current difficulties, and to tell you how we are working with the authorities toward the early adoption of such a program.

Let me, first, emphasize our clear recognition that Argentina is facing a very difficult economic and social situation. In trying to understand the full extent of the current difficulties, our mission has talked to a very wide section of the community—ranging from the private sector, the academic community, the Church, trade unions, and nongovernmental organizations—and we have listened very closely to what they have told us on the fundamental causes of the current crisis. We have also consulted with a number of academic experts overseas. Needless to say, at the same time, we have been working in very close cooperation with the federal government, and we have also met with key provincial leaders.

I give you this detailed background on what we have been doing these past few weeks to emphasize that the IMF is fully committed to helping Argentina find its way out of this crisis and to return to sustained growth. Of course, it is the government, working closely with the Argentine people, that must develop the consensus for—and implement—the kind of economic reforms that are needed at this time. Our role is to help in this process as much as we can with advice—the sharing of the experience of other crisis situations—technical assistance and, once the full program has been put together, with financial support. I should add that such an agreement with the Fund is key to unlock the wider international support that will be needed for the program, and I will have more to say on this point a little later.

Many of the persons with whom we have met impressed upon us that the severity of the current crisis reflects a deep loss of confidence of the Argentine people in their own institutions. Dealing with this situation, therefore, requires a program that is strong—and comprehensive—enough to regain this confidence.

Confidence must, first and foremost, be rebuilt within Argentina—most importantly perhaps in the banking system but, also, in other economic institutions. This is the central challenge. At the same time, we need to rebuild the confidence of the international community—the official community and the private sector—so that new resources can become available to Argentina and help minimize as much as possible the costs of dealing with the current crisis. It would be very difficult, and certainly much more burdensome on the domestic population, to attempt to resolve the present situation without the strong support of the international community. A program supported by the IMF is an essential condition to this end.

We see four major planks for a comprehensive economic program that could begin to rebuild confidence. I will talk briefly about some of the main issues involved in these core areas.

- Perhaps most important is fiscal policy. In our view, failures in fiscal policy constitute the root cause of the current crisis. Simply put, the structure of the public finances in Argentina—by that I mean the provincial governments as well as the federal government—has raised spending to a level that can no longer be financed in an orderly way. Inflationary financing from the central bank or other forms of disorderly financing—such as the issuance of provincial bills or debt default—are not sustainable alternatives. We have to do everything we can to prevent the present situation leading to high inflation. Certainly, this will be the result if the government cannot restrict its spending to the financing sources available. The present government shares this view and is working very hard to finalize a fiscal program that will avoid such an outcome.
- At the same time, given the severity of the crisis, and its impact on the poor, we have agreed with the government that every effort must be made to strengthen the social safety net for the poor. This will be essential to protect the poor as much as possible during the interim period before growth can resume. The World Bank and the IDB are taking the lead in developing specific programs.
- For the overall fiscal effort to succeed, there is no doubt that it needs to involve the provinces as well. The recent pact was a first step in this direction and now we are awaiting follow-up agreements with each province to ensure that the pact is fully implemented. Full implementation means meeting the deficit target of the pact, that is to reduce the deficit of the provinces by 60 percent with respect to 2001. It also means effectively terminating the practice by provinces of issuing paper that circulates as a money substitute—a practice that has complicated economic management, raised the threat of inflation, and undermined confidence in the public finances.
- A second plank of a comprehensive economic program is a strong monetary policy that seeks to avoid high inflation. The experience from other countries clearly suggests that, to fulfill this task, the central bank must strictly limit the growth of its own credit and establish benchmark interest rates that will provide depositors with a positive return after taking account of current inflation. The central bank is making progress toward this end, but it cannot succeed in the task unless the government's deficit is restricted in the way I have outlined above. In other words, now that the peso is floating, it is monetary policy that has to provide the anchor. A more permanent anchor will be a full fledged inflation-targeting regime—such as that adopted by other countries, including Brazil after its own difficulties in 1999—and the central bank is working to establish the conditions to move towards such a regime.
- The third plank has to be a strategy to restore confidence in the banking system. Without a well functioning banking system it will be very difficult to revive growth in Argentina. We have heard across the community the resentment against the Corralito. A sound macroeconomic policy framework based on the elements summarized above should allow confidence to return, thereby creating the conditions to lift progressively the restrictions on deposits in an orderly way. Another related problem is to recapitalize adequately the banking system—which has been subject to large losses from its holdings of government debt, as well as from the asymmetric conversion of foreign assets and liabilities into pesos. The government has initiated

the process of adopting a clear strategy to address these difficulties by proposing to use its own resources—through the issuance of a compensation bond—to recapitalize banks. The next step is to create appropriate incentives to attract fresh resources from the private shareholders—domestic and foreign.

- Developing incentives that would restore the confidence of foreign investors, encourage corporate restructuring, and resolve the difficulties faced by the privatized utilities is the fourth major plank of the program. We have listened to the views of international investors and we have also looked carefully at the experiences of other countries in dealing with their external creditors and in finding a collaborative solution to economic crises. These discussions and experiences have left us with no doubt that the international community—private creditors and markets—needs to be part of the solution to revive investment and growth in Argentina.
- In this context, one key requirement is that Argentina needs to have an internationally recognized framework for the insolvency process. The current law does not provide such a framework and the international community could not be expected to support Argentina without the early adoption of a framework that provides an appropriate balance between creditor and debtor interests. The government is fully aware of this need and is working with the Congress toward amending the current law. At the same time, it will be crucial to assure private investors—both domestic and foreign—that they will be treated fairly in the resolution process for their claims on Argentina which are now in default. This is a fundamental premise of all sovereign debt restructuring and, without the faithful application of this principle, it would be very difficult to gain the confidence and support of the foreign investor community. Other legal reforms that inhibit engagement by the international community should also be undertaken as soon as possible, such as of the economic subversion law.

These are the major areas that will be part of an overall economic program to emerge from the current crisis in Argentina and to lay the basis for growth. We have been working very closely with the government to develop the specific elements in these and other areas. We hope to make much more progress during this round of discussions. After this visit, we will return to Washington and explore the international financing that might be available for the program. Meanwhile, the government will need to finalize its program in all of the above areas.

With good progress, we will return to try and finalize a program that could be supported by the international community. I should add that the other international financial institutions—the World Bank and the Inter-American Development Bank—are also working very closely with us and with the government. In this way, we are hoping to make as speedy progress as possible. I don't want to give you a firm time table at this point for the finalization of the program, but I hope I have outlined the process that is involved, the seriousness of our joint efforts, the main areas of our focus, and our firm resolve to complete the process as soon as possible.

Bibliography and References:

¹ The Argentine consulting firm Equis reports that **unemployment is 23.8%**. The same report stated that **43% of the country is below the poverty line** (The Wall Street Journal, 28/March/2002, A20), although in other estimates I have seen this figure as high as 50%. **In my data I estimate a decline in GDP of 6%, although many (the Economic Intelligence Unit, among others) estimate a decline of 8% and higher** (at the time of this article's completion the IMF predicted a decline of 10-15%).

² Argentina declared independence in 1816, but it was not until 1880 that the country, after gaining all of its present land and uniting the country, existed as we now know it.

³ Argentina's economy as a primary export-led growth economy lasted from 1860 until 1930: Ferrer, Aldo. La Economía Argentina: Las etapas de su desarrollo y problemas actuales. Fondo de Cultura Económica, 1987. Tercera Parte: La Economía Primaria Exportadora {1860-1930}.

“Es particularmente notable que el comienzo de la etapa de la economía primaria exportadora, que se inaugura prácticamente con la presidencia de Mitre en 1862, se cierre con la caída de Irigoyen en 1930, rompiendo el cambio ininterrumpido de gobiernos constitucionales en un plazo de casi 70 años.”

⁴ “Special Report: Argentina's collapse, A decline without parallel. In the 1990's, Argentina was Latin America's star. How did it become a basket case?” The Economist. Mar. 2nd 2002.

⁵ Ferrer: “The Argentine experience is an episode of the European economic expansion from the ends of the 19th century, particularly, of the British economy.” “La experiencia argentina es un episodio de la expansión de la economía europea desde fines del siglo XIX y, particularmente, de la economía británica.”

⁶ Engel's Law: as world income increases, demand for primary products increases less than demand for manufactured products. Argentina's economy, before Industrialization Import Substitution, was centered on producing primary, agricultural goods. Thus it was at a natural disadvantage to manufacturing, industrial nations.

⁷ This period was known as “Import Substitution Industrialization.” For more information, see: Cardosa, Eliana and Helwege, Ann. Latin America's Economy: Diversity, Trends, and Conflicts. 1992 Massachusetts Institute of Technology. Translated into Spanish by Juan José Utrilla, and published by Fondo de Cultura Económica, México. Parte IV: “De la sustitución de importaciones a la liberalización del comercio.”

⁸ **“In the end, it is questionable whether Argentine import substitution policies even succeeded in their avowed goal of promoting industrialization.** Carlos Díaz Alejandro, one of the great economic historians of Latin America, pointed out that Argentina's manufacturing output grew by 5.6 percent annually between 1900 and 1929, but by only 3.7 percent per year during the 1929-1965 period of import-substituting industrialization.” Krugman, Paul. R. and Obstfeld, Maurice. International Economics: Theory and Policy. Fifth Edition, p. 696; and Alejandro, Carlos F. Díaz, Essays on the Economic History of the Argentine Republic, New Haven: Yale University Press, 1970, p. 138.

For flaws of the ISI (Import Substitution Industrialization) era, see Franko, Patrice, The Puzzle of Latin American Economic Development, Rowman & Littlefield Publishers, Inc., 1999. Ch. 3, which sums up the period in the following way:

“Although data show that ISI had a positive effect on growth until the 1980s, there were also negative consequences. Nationally manufactured goods in many cases failed to meet international quality standards, making them uncompetitive in the global market. ISI exacerbated inequality by failing to create an entrepreneurial class and preserving the power of the elite. The agricultural sector was neglected, which weakened a source of profit and food security. There was a bias against export growth through overvalued exchange rates. This led to differences in domestic expenditures and revenue that would contribute either to persistent deficits or inflation.”

⁹ For Argentine history, visit <http://www.britannica.com>.

¹⁰ “Special Report: Argentina's collapse, A decline without parallel. In the 1990's, Argentina was Latin America's star. How did it become a basket case?” The Economist. Mar. 2nd 2002.

¹¹ During the dictatorship between 1976 and 1983, debt increased from \$8 billion to \$43 billion. -Le monde diplomatique: <http://mondediplo.com/2002/01/12argentina> (Note: EIU estimates for debt in 1983 is \$46 billion.)

¹² “...borrowing to support import substitution industrialization became an unstable foundation for growth... the first stage of industrialization is driven by the import of capital goods... Problems arise, however, when the borrowing requirements for long-term projects outpace the ability to repay past loans...”

debt trap... Unfortunately, the development model in Latin America was dependent on a continuous infusion of capital, with new lending required to finance the development of long-term projects.” The Puzzle of Latin American Economic Development, pp. 80, 81.

¹³ **“During the 1980s the external debt crisis created major macroeconomic imbalances in Argentina. These were manifested in fiscal insolvency and two hyperinflationary episodes. Stabilisation attempts succeeded briefly, only to collapse as a result of recurrent credibility crises and/or worsening external and fiscal imbalances. Macroeconomic instability went hand in hand with the long-standing imbalances created by import substitution industrialisation.”** The Economist Intelligence Unit, Argentina to 2012: Chapter 3: Economic policy and public-sector institutions: the challenges ahead. p. 20, 1998.

¹⁴ From 1913 to 1989, Argentine GDP per capita grew a meager 63% (\$2,377 to \$3,880), compare this to 277% in the US (\$4,854 to \$18,317) and 506% in Brazil (\$700 to \$4,241). Data in 1985 US dollars. -The Puzzle of Latin American Economic Development, p. 31.

¹⁵ **“The 1990s witnessed a major policy change centered on outward-orientation, less government intervention and a stronger role for the market. In parallel with structural reform the government implemented a rigid stabilization plan centered on a currency board and a fixed nominal exchange rate (the Convertibility Plan).**... Structural reform also eliminated price and interest rate controls and deregulated most markets, including those for agricultural products, oil and energy. Foreign direct investment regulations were further liberalized and the foreign trade regime overhauled through import liberalization and the ending of most export taxes and foreign-exchange controls. The tax system was simplified and new measures implemented to combat tax evasion [although these would prove to be ineffectual, *author’s note*]. Many of the services traditionally provided by the federal government, such as healthcare and education, were decentralized and responsibility for their provision transferred to local administrations.”

- The Economist Intelligence Unit, Argentina to 2012: Chapter 3: Economic policy and public-sector institutions: the challenges ahead. pp. 20,21, 1998.

Also, see “La política de liberalización económica en la administración de Menem,” Desarrollo Económico, vol. 36, # 143 (Oct.-Dec. 1996). Pablo Gerchunoff and Juan Carlos Torre.

¹⁶ The Puzzle of Latin American Economic Development, p. 129.

¹⁷ Argentina actually experienced deflation in some years.

¹⁸ “En cuanto a la política monetaria bajo convertibilidad, el BC no puede afectar la política monetaria ni las tasas de interés, porque solo puede aumentar la oferta monetaria si hay demanda de pesos.”

“Under convertibility the Central Bank cannot affect monetary policy or interest rates, because it can only increase money supply if there is demand for pesos.” – Paula Gosis, Lic. de Economía, Facultad latinoamericana de ciencias sociales, Buenos Aires.

¹⁹ “El Régimen de Convertibilidad creó una moneda convertible en una relación de 1 peso = 1 dólar y prohibió cualquiera emisión monetaria sin el respaldo de divisas en las reservas del Banco Central.... el régimen eliminó la discrecionalidad gubernamental sobre las políticas monetarias y de cambio.... Su efecto... limitando el papel del Banco Central al de una caja de conversión... En la Argentina, por fin, la reputación del estado y, consecuentemente, de la autoridad monetaria está severamente afectada por la larga inestabilidad económica y, en particular, por los episodios hiperinflacionarios de 1989 y 1990. En una situación semejante, la opción por la convertibilidad descansó en una estrategia de ‘autoatamiento’: como Ulises, quien ordenó ser atado al mástil de su nave para no ser atraído por las engañosas melodías de las sirenas, el gobierno optó por renunciar al uso de instrumentos claves de política económica para hacer más creíble su compromiso con la disciplina fiscal y monetaria.”

“The Convertibility created a currency in a 1 peso = 1 dollar relation, and prohibited whatever money increase without equal backing in the Central Bank reserves.... the regimen eliminated the government decision making on monetary policy and exchange.... It’s effect... limiting the role of the Central Bank to one of exchange house.... In Argentina the reputation of the government, and consequently, of the monetary authority is severely effected for the long economic instability and, in particular, for the hyperinflationary episodes of 1989 and 1990. In a similar situation, the option for convertibility rested in a strategy of “**tying one’s hands**”: **like Ulysses, who ordered to be tied to the mast of his ship in order to not be tempted by the deceptive melodies of the sirens, the government decided to renounce the use of key instruments of economic policy in order to make its promise of fiscal and monetary discipline more credible.**”

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- “La política de liberalización económica en la administración de Menem.”
- ²⁰ “The Tequila Banking Crisis in Argentina,” By Marcelo Dabós and Laura Gómez Mera . “The confidence crisis triggered by the Mexican devaluation reached the emerging markets. Argentine and Brazilian stock exchanges indexes fell substantially...”
[-http://www.udes.edu.ar/deptodeeconomia/workp/doc19.doc](http://www.udes.edu.ar/deptodeeconomia/workp/doc19.doc)
- ²¹ “Argentina Never Really Earned Its Good Marks in the 1990s,” O’Grady, Mary Anastasia, Editor of the Americas Section, *The Wall Street Journal*. 22/Feb/2002, A15.
Also, http://news.bbc.co.uk/hi/english/business/newsid_1721000/1721061.stm
- ²² Derived from World Bank, Global Development Finance; IMF, International Financial Statistics by the Economic Intelligence Unit. <http://countrydata.bvde.com>
- ²³ See the growth of the Riesgo País, or Risk Factor for loans to the Argentine government, at <http://www.riesgopaisonline.com/>.
- ²⁴ http://www.buenosairesherald.com/0_home/2_editorial/3_editorial/0203/0203-23.html
- ²⁵ For a timeline, visit http://news.bbc.co.uk/hi/english/world/americas/newsid_1196000/1196005.stm
Also: **“But by December, as Mr. Cavallo resorted to freezing bank accounts and raiding pension funds to find enough hard currency to make debt payments, collapse looked imminent. The fund decided to suspend aid for a program that appeared to have little chance of success.”**
- “Turmoil in Argentina: International Finance; Argentina's Chaos Raises New Doubts on Monetary Fund,” *The New York Times*, 22/Dec./2001. Foreign Desk. by Joseph Kahn.
- ²⁶ For an extensive explanation, view the transcript by IMF spokesman Thomas Dawson-
[-http://www.imf.org/external/np/tr/2001/tr011220.htm](http://www.imf.org/external/np/tr/2001/tr011220.htm)
- ²⁷ The IMF partly refused to disburse the scheduled \$1.3 billion loan on Dec. 5th, 2001, because of “Argentina’s inability to meet targets under the zero deficit law.” IMF spokesman Thomas Dawson, December 20, 2001, press briefing (<http://www.imf.org/external/np/tr/2001/tr011220.htm>)
- ²⁸ For a good history of the turmoil, see: “Economic Crisis Ends an Era: Argentina: IMF show state revolts.” *Le Monde diplomatique*, Jan. 2002. Carlos Gabetti.
[-http://mondediplo.com/2002/01/12argentina](http://mondediplo.com/2002/01/12argentina)
- ²⁹ Insulin donations by Spain and Brazil have helped (<http://www.treasaigh.com/>)
- ³⁰“We have to do everything we can to prevent the present situation leading to high inflation... A second plank of a comprehensive economic program is a strong monetary policy that seeks to avoid high inflation.” Introductory Remarks on the Role of the IMF Mission in Argentina. Anoop Singh, Director for Special Operations, IMF Press Briefing, Buenos Aires, April 10, 2002.
[-http://www.imf.org/external/np/tr/2002/tr020410.htm](http://www.imf.org/external/np/tr/2002/tr020410.htm)
- Also, “El FMI insiste con la reducción de gastos,” *La Nación*, 17/April/2002.
- ³¹ On Monday March 25th, the peso fell to an exchange of @4-1. New banking measures were put into place, and by Tuesday the exchange had returned to @3-1.
“La fiebre por la billete verde,” *Clarín*, 26/March/2002.
http://www.clarin.com/ultimo_momento/notas/2002-03-26/m-364011.htm
- ³² For stories on constant long lines of Argentines demanding dollars, look through any recent news articles on the subject (<http://www.clarin.com> , <http://www.lanacion.com.ar>)
- ³³ I have one Argentine friend who had a debt of a couple of thousand \$US dollars, and another who had worked hard for several years and been able to save a couple of thousand \$US dollars. If the government had not converted the former’s debt into pesos, her real debt would have increased by the amount of devaluation (since workers are paid in pesos, her ability to pay back the debt would have been devalued). However, in order to pay for this, the government had to also convert the deposits into pesos. Thus the savings of my second friend were devalued. And so devaluation did not affect debtors, but decreased the amount of real private savings.
- ³⁴ http://www.buenosairesherald.com/0_home/2_editorial/3_editorial/0204/0204-08.html
For an argument that inflation is actually much higher than the official 4%, look at:
“Los precios, según una reveladora libreta. Las subas son de más que el 4%,” by Carlos Losauro in *La Nación*, 13/April/2002.
- ³⁵ Introductory Remarks on the Role of the IMF Mission in Argentina. Anoop Singh, Director for Special Operations, IMF Press Briefing, Buenos Aires, April 10, 2002.
[-http://www.imf.org/external/np/tr/2002/tr020410.htm](http://www.imf.org/external/np/tr/2002/tr020410.htm)
- NOTE: THIS ARTICLE IS ATTACHED IN THE APPENDIX.

Also, “Singh planteo las exigencias del Fondo Monetario,” *Clarín*, 10/April/2002.

[-http://www.clarin.com/ultimo_momento/notas/2002/04/10/m-370965.htm](http://www.clarin.com/ultimo_momento/notas/2002/04/10/m-370965.htm)

³⁶ Economic Intelligence Unit. <http://countrydata.bvdep.com>

³⁷ Economic Intelligence Unit. <http://countrydata.bvdep.com>

³⁸ See “Could Fiscal Austerity Have Saved the Argentine Economy?” by A.J. Hughes-Hallett, Vanderbilt University and CEPR, January 2002.

“The question which has to be asked therefore, is whether sufficiently strong fiscal consolidation/fiscal austerity programmes could have been expected to resolve Argentina’s financial crisis? The answer we reach below is “no”. By the time these measures were introduced, the unfavourable debt dynamics were too strong. In the absence of a direct stimulus to growth, there was no chance of avoiding both a default and devaluation. Thus, having gone past the point of no return, the Argentine authorities were confronted with the worst of both worlds – rather than with just the consequences of either monetary loosening or fiscal indiscipline.”

³⁹ Hearing on the State of Argentine Economic Crisis and the Role of the International Monetary Fund.

Testimony by Mark Weisbrot before the Subcommittee on International Monetary Policy and Trade Committee on Financial Services, U.S. House of Representatives. Tuesday, March 5, 2002.

⁴⁰ “Argentina — one of the IMF's biggest borrowers — had its access to aid shut off in December after the country repeatedly failed to meet deficit reduction targets. That decision forced the country to default on its massive \$141 billion foreign debt and triggered an economic crisis that led to violent street riots.”

-“IMF: Argentina Needs Deeper Reforms,” Kevin Gray, Associated Press. 14/April/2002.

⁴¹ “As millions understand it, Argentina’s credit card was cut off because it ran up too big of a tab and couldn’t pay its bills. But the official numbers tell a very different story. It is the story of debt, inherited from the past, that was perhaps manageable until- through no fault of the debtor- interest rates on the country’s borrowing increased. Higher interest payments, not increased spending, led to higher deficits. Growing deficits in turn created doubts about the overvalued exchange rate, which pushed interest rates still higher, creating larger deficits, in a hopeless spiral that ended in default and devaluation.”

-“What Happened to Argentina?”, by Mark Weisbrot and Dean Baker, the Center for Economic and Policy Research, Washington DC, 31/Jan/2002.

[-http://www.cepr.net/IMF/what_happened_to_argentina.htm](http://www.cepr.net/IMF/what_happened_to_argentina.htm)

⁴² The synopsis on the growth of Argentina’s debt burden relies heavily upon the paper “What Happened to Argentina?”, by Mark Weisbrot and Dean Baker, the Center for Economic and Policy Research, Washington DC, 31/Jan/2002.

⁴³ In 1993, interest rate payments were \$2.9 billion, in 2001, they had risen to \$10.2 billion. Secretaría de Hacienda. Ministerio de Economía

[-http://www2.mecon.gov.ar/infoeco/apendice6.xls](http://www2.mecon.gov.ar/infoeco/apendice6.xls)

⁴⁴ “What Happened to Argentina?”, by Mark Weisbrot and Dean Baker, co-Directors for the Center for Economic and Policy Research, Washington DC, 31/Jan/2002.

[-http://www.cepr.net/IMF/what_happened_to_argentina.htm](http://www.cepr.net/IMF/what_happened_to_argentina.htm)

⁴⁵ Gambier, Marina. “Diccionario para leer la crisis,” p. 40. “Evasión.” *Revista / la Nación*. 29/April/2001.

⁴⁶ The Puzzle of Latin American Economic Development, p. 155.

⁴⁷ Delfino, José A. and Casarin, Ariel A. “The Reform of the Utilities Sector in Argentina,” Discussion Paper No. 2001/74, United Nations University: WIDER (World Institute for Development Economics Research). Sept. 2001.

⁴⁸ The Puzzle of Latin American Economic Development. Ch. 6: “The Role of the State.”

⁴⁹ “The Reform of the Utilities Sector in Argentina.”

⁵⁰ 14 Latin American countries have carried out privatizations totaling over 1 percent of GDP in some year. Latin America After a Decade of Reform. Part Two, A Decade of Structural Reforms: All Pain, No Gain? Inter-American Development Bank 1997 Report

[-http://www.iadb.org/oce/part2.pdf](http://www.iadb.org/oce/part2.pdf)

⁵¹ The Puzzle of Latin American Economic Development, p. 160.

⁵² Australia’s National Office for the Information Economy -

<http://www.noie.gov.au/projects/international/APEC/RegOutlook/Chile.htm>

⁵³ Economic Intelligence Unit. <http://countrydata.bvdep.com>

The Chilean economy grew every year except for 1999, where it saw a slight decline.

⁵⁴ For a study of privatizations up to 1994, see Does Privatization Deliver? Highlights from a World Bank Conference, edited by Ahmed Galal and Mary Shirley. Economic Development Institute of The World Bank, 1994. Note a lesson from the early privatizations of Chile: "...regulation is critical... If government doesn't regulate, monopolies can exploit consumers." p. 54.

The Argentine government did not regulate its telecommunications privatization, and a monopoly resulted with huge losses for consumers.

⁵⁵ Gerchunoff, Pablo and Torre, Juan Carlos. "The Economic Reforms of Menem's Administration / La Política de Liberalización Económica en la Administración de Menem." Desarrollo Económico: Revista de Ciencias Sociales. Oct.-Dec. 1996. "Su objetivo [del gobierno] fue mostrar que querían completar rápidamente la venta de los activos estatales... haciendo patente su compromiso de llevar adelante un cambio radical en el papel del estado."

⁵⁶ "Two phases can clearly be distinguished within the process. The first period lasted until 1991 when the government implemented a very stringent stabilization plan. Reforms were brought about almost exclusively through executive decrees without sufficient consideration to the organization of the markets and to the subsequent development of good regulatory frameworks. These oversights hindered the process of privatization of the telecom company. In contrast, second-phase reforms were carried out through legislative action which, on the one hand, defined more precisely the conditions for privatization and, on the other, improved the regulatory norms prior to the transfer of public utilities."

- "The Reform of the Utilities Sector in Argentina."

⁵⁷ "El resultado de las políticas de privatización fue así un cambio en las relaciones de propiedad pero no en la relación de las empresas y el mercado: las nuevas empresas privatizadas pasaron a operar en un marco que era tan ajeno a las reglas de la competencia en el mercado como el de la fase previa de la industrialización protegida."

- "The Economic Reforms of Menem's Administration / La Política de Liberalización Económica en la Administración de Menem."

⁵⁸ "Alter more than a decade in which foreign investors either remained dormant or left the country, the 1990s witnessed a foreign investment boom which is transforming the business sector. Between 1990 and 1997 Argentina received over \$30bn in foreign direct investment (FDI), and annual average FDI inflows experienced a sixfold increase over the levels recorded in 1984-89. In the context of a liberal regulatory environment and structural reform (privatizations), rapid domestic demand growth and the expanded regional market were powerful attractions to foreign capital... Until 1993 the privatization programme was the main stimulus for FDI, accounting for over 60% of total inflows."

- The Economist Intelligence Unit (EIU), "A new private business sector in the making?" Argentina to 2012: From structural reform to sustained growth, London, 1998. p. 28.

Also, "La inversión extranjera destinada a las privatizaciones ha representado en promedio el 21 por 100 de la inversión extranjera directa. Las privatizaciones han inducido además otras inversiones extranjeras destinadas a capitalizar las mismas empresas privatizadas o a invertir en actividades complementarias cuyo atractivo ha mejorado gracias a las privatizaciones. Se calcula que por cada dólar de IED por privatizaciones se han recibido 88 centavos adicionales de inversión extranjera."

- Lora, Eduardo. "Una Década de Reformas Estructurales en América Latina: qué se ha reformado y cómo medirlo," en Pensamiento Iberoamericano. Revista de Economía Política, Volumen Extraordinario, 1998. p. 38.

Also, "Uno de los efectos más favorables y tangibles de las privatizaciones ha sido el aumento de la inversión extranjera en la región... Se calcula que por cada dólar de inversión extranjera directa por privatizaciones se han recibido 88 centavos adicionales de inversión extranjera." Lora, Eduardo. "Una Década de Reformas Estructurales en América Latina: qué se ha reformado y cómo medirlo," en Pensamiento Iberoamericano. Revista de Economía Política, Volumen Extraordinario, 1998. p. 38.

⁵⁹ "Las amas de casa que veían cómo sus esposos se quedaban sin empleo, sus hijos sin escuelas y toda la familia sin atención médica, se pusieron a la cabeza; porque todo fue construido por YPF en los años de la bonanza, allá por 1950. La falta de empleo retrajo el consumo y el círculo económico mínimo para sobrevivir como comunidad se rompió y comenzaron las migraciones internas."

- Kovacic, Fabián. "Argentina: Radiografía de los que protestan: Donde hay un piquetero, falta el Estado." 4 de junio del 2001 (Brecha).

⁶⁰ "Los teléfonos más caros del mundo," Alicia Oliveira, Defensora del Pueblo de la Ciudad de Buenos Aires.

⁶¹ “Calling Someone in Argentina: Dial M for Monopoly,” The Wall Street Journal, 16/Aug/1996, p. A11, Juan Manuel Valcarcel.

Also, The Puzzle of Latin American Economic Development, p. 272.

⁶² An interesting aspect about the current Argentine labor force is inefficient distribution of workers. It is not unusual to have a former lawyer or doctor as your taxi driver.

⁶³ Workers were more protected by the state. For example, in the Peron era revenues were redistributed in favor of workers, unions were very powerful and had supporting labor legislation, wages and working conditions were improved, rents were controlled, and bonuses were issued. (<http://www.britannica.com>).

⁶⁴ I base this statement on personal experience. I lived in Argentina for five months, and whenever I asked an Argentine about their opinion on the privatizations, the response was practically always negative. I know of no formal study or poll on the matter. In my opinion, a well-balanced view of the situation was given to me by Esteban Ierardo, Professor of Philosophy, Universidad de Buenos Aires.

“Creo que sí, hoy muchos argentinos estarían de acuerdo con tu idea de que las privatizaciones han sido muy malas para nosotros. No pienso que las privatizaciones sean malas a fondo. Lo que ocurre es que el Estado debe controlar a las empresas y asegurarse de que reinviertan parte de sus ganancias en el mejoramiento del servicio. Esto contribuiría al estímulo del desarrollo de la economía local y del consumo interno.

Sin un Estado fuerte no hay mercado libre que funcione con un sentido social. El Estado debe asegurar la libertad económica, pero también debe asegurar que las empresas privadas cumplan con una función de expansión del bienestar de toda la sociedad. Y en Argentina, lamentablemente, a diferencia de Estados Unidos, el Estado es débil, muy débil.

El FMI debe cambiar profundamente su posición. Creo que tendría que presionar para disminuir la corrupción estructural de la Argentina y, segundo, alentar una verdadera política de producción.”

“I believe that yes, today many Argentines would agree with your idea that the privatizations have been very bad for us. I do not believe that the privatizations are inherently bad. What happens is that the country should control the firms and assure that they reinvest part of their earnings into bettering service. This would contribute to stimulating the development of the local economy and of internal consumption.

Without a strong government there is no free market that functions with social responsibility. The government should assure an open economy, but also should assure that the private firms play a role in expanding the wellbeing of the entire society. And in Argentina, sadly, in contrast to the United States, the government is weak, very weak.

The IMF should profoundly change its position. I believe that it would have to push for fighting the structural corruption of Argentina, and secondly, encourage a true policy of production.”

⁶⁵ An interviewee told the BBC: “There is a general sense of depression. All of my son’s [who also wishes to leave] friends have left, or are leaving.”

[-http://news.bbc.co.uk/1/hi/english/business/newsid_1802000/1802853.stm](http://news.bbc.co.uk/1/hi/english/business/newsid_1802000/1802853.stm)

⁶⁶ When I think of young Argentines I know, at least half have either already left Argentina or wish to do so. I can remember taxi drivers, lamenting over their children wishing to leave. I remember one in particular talking about how his son, just graduated from medical school (at the cost to the government; universities are free in Argentina) was wanting to leave for the States for the better opportunities.

⁶⁷ Basic microeconomic losses resulting from monopolies are higher prices and lower output than an otherwise similar perfectly competitive market.

-Microeconomics: Principles and Applications, Second Edition. Robert E. Hall and Marc Lieberman. South-Western College Publishing.

Some argue the only downside to monopolies is the decrease in output; the higher prices, while costing consumers, raises the welfare of the producers, therefore overall welfare caused by the price change is not as critical as it seems. However, when a monopoly is foreign-owned (as is the case of the telecommunications in Argentina- the country is divided into north and south with two monopolies, Telecom and Telefónica), and the profits leave the country, this clearly has a negative welfare effect on Argentines.

⁶⁸ For a paper which argues that the telephone privatizations were positive for Argentina’s economy, see “La regulación de la competencia y de los servicios públicos: Teoría y experiencia argentina reciente.” Fundación de Investigaciones Económicas Latinoamericanas, 1998. – Capítulo 11. Privatización, regulación y competencia en telecomunicaciones. This paper points to the productivity and technological gains which occurred after the privatization (for example, from 1990 until 1997 an increase in telephone

lines from 3 million to 7 million). It is true that service greatly increased, but it can be assumed that under competition this increase in productivity would have increased even more; furthermore, that prices would not be so high. -<http://24.232.76.6/libros/regulacion.pdf>

Also see “Winners and Losers from Utility Privatization in Argentina: Lessons from a General Equilibrium Model,” Omar Chisari, Antonio Estache, and Carlos Romero. World Bank. –

-<http://www.worldbank.org/html/dec/Publications/Workpapers/WPS1800series/wps1824/wps1824.pdf>

⁶⁹ “In the transfer to private ownership, ENTel was divided into two holding companies, Telecom SA in the north, and Telefónica SA in the south, each with a licence to provide basic telephone services in these geographic regions. The scheme also contemplated the division of the Buenos Aires metropolitan area into two zones (Decreto 59/90 and 60/90).³ Sixty percent of the holding companies were sold through competitive international bidding, 30 percent floated on the stock market between 1991-2 and the remaining 10 percent reserved for ENTel employees. Licences for these regional monopolies were granted for seven years with the option of renewal for three more years, subject to achieving certain performance targets. By the end of the year 2000, these companies would still have a license to operate, but without exclusive rights. The regulation of telecoms was originally entrusted to the Comisión Nacional de Telecomunicaciones, an agency created with the specific aim of ensuring regularity, equity and continuity of the services, to promote universal access to basic telephone services and to encourage competition in non-exclusive segments. This office, in spite of its transformation in 1997 into the Comisión Nacional de Comunicaciones, had very little independence because the Communications Secretariat retained power to intervene in its activities. Hence, the overall management of the process and the implementation of a regulatory regime were hindered by the fact that the responsibility, instead of being in the hands of a specialized regulatory agency, was shared, or at times totally taken over, by the government. This was the most serious drawback with ENTel’s privatization, and provided a valuable future lesson for the reform of energy utilities.... There are plans ... to open the telecommunications market to full competition. But the fact remains that at the present time, basic telephony is provided by Telefónica de Argentina and Telecom, and water and sewerage services by Aguas Argentinas. Regulation is weak on the part of telephony service, but it is more elaborated for water and sanitation....

Privatization, as implemented by the Argentinean government at the end of the 1980s mainly involved authorization from the congress, the splitting up of the state-run companies and the design of regulatory frameworks. However, **as reforms were introduced in an era characterized by hyperinflation, recession and a significant fiscal deficit, initial transfers were motivated by fiscal concerns without sufficient attention to the structure of the markets. For all these reasons, telecom services operated under monopolistic conditions, under a weak regulatory regime. Later, a more active participation by the congress and the design of more elaborate regulatory norms paved the way for a more competitive environment.** This appears to have been the case for the energy utilities. The water and sanitation services concession that took place under the urgent need for private involvement seems to be an exception.”

- Delfino, José A. and Casarin, Ariel A. “The Reform of the Utilities Sector in Argentina,” Discussion Paper No. 2001/74, United Nations University: WIDER (World Institute for Development Economics Research). Sept. 2001.

⁷⁰ Menem proposed the breakup in 1998.

“Argentina to Hasten End of Phone Monopoly,” by Clifford Krauss. Business/Financial Desk, International Business. 11/Mar/1998.

⁷¹ [The Puzzle of Latin American Economic Development](#), p. 160.

“Argentina to Hasten End of Phone Monopoly.”

⁷² Due to the creation of new firms, and to the fact that a competitive system raises productivity per worker. As productivity pre worker increases, demand for labor increases.

⁷³ The Argentine government is trying its hardest to comply with IMF demands, in order to receive the loans. If the government viewed breaking up the monopolies created by the privatizations as something the IMF would encourage, it is reasonable to assume they would be willing to do so (especially since just a few years ago the government proposed the breaking up of the telephone monopoly).

⁷⁴ “Con la ayuda del Fondo es más fácil,” “With the help of the IMF it is easier,” [Diario Popular](#), Buenos Aires, 17/mar/2002, p. 2.

Also- "El presidente Duhalde ratificó ayer que la Argentina "necesita ayuda internacional" y afirmó tener la impresión de que finalmente habrá una ayuda del FMI, como resultado de las negociaciones que se están llevando a cabo con ese organismo internacional.

Además, se refirió a quienes se preguntan por qué el Gobierno sigue negociando con el FMI: "Lo hago porque tengo la obligación de ahorrarle al pueblo argentino dificultades". Y recordó que otros países como Brasil, México y Uruguay tuvieron ayuda y eso les permitió "apurar la recuperación".

[-http://www.lanacion.com.ar/02/04/07/dp_386942.asp](http://www.lanacion.com.ar/02/04/07/dp_386942.asp)

-“Argentina Says It Needs More Economic Aid to Avert Turmoil,” The New York Times, 11/Mar/2002. Foreign Desk.

⁷⁵“Peru's finance minister, Pedro Pablo Kuczynski, complained today that the fund bungled its dealings with Argentina by adopting inconsistent policies that were at turns passive and inflexible. "The fund is partly to blame for this because the fund did not sound the alarm in time and then took a very hard line when things were incredibly difficult," he told Peruvian radio.

Hubert Védrine, the French foreign minister, assailed the I.M.F. for abandoning a longtime client and imposing "demands that have been excessive or at the wrong time." The French, who like the United States are significant fund shareholders, have called on the lending agency to step up its involvement to help Argentina recover.”

-“Turmoil in Argentina: International Finance; Argentina's Chaos Raises New Doubts on Monetary Fund,” The New York Times, 22/Dec./2001. Foreign Desk. by Joseph Kahn.

Also, “Latin America Urges Help for Argentina,” The Wall Street Journal.

Also, “The confidence of investors in emerging market economies and in the region has failed to improve, or do so only in a very limited fashion, partly because of the Argentinean crisis. Argentina has been cut off from all international and domestic credit, leading to its declaration of default. Under such conditions no country can function normally but will be condemned to a downward growth spiral, increasing the risk of further political and social deterioration. The early restoration of credit and of the payments system is essential for beginning the process of recovery. It would be appropriate for the Fund to take a more active role in seeking a solution to the Argentinean problem and its ramifications.”

Statement by the Honorable Nicolás Eyzaguirre, Minister of Finance of Chile Speaking on behalf of the Southern Cone Countries, International Monetary and Financial Committee
Washington, D. C., April 20, 2002

[-http://www.imf.org/external/spring/2002/imfc/stm/eng/chl.htm](http://www.imf.org/external/spring/2002/imfc/stm/eng/chl.htm)

⁷⁶ “IMF ‘to ignore’ Argentina cash plea,” BBC, 5/April/2002.

⁷⁷ "Argentina is bankrupt - the recession has been growing for four years, unemployment is growing, poverty is growing. In reality, our economy has collapsed,"

Jorge Remes Lenicov, Economic Minister of Argentina, quoted on BBC website, 11/Jan/2002.

-BBC, http://news.bbc.co.uk/hi/english/world/americas/newsid_1754000/1754749.stm

⁷⁸ Guillermo Calvo, chief economist of the Inter-American Development Bank, states that without IMF aid, inflation will increase. “Calvo: sin ayuda del FMI, la inflación se disparará,” La Nación. 8/April/2002.

Oscar Lamberto, el secretario de Hacienda de Argentina, also says that without IMF aid inflation will increase even more. “Más inflación,” La Nación, 9/April/2002.

⁷⁹ Except for the demand to decrease government spending and jobs, this paper agrees with the IMF on its policy recommendations (for example, terminating the practice by provinces of issuing paper that circulates as a money substitute). For more information, see Introductory Remarks on the Role of the IMF Mission in Argentina. Anoop Singh, Director for Special Operations, IMF Press Briefing, Buenos Aires, April 10, 2002. ARTICLE ATTACHED IN APPENDIX.

[-http://www.imf.org/external/np/tr/2002/tr020410.htm](http://www.imf.org/external/np/tr/2002/tr020410.htm)

⁸⁰“Simply put, the structure of the public finances in Argentina—by that I mean the provincial governments as well as the federal government—has raised spending to a level that can no longer be financed in an orderly way... Full implementation means meeting the deficit target of the pact, that is to reduce the deficit of the provinces by 60 percent with respect to 2001.”

- Introductory Remarks on the Role of the IMF Mission in Argentina. Anoop Singh, Director for Special Operations, IMF Press Briefing, Buenos Aires, April 10, 2002.

[-http://www.imf.org/external/np/tr/2002/tr020410.htm](http://www.imf.org/external/np/tr/2002/tr020410.htm)

⁸¹ **Jorge Remes Lenicov [current Economic Minister of Argentina] is asking the US and the International Monetary Fund (IMF) for financial support. The IMF says a lot will hinge on the economic programme currently being negotiated.**

But Argentina's president, Eduardo Duhalde, has warned that the proposed programme is "not sustainable" and could send Argentina down a path toward "greater woes".

Under the programme, Argentina would have to make budget cuts, a prospect that has angered many Argentines.

After the discussions, the head of the IMF mission, Anoop Singh, renewed calls for Argentina's provinces to end decades of runaway spending.

The head of the IMF, Horst Koehler, said: "The IMF is not asking for the impossible." He told Argentina's provinces and government to "face reality" and cut jobs.

Mr. Koehler said that if an agreement was reached with the provinces about their spending then he was optimistic the IMF could back Argentina.

-“Argentina pleads for new aid,” BBC, 18/April/2002.

http://news.bbc.co.uk/1/hi/english/business/newsid_1937000/1937769.stm

⁸² Eduardo Duhalde, President of Argentina, 18/April/2002.

-“Argentina pleads for new aid,” BBC, 18/April/2002.

http://news.bbc.co.uk/1/hi/english/business/newsid_1937000/1937769.stm

⁸³ “Argentines protest IMF-related budget cuts,” CNN.

-<http://www.cnn.com/2002/WORLD/americas/04/17/argentina.protests.reut/index.html>

⁸⁴ The IMF's Main Business: Macroeconomic and Financial Sector Policies

In its oversight of member countries' economic policies, the IMF looks mainly at the performance of an economy as a whole—often referred to as its macroeconomic performance. This comprises total spending (and its major components like consumer spending and business investment), output, employment, and inflation, as well as the country's balance of payments—that is, the balance of a country's transactions with the rest of the world.

The IMF focuses mainly on a country's macroeconomic policies—that is, policies relating to the government's budget, the management of money and credit, and the exchange rate—and financial sector policies, including the regulation and supervision of banks and other financial institutions. In addition, the IMF pays due attention to structural policies that affect macroeconomic performance—including labor market policies that affect employment and wage behavior. The IMF advises each member on how its policies in these areas may be improved to allow the more effective pursuit of goals such as high employment, low inflation, and sustainable economic growth—that is, growth that can be sustained without leading to such difficulties as inflation and balance of payments problems.

- <http://www.imf.org/external/pubs/ft/exrp/what.htm#glance>

⁸⁵ Macroeconomics, Fourth Edition, Andrew B. Abel and Ben S. Bernanke. Addison Wesley Longman, Inc. 2001.