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LIVING WITHIN OUR **ALDO FERRER** MEANS

An examination of the Argentine
economic crisis

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An Examination of the Argentine Economic Crisis

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THIRD WORLD FOUNDATION
for social and economic studies



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Preface

Argentina's current international insolvency presents it with the dilemma of how to proceed in order to ensure its economic sovereignty; in other words, the right to decide its own destiny. The answer is: for Argentina to try to live within its means. For as long as the present crisis lasts, Argentina must rely on its own resources to overcome it, to get its economy moving again and to regain its international viability.

The basic message contained in these pages is that the crisis goes beyond the social and the economic spheres, however serious these two aspects of it may be. It also involves challenges to the sovereignty of the nation. The choice is clear: the Argentine government can either become simply the administrator of the foreign debt on behalf of the creditor banks or it can regain control of its economy to resolve the crisis by putting national interests first. Nothing more, nothing less. The conclusion is that for real economic and political independence to be possible, the Argentine government has to take the decision to live within its own means, and, once that decision has been taken, to work out its negotiating position with respect to its foreign creditors.

In such a situation, it is hardly surprising that the old argument crops up as to whether Argentina is or is not able to grow using its own resources, relying to a large extent on its internal market. All the traditional questions about Argentina's development are being raised again, but this time at a particularly critical moment. If they wish to be coherent, those who defend the viability of a nationally based development strategy must demonstrate that our resources are sufficient to overcome the crisis and can produce growth. Others preach that Argentina is helpless and that both foreign capital and the international market are essential to accumulation and growth. Their programme was adopted wholeheartedly by the military

governments from 1976 to 1983, with results that are now all too obvious.

The danger at present is not one of continuing this orthodox line, which the seven years of military rule have totally discredited. It is rather that Argentines may be incoherent in their attempts to reach the inevitable conclusion: that if they wish to be independent, they must make do with their own resources. The orthodox strategy has left a deep impression, and one often hears representative leaders of Argentine national life insinuating, or even stating openly, that without foreign resources there can be neither development nor a way out of the crisis. If this were really true, there would be no possibility of Argentina being independent, given its current international insolvency.

Fortunately, however, this is not true. Argentina's land area is the eighth largest in the world, it is exceptionally rich in natural resources, has a surplus of foodstuffs and is practically self-sufficient in energy. Its 30 million inhabitants' average earnings are approximately \$3000 a year, and it has a savings rate of 20 per cent. It is a society with a high cultural level, a wealth of technological expertise, and no social, ethnic or religious incompatibilities. A society with such advantages does have the necessary resources and capability for development.

This list of objective factors which illustrate Argentina's basic potential and the feasibility of independent development does not imply that an autarkic strategy would be viable. Independence is not autarky, nor does national development mean ignoring the importance of international trade and the links with foreign countries which are an integral part of the current system. What it does imply is that Argentina's economic policy should reflect the objectives of change, social justice and a proper international role which will allow it to achieve its full potential. This will be feasible only if Argentina fully accepts the possibilities of its own potential and refuses to accept the orthodox criteria which are still predominant in international financial circles, criteria that coincide within Argentina with the views held by that sector which is the inheritor of pre-industrial Argentina and has been the wielder of authori-

tarian power. The defence of Argentine sovereignty calls, first and foremost, for Argentines to sort out their affairs. The present chaos and disorder are so great as to render impossible any attempt at an independent policy.

The second message of this book is that this could be the starting point for the consolidation of the democratic system in Argentina. The very depth of the crisis presents the country with an unavoidable choice: either this marks the end of authoritarian regimes, or Argentina will be plunged headlong into complete dissolution amid unending conflict. The response to this dilemma will be decisive in the future performance of the Argentine economy.

The third point is that the economic crisis cannot be resolved simply by bringing into play the traditional instruments of economic policy and allowing market forces free rein. A basic agreement is needed among the principal sectors of Argentine society to defend democracy and support a coherent policy in order to stimulate the economy, raise the standard of living, bring down inflation and strengthen the country's international position. This has led to the widespread and justified conviction of the need for an Economic and Social Pact to meet the crisis.

Such a Pact, however, would fail if it did not restore order to the economic and financial system. The country's fiscal policy and foreign debt have created massive imbalances in public finances and in the monetary system, which can be seen in the disastrous situation that characterises all the markets and the country's international relations. The constitutional government of President Raúl Alfonsín inherited a bankrupt country, and a State which is almost powerless to reverse the present trends or to resolve the most pressing social tensions. Any economic and social recovery must be based on a thorough financial reform which will restore order to the public sector, the monetary system and the country's international payments.

This book is divided into two parts. Part I proceeds from an examination of the current fiscal chaos and the external debt question, to an identification of the main sources of the present public and monetary imbalances and then outlines some basic measures for resolving the problems. It also

proposes an extensive financial reform which would aim to reduce the fiscal deficit and its effects on the money supply to levels compatible with an economic recovery and a drastic cut in the inflation rate. A strategy for paying the public debt is central to this proposed reform. The foreign-debt question is of paramount importance both because of the international aspect of the problem and the difficulty of reconciling the fulfilment of external commitments with the need to revive the Argentine economy and bring price stability. Part I, therefore, begins by looking at the size of the debt problem and the different strategies for meeting it. The current worsening of inflation is seen as a specific means for dealing with the international payments problem within the context of the present Argentine social and political situation. We then turn to proposals for a reform of the financial system, with an outline of the main measures suggested for achieving this. Part I ends with an examination of how Argentina can meet its external financial commitments while still reviving its own economy.

Part II discusses possible policies for meeting the crisis, on the basis of a Pact between the main sectors of Argentine society. The first section pinpoints the basic questions which have to be resolved to facilitate such a Pact. We then examine the situation in which the constitutional government had to elaborate its economic policies, and suggest a strategy for recovery. There follows an explanation of the policies which seem to us necessary in order to produce economic recovery, a cut in inflation, and to ensure that Argentina can meet its international payments. The book ends with a consideration of how the chief macro-economic variables will be affected if the proposed policies are put into effect, taking into consideration the current situation.

A preliminary version of the proposals discussed in this book was presented at the Centro de Estudios de Coyuntura del Instituto de Desarrollo Economico y Social in Buenos Aires. The exchange of ideas on that occasion enabled me to broaden its scope and to arrive at more definite conclusions for whose accuracy I am entirely responsible.

Aldo Ferrer

Buenos Aires, November 1983