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Economy

# Argentina: Who will pay for the crisis, them or us?

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## **Description:**

It was always clear that Argentine president Mauricio Macri governed for the rich and that his economic model would lead to a great crisis. The first affirmation was corroborated by the regressive redistribution of income perpetrated by his government over the last two years. The second has begun to be confirmed with the run on the peso during the last week of May 2018. An economic model based on huge external and tax imbalances paid for by external indebtedness is starting to totter. Everyone imagined that the financing would last until 2019, but the end of the film has come early in an unpredictable manner.

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In March 2018, Wall Street announced that it would no longer accept the bonds. The government met this refusal with a misleading announcement of a better local financing, but floating capital immediately grasped the meaning of this drying up. A flight of capital began, and the irrepressible rise of the dollar commenced. Financing was cut because of the creditors' fears of the future insolvency of the Argentine debtor - the level of risk for the country has increased and specialist press have described some dramatic scenarios.

## A consequence of the model

The fragility of the external sector is the most critical point of the current situation. The banks have withdrawn credits, noting the future absence of the dollars necessary to support indebtedness. They observe the extent of the external deficit, more than 30 billion dollars (5% of gross domestic product, GDP) in 2017.

The central hole is located in the sphere of trade. The deficit of 8 billion dollars (in 2017) was a historic record. It was engendered by the free trade fantasies of the government which opened the market to all kinds of imports. Whereas elsewhere in the world there are tough negotiations over customs tariffs, Argentine has become an entrepôt for all kinds of surpluses. Worst, exports have been reined in because of the rise in exchange rates generated by speculative capital.

The disequilibrium on the financial level is also dramatic. The rise of profits has been as sustained as the flight of capital. This drain is coherent with the elimination of all regulation of financial activity. The controls of the banking circuit were suppressed at the same speed as the cancellation of the obligation to change export dollars into pesos. It is on this same lack of protection that the financial cycle of the funds benefitting from the very high profitability of Argentinian bonds rests. The dizzying insurance rates which underpin this trading destroy any possibility of productive investment.

The fiscal black hole is equally impressive. It has reached the percentage of GDP (6 -7 %) which has traditionally precipitated big economic earthquakes. The government stresses the scope of this deficit and says it has to maintain it to finance gradualism and avoid greater sacrifices for the population. But all the imbalances derive from the model adopted and not from the rhythm of its implementation. If it has accelerated the latter, the disaster would have been infinitely worse.

When official spokespersons fulminate against "spending more than we earn" all the evils are located in the first component. They forget that income has been seriously affected by the reduction of taxes for exporters. Nor do they register that laundering and tax evasion has not been reduced. Argentina ranks fifth in the world on this front and the official mode of protecting wealth through "off-shore" enterprise illustrates who are the promoters of tax fraud. The

government also forgets to acknowledge that payment of interest deteriorates the public accounts. During the first quarter of this year, these payments increased by 107% in relation to 2017.

The neoliberal model generates problems for which the government cannot compensate. The disaster underway was not unleashed by the new tax scale affecting profits on securities, but by the appalled reaction of the central bank. In a few days, it buried several manuals of monetary policy. It resorted to all the known instruments to brake a run and none was effective.

The international crisis has not until now been determinant for the Argentine earthquake. Global financial liquidity persists and there has been no repetition of the "tequila effect" on Latin American economies. Certainly, the increase in US interest rates altered all world investment, but for the moment this has had limited effects.

If Argentina experiences this cooling by going down with pneumonia, it is because of the panic sparked by the level of its indebtedness. In the last two years the country has become the world leader in bond issue and it is being punished for this lack of control. But the population is not responsible for this. The guilty parties are Macri and his cabinet, who have enriched the capitalist class while reproaching all "Argentiniens" for a fraud committed by this privileged minority.

## Return to the IMF

The figures for May 2018 indicate the gravity of the crisis: a devaluation of 20%, interest rates at 40%, a loss of 8 billion dollars from the reserves. The fear of a dramatic outcome is growing, with some symptoms of transfer of this tension to the banks. The government shows contempt for the population in issuing messages of tranquillity. It wants to create the illusion of a simple correction in the fluctuation of exchange rates without any consequence.

However, it repeats that the level of indebtedness is "low in relation to GDP" as if these generic percentages (and not the effective capacity of debtors to pay) determined the attitude of creditors. While the official discourse minimises the crisis, abroad the financiers are urged to "get out of Argentina" (*Forbes*). The government's tranquillity is aimed at avoiding the collective wake-up call faced with this grave situation.

The decision to resort to the International Monetary Fund (IMF) for help confirms the dramatic aspect of the conjuncture. A desperate measure which has surprised the leaders of the IMF themselves. It illustrates the panic of a government seeking at any price to shield against a run. The decision was so improvised that it was announced without any programme or change of minister. The officials made their pilgrimage to Washington without knowing the conditions of the loans that they would beg for. In the context of low international interest rates, and a certain recovery from the crisis of 2008, very few countries resort to the services of the IMF. Those who choose this option have no other refuge.

It is totally ridiculous to imagine the existence of "another IMF". This institution is still managed by experts in demolishing popular conquests. The countries subject to its tyranny live in the worst of worlds, as is shown by the case of Greece which has not been able to shake off the IMF audit. The Greeks have already suffered four bank rescues and three sharp recessions which have cut national income by 25%. The unemployment rate is around the same percentage, the public debt has climbed to 180% of GDP and pensions have been reduced 14 times.

Argentina faces the same perspectives. The IMF will be very harsh with our country. Of the three variants of credits of which it disposes, the IMF only offers the most unpalatable version. It has ruled out the flexible line accorded to

Colombia and Mexico and the modality of precaution (used by Macedonia and Morocco). Argentina will only be granted a known "stand by" for an amount as yet unknown. The 30 billion dollars requested by the government exceeds all the amounts allocated to the 13 countries who have stabilisation plans. The final sum will arrive also by eyedropper to avoid its rapid conversion into currencies fleeing abroad. Each portion of this credit used will be rigorously controlled by the IMF envoys. This revision symbolises the brutal return to the 1990s. The IMF experts will return every quarter to note their dissatisfaction and demand greater adjustments.

There is no mystery in the immediate demands of this delegation. In December 2017, these experts drew up a detailed ultimatum to reduce social expenditure, with greater flexibility of work, a reform of the benefits system and layoffs in the public sector. The gradual privatisation of the social security system (known under the acronym of ANSES) and a drastic cut in provincial budgets appeared at the head of this agenda. In the current negotiations, they have added a new laundering of capital and above all a mega-devaluation with a recession allowing a real improvement in the exchange rate.

The rhythm and application of this package will depend on the intensity of the crisis. But whatever the scenario, the pact signed with the IMF will bring the Argentine economy to the precipice. We can already see the vicious circle of adjustments which contract productive activity, reduce the collection of taxes, boost the fiscal deficit and leads to new adjustments. The anticipations are of a new annual inflation peak of 30 %. If interest rates do not fall rapidly, recession will be inevitable. The government has cut 30 billion pesos in public works, but the IMF will demand a total paralysis. In the coming month, nobody will remember the statistical fiction of a reduced poverty broadcast by the government. It is enough to observe the shocking growth of begging in the streets to see what kind of social panorama faces the country.

## What reaction?

The management of the bomb dropped by the government will depend on memory and capacity for popular reaction. The total rejection of the agreement with IMF is shown by polls prior to the negotiations showing that among the 75% of those questioned who reject this agreement could be found the great majority of those who had voted for Cambiemos, the party of Mauricio Macri.

The return to the IMF has enormous emotional meaning. It recreates everything that happened in the 2001 banking crisis, which is why many analogies are being drawn with the approach of Argentina's then president, De la Rúa. This must be transformed into active rejection, through mobilisation and alternative proposals. The point of departure consists in winning the street to generate an immediate reversal of the current course. The climate of tacit acceptance of deregulation - promoted by the mass media - dismantles the economy. To avoid aggravation of the crisis, it is necessary to reintroduce all the regulations eliminated by the government. These are basic emergency measures.

Exchange control is urgent as is stopping the free entry and exit of capital. The deposits of small savers should be protected, whereas the big banks and holders of devalued securities should take on the losses for this. It is necessary to eradicate all the myths of adversity, of an "exchange rate trap". Dollars are not a freely available private good. Without control over their hoarding and circulation, there is no way to defeat runs.

Instead of resorting to the IMF we need an investigation of the debt contracted in recent years and judgement of those responsible for this adventure. Finance minister Caputo, treasury minister Dujovne and central bank president Sturzenegger should be brought before the courts. While the real state of the public accounts is revised, it is necessary to halt the haemorrhage of foreign currency imposed by the payment of interest. The current crisis began

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with submission to the vulture funds and it cannot be resolved without settling accounts with the plunderers of the national treasury. State management of the financial sector is a condition for getting out of the current delicate situation.

Only this would allow making the cost of the crisis fall on those responsible for it and not on the popular majority. This demands a frontal battle of ideas with all the right-wing economists who dominate the television. They praise the agreement with the IMF as a new justification of the mega-adjustment and present it as necessary so as to "respect our global commitments". But the feasibility of this has reduced drastically. The political scenario has changed, and the election results are far from the current urgency. Macri will try to balance the carrot and the stick and is proposing to veto the tariff restriction law while seeking to copy the Brazilian model of para-institutional government.

The intensity of the mobilisation will define who wins. The reaction is for the moment limited, and we await the reappearance of the huge forces who took to the streets in December 2017. This potential for struggle could be recovered in the battles against tariff increases and the ceiling placed by the Macri government on pay increase through collective bargaining. But rejection of the IMF now occupies first place in all the demands.

It is urgent to turn back the huge aggression against popular conquests of recent years. The much-announced mega-adjustment is finally approaching. Faced with the artillery prepared by the government, the IMF and the capitalists, we need to build popular defences at top speed. As has already happened before, once again it is them or us.

*PS:*

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