

External Dependency
and Internal Transformation:
Argentina Confronts the Long Debt Crisis

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Acronyms

CEEED	Centro de Estudios Económicos de la Empresa y el Desarrollo
CISEA	Centro de Investigaciones Sociales sobre el Estado y la Administración (Buenos Aires)
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	gross domestic product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadística y Censos
NAFTA	North American Free Trade Agreement
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States

Summary/Résumé/Resumen

Summary

In this paper, Jorge Schvarzer analyses the structural impact of the foreign debt crisis that erupted in Latin America at the beginning of the 1980s and persists today. Focusing particularly on Argentina, he traces attempts to deal with the crisis and shows how, far from resolving the problem, these efforts have gradually drawn many countries into a form of “debt bondage” that fundamentally restricts their capacity to improve social conditions.

The Argentine debt crisis began in the early 1970s, when transnational banks started to offer abundant credit to Latin American countries. Conditions were minimal, but the banks protected themselves to some extent by making short-term loans, so that they could adjust the rate of interest to the evolution of the market. Some countries made productive use of these loans. Under the Argentine military government, however, they were largely destined to prop up the exchange rate and to provide speculative windfalls to a small number of elites. The crisis broke in 1981, when the government changed and this dubious financial strategy collapsed.

The situation for all borrowers worsened at this time as an outgrowth of the decision of the US Federal Reserve Board to combat inflation through sharp increases in interest rates. These tripled—reaching 20 per cent in 1981—and were applied to all Latin American loans as they were renewed. Such a burden was unsustainable. Mexico threatened to default in 1982 and was promptly rescued in an operation led by the US government. Meanwhile, the banks attempted to defuse the crisis—and to protect their own accounts—by systematically rolling over loans. Total Latin American debt began to grow at around 20 per cent per year, simply as a result of the capitalization of interest, even if the banks accorded no new loans for other purposes.

Meanwhile, creditors and their governments developed a salvage operation based on principles that were consolidated over time. The first principle held that the crisis was not a general one, but a dangerous combination of different national problems, which could be addressed on a case-by-case basis and definitely not in a multilateral way. Second, the crisis was diagnosed as one of liquidity, and not of solvency, which meant that it could be resolved using classic adjustment measures. Finally, responsibility was placed squarely on the borrowers or on unforeseen factors (such as the sharp rise in the price of oil). Creditors were thus exempt from paying a major share of the cost of the crisis.

On these premises, debtors were subject to classic International Monetary Fund prescriptions for stabilization and adjustment, which encouraged both inflation (linked to devaluation) and recession (caused by reduced expenditure). Such measures are debatable even in the best of circumstances—short-term economic imbalance—and are clearly irrational when the accumulated foreign debt has had deep structural impacts. By 1982, debt service reached 10 per cent of Argentina’s gross domestic product (GDP)—four times the proportion of national income transferred abroad by the Weimar Republic before it fell into the abyss 50 years earlier.

The rest of the 1980s in Argentina, and to a greater or lesser extent throughout the rest of Latin America, were years of “muddling through”. Adjustments required to meet external debt obligations were so severe that most countries could not meet the targets repeatedly set in international agreements. Attempts to work with creditors toward a comprehensive solution for an unpayable debt failed to produce results—an outcome particularly damaging for President R. Alfonsín’s new democratic regime in Argentina, which had hoped for support during the transition from military rule. Wages continued to drop, unemployment to rise, and capital to flee the country. The Argentine government was constrained to devote almost 40 per cent of the budget to buying foreign exchange for debt servicing, which left very little for maintaining the quality and coverage of basic public services. In the end, it resorted to printing money, setting off an inflationary process that was halted only in 1991, with a stabilization plan that heralded a new stage in the adjustment process.

In the early 1990s, desperation led to much deeper economic reform in Argentina—and throughout most of the rest of Latin America. Unable to cope with its debt servicing obligations, the government began to privatize major public companies—delivering them to creditors in return for debt certificates. This continued in stages until virtually all had been handed over; but privatization in Argentina did not significantly improve the public accounts over the longer term. Part of the receipts went to reduce the debt and another part helped support treasury revenue during the transition from inflation. The state continued to operate with limited resources. And the debt continued to grow, not only through capitalization of interest from old loans, but through a new form of debt bondage that appeared at the turn of the 1990s.

New debts were generated by the massive sale of government bonds and the return of Latin America to private financial markets. Involvement in bond markets took off in the early 1990s, when US Treasury Secretary James Brady designed an ingenious plan to deal with the long-standing debt crisis. Banks could exchange their debt paper for bonds, issued by the debtor countries and guaranteed by US Treasury securities. This greatly improved the banks’ balance sheets. It also opened up a major new financial market for indebted countries.

Latin American debt issued in bonds (including Brady bonds) increased from \$18 billion in 1986 to \$125 billion in the early 1990s. Bank loans fell by 97 per cent (to 30 billion) during the same period. Broad financial deregulation simultaneously attracted new waves of speculative capital, as well as new foreign direct investment. The inflow of capital has strengthened local currencies against the dollar; and in the case of Argentina, this has been maintained by an Act of Congress, which fixed an exchange rate of one peso per dollar. The new policy increased the value of the GDP, expressed in dollar terms, and thus reduced the nominal weight of the debt in the Argentine economy. Thus, at the stroke of a pen, the debt stock fell from 99 per cent of GDP in 1989 to 40 per cent in 1992, while the cost in local currency of servicing interest on the foreign debt fell from 8 per cent of GDP in the mid-1980s to less than 2 per cent in 1993. But relief was the result of a monetary sleight of hand. It did not reflect the kind of structural change required to lighten the burden of debt.

The strong Argentine peso has sustained a surge in imports; and the growth of imports in turn threatens employment in local manufacturing. Industrial employment fell by about 30 per cent during the 1990s, adding large numbers of workers to the ranks of those already unemployed by public sector downsizing. At the same time, purchases of foreign goods have worsened the trade deficit and thus swell the magnitude of the foreign debt. Between 1992 and 1998, this debt doubled (from \$60 billion to \$120 billion). The cycle of the 1970s is reappearing under new conditions.

Argentina currently confronts capital maturities on the order of \$10 billion per annum. Consequently, the treasury must negotiate new credits every year in this amount, solely to postpone payment. Moreover, rates of interest on new borrowing are variable, and they rise markedly when international rating agencies perceive greater "country risk". This generates a narrow and continuous dependence on capital markets, and it forces the government to adhere to guidelines for economic policy laid out by global financial interests. If the latter did not accord new loans, the country would immediately enter a balance-of-payments crisis.

Thus the evolution of financial markets has converted the pressure for structural reforms that arose from the debt crisis into a "normal" and continuous process. And this gravely circumscribes the room for manoeuvre within societies that continue to suffer extremely high levels of poverty, unemployment and inequality.

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Résumé

Jorge Schvarzer analyse ici les répercussions structurelles de la crise de la dette extérieure qui a éclaté en Amérique latine au début des années 80 et dure encore aujourd'hui. En centrant son attention sur l'Argentine, il retrace les efforts tentés pour régler la crise et montre que, loin de résoudre le problème, ces efforts ont enchaîné peu à peu de nombreux pays, créant une espèce de "servitude par endettement" qui restreint considérablement leur aptitude à améliorer les conditions sociales.

La crise de la dette en Argentine a commencé au début des années 70 avec l'abondance des crédits offerts par les banques transnationales aux pays de l'Amérique latine. Les conditions étaient minimales mais les banques se protégeaient dans une certaine mesure en faisant des prêts à court terme de manière à pouvoir adapter le taux d'intérêt à l'évolution du marché. Certains pays ont fait un usage productif de ces crédits. Sous le régime militaire argentin, cependant, ceux-ci ont surtout servi à soutenir le cours du change et à répandre sur une petite élite une manne de profits spéculatifs. La crise a éclaté en 1981 avec le changement de gouvernement et l'échec de cette stratégie financière douteuse.

A cette époque, tous les emprunteurs ont vu leur situation se dégrader à la suite de la décision du conseil d'administration de la Réserve fédérale américaine de combattre l'inflation par de fortes hausses des taux d'intérêt. Ceux-ci ont triplé, atteignant 20 pour cent en 1981, et ont été appliqués à tous les prêts latino-américains à mesure qu'ils étaient renouvelés. Une telle charge n'était plus supportable. En 1982, le Mexique menaça de ne plus honorer ses engagements et fut rapidement secouru par une opération dirigée par le gouvernement des Etats-Unis. Entre-temps, les banques avaient tenté de désamorcer la crise, et de protéger leurs propres comptes, en prolongeant systématiquement la durée des prêts. La dette totale de l'Amérique latine commença à augmenter au rythme d'environ 20 pour cent par an, par le simple fait de la capitalisation des intérêts, même si les banques n'accordaient pas de nouveaux prêts à d'autres fins.

Les créanciers et leurs gouvernements mirent au point une opération de sauvetage sur la base de principes qui se sont affermis avec le temps. Le premier principe voulait que la crise ne fût pas générale mais une dangereuse combinaison de différents problèmes nationaux que l'on pouvait résoudre au cas par cas mais certainement pas de manière multilatérale. Deuxièmement, la crise avait pour origine un problème de liquidités, et non de solvabilité, ce qui signifiait que les mesures classiques d'ajustement étaient capables de la résoudre. Enfin, la faute de la crise revenait aux emprunteurs ou à des facteurs imprévus (tels que la hausse subite du cours du pétrole). Les créanciers étaient ainsi exonérés d'une partie importante du coût de la crise.

Ce raisonnement posé, les débiteurs durent se soumettre aux prescriptions classiques du FMI à des fins de stabilisation et d'ajustement, ce qui favorisa à la fois l'inflation (liée à la dévaluation) et la récession (à cause d'une réduction des dépenses). De telles mesures sont discutables même dans la meilleure des conjonctures car elles annoncent un déséquilibre économique à court terme mais elles sont de toute évidence irrationnelles lorsque la dette extérieure accumulée a eu de profondes répercussions structurelles. En 1982, le service de la dette pour l'Argentine atteignait 10 pour cent du PIB—quatre fois la part du revenu national que la République de Weimar transférait à l'étranger avant sa chute, 50 ans auparavant.

L'Argentine a passé plus ou moins le reste des années 80, comme le reste de l'Amérique latine dans une plus ou moins grande mesure, à se débattre pour s'en sortir. Les ajustements auxquels elle aurait dû procéder pour remplir ses engagements au titre de la dette extérieure étaient si rigoureux qu'à plusieurs reprises la plupart des pays ne purent atteindre les objectifs fixés dans les accords internationaux. Les tentatives faites pour rechercher avec les créanciers une solution globale au problème d'une dette impossible à rembourser ne donnèrent aucun résultat, ce qui eut des effets particulièrement néfastes sur le nouveau régime démocratique d'Alfonsín en Argentine, qui avait espéré un appui pendant cette période de transition d'après régime militaire. Les salaires continuèrent à baisser, le chômage à augmenter et les capitaux à fuir le pays. Le gouvernement argentin était obligé de consacrer près de 40 pour cent du budget à l'achat de devises étrangères pour le service de la dette, de sorte qu'il ne lui restait plus grand-chose pour maintenir la qualité et l'étendue des services publics de base. A la fin, il dut recourir à la planche à billets, déclenchant un processus inflationniste qui ne s'arrêta qu'en 1991, avec un plan de stabilisation qui annonçait une nouvelle phase dans le processus d'ajustement.

Au début des années 1990, l'Argentine et la plus grande partie de l'Amérique latine, désespérées, engagèrent une réforme économique beaucoup plus profonde. Ne pouvant honorer les engagements du service de la dette, un gouvernement se mit à privatiser les grandes sociétés publiques et à les céder aux créanciers en échange de titres de créance. Ce processus se poursuivit par étape jusqu'à ce que pratiquement tout fût vendu, mais la privatisation en Argentine n'entraîna pas d'amélioration sensible des comptes publics à long terme. Une partie des recettes servait à réduire la dette et une autre à soutenir les recettes fiscales au moment où le pays se débattait pour juguler l'inflation. L'Etat continuait à fonctionner avec peu de ressources. La dette s'accroissait toujours, du fait non seulement de la capitalisation des intérêts dus sur les emprunts anciens, mais aussi d'une nouvelle forme de servitude par endettement apparue au début des années 90.

La vente massive d'obligations gouvernementales et le retour de l'Amérique latine sur les marchés financiers privés engendrèrent de nouvelles dettes. Les émissions d'obligations s'envolèrent au début des années 90 lorsque le Secrétaire du Trésor américain James Brady conçut un plan ingénieux pour gérer la crise de la dette ancienne. Les banques pouvaient échanger leurs titres de créance pour des obligations émises par les pays débiteurs et garanties par des bons du Trésor américain. Les bilans des banques en furent considérablement améliorés et un important nouveau marché financier s'ouvrit aux pays endettés.

La dette latino-américaine émise en obligations (notamment en obligations Brady) passa de 18 milliards de dollars en 1986 à 125 milliards au début des années 90. Pendant la même période, les emprunts bancaires se replièrent de 97 pour cent pour revenir à 30 milliards. En même temps, une large déréglementation financière attirait de nouvelles vagues de capitaux spéculatifs, ainsi que de nouveaux investissements étrangers directs. L'afflux de capitaux renforça les monnaies locales par rapport au dollar, ce qui, dans le cas de l'Argentine, fut sanctionné par une loi du Congrès qui fixa le taux de change à un peso pour un dollar. La nouvelle politique accrut la valeur du PIB exprimée en dollars et réduisit le poids nominal de la dette dans l'économie argentine. Ainsi, en un trait de plume, la valeur de la dette fut ramenée de 99 pour cent du PIB en 1989 à 40 pour cent en 1992, tandis que le coût en monnaie locale de l'intérêt du service de la dette extérieure passait de 8 pour cent du PIB vers 1985 à moins de 2 pour cent en 1993. Mais le soulagement était le résultat d'un tour de passe-passe monétaire et ne devait rien aux changements structurels qu'aurait nécessités un véritable allègement de la charge de la dette.

Le peso argentin, relativement fort, a favorisé une croissance des importations qui menace maintenant l'emploi dans les manufactures locales. L'emploi dans l'industrie a diminué d'environ 30 pour cent pendant les années 90, ce qui a grossi les rangs de ceux que les compressions d'effectifs dans le secteur public avaient laissés sans emploi. En même temps, les achats de biens étrangers ont creusé le déficit commercial et ainsi gonflé la dette extérieure. Entre 1992 et 1998, cette dette a doublé (passant de 60 à 120 milliards de dollars). Le cycle des années 70 se répète dans des conditions nouvelles.

L'Argentine doit faire face actuellement à des échéances de l'ordre de 10 milliards de dollars par an. En conséquence, le Trésor doit négocier tous les ans de nouveaux crédits de ce montant, uniquement pour retarder le paiement. De plus, les taux d'intérêt sur les nouveaux emprunts sont variables et montent en flèche lorsque les agences internationales de notation financière jugent "l'investissement dans le pays" plus risqué. Il en résulte une dépendance étroite et constante à l'égard des marchés de capitaux, ce qui force le gouvernement à suivre, en matière de politique économique, les directives fixées par des intérêts financiers mondiaux. Si ces derniers n'accordaient pas de nouveaux prêts, le pays serait immédiatement plongé dans une crise de la balance des paiements.

L'évolution des marchés financiers a donc transformé les pressions en faveur de réformes structurelles, qui étaient nées avec la crise de la dette, en un processus "normal" et continu. Dans des sociétés qui continuent à souffrir de niveaux extrêmement élevés de pauvreté et de chômage et de très fortes inégalités, la liberté de manoeuvre en est sérieusement restreinte.

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Resumen

En el presente informe, Jorge Schvarzer analiza los efectos estructurales de la crisis de la deuda externa que estalló en Latinoamérica a principios de la década de los años 80 y que persiste en la actualidad. Centrándose en particular en Argentina, hace un seguimiento de las iniciativas adoptadas para hacer frente a la crisis y explica el modo en que estas medidas, lejos de solucionar el problema, han conducido gradualmente a muchos países en una especie de "servidumbre por deudas" que fundamentalmente limita su capacidad de mejorar las condiciones sociales.

La crisis de la deuda de Argentina comenzó a principios de la década de los años 70, cuando los bancos transnacionales empezaron a ofrecer créditos abundantes a los países latinoamericanos. Las condiciones eran mínimas, pero los bancos se protegían de algún modo facilitando créditos a corto plazo, para poder adaptar así el tipo de cambio a la evolución del mercado. Algunos países hicieron uso productivo de estos créditos. Sin embargo, durante el Gobierno militar de Argentina, estos se destinaron en su mayor parte a apoyar el tipo de cambio y a proporcionar beneficios especulativos a ciertos grupos elitistas. La crisis estalló en 1981 a raíz del cambio de gobierno, lo que condujo al hundimiento de esta problemática estrategia financiera.

La situación de todos los prestamistas empeoró en esta época, a consecuencia de la decisión adoptada por la Junta de Gobernadores de la Reserva Federal de los Estados Unidos de hacer frente a la inflación mediante un aumento tajante de los tipos de cambio, que se triplicaron— hasta alcanzar el 20 por ciento en 1981—y aplicaron a todos los préstamos concedidos en Latinoamérica, a medida que iban renovándose. Esta carga era insostenible. En 1982, México

amenazó con incumplir el pago y recibió el apoyo inmediato del gobierno de los Estados Unidos, que organizó una operación de rescate. Entretanto, los bancos trataron de controlar la crisis—y de proteger sus propios intereses—extendiendo sistemáticamente el plazo de los préstamos. La deuda total de Latinoamérica comenzó a aumentar aproximadamente un 20 por ciento al año, simplemente a consecuencia de la capitalización del interés, incluso si los bancos no concedían nuevos préstamos para otros fines.

Mientras tanto, los acreedores y sus gobiernos iniciaron una operación de rescate, basada en principios consolidados a lo largo del tiempo. El primer principio defendía que la crisis no era general, sino una combinación peligrosa de diferentes problemas nacionales, que podían abordarse por separado y en ningún caso de un modo multilateral. En segundo lugar, se consideró que se trataba de una crisis de liquidez, y no de solvencia, lo que significaba que podía resolverse mediante la adopción de medidas clásicas de reajuste. Por último, la responsabilidad se atribuyó directamente a los prestamistas o a los factores imprevistos (como el aumento tajante del precio del petróleo), lo que dispensó a los acreedores de pagar una parte importante del coste de la crisis.

Conforme a estas premisas, los acreedores dependían de las disposiciones clásicas del FMI para la estabilización y el reajuste, que fomentaban tanto la inflación (vinculada a la devaluación) como la recesión (provocada por la reducción del gasto). Estas medidas son discutibles incluso en las mejores circunstancias—desequilibrio económico a corto plazo—y son claramente ilógicas cuando la deuda externa acumulada ha tenido profundas consecuencias estructurales. En 1982, el servicio de la deuda alcanzó el 10 por ciento del PIB de Argentina—cuatro veces la proporción de los ingresos nacionales que la República de Weimar transfirió al extranjero 50 años antes de su derrumbamiento.

Los años restantes de la década de los años 80 en Argentina, y en mayor o menor grado en el resto de Latinoamérica, fueron años “para salir del paso”. Los reajustes necesarios para hacer frente a las obligaciones de la deuda externa eran tan estrictos que la mayoría de los países fueron incapaces de cumplir los objetivos establecidos en los acuerdos internacionales. Se fracasó en el intento de colaborar con los acreedores en la búsqueda de una solución general al problema de una deuda no reembolsable—lo que perjudicó notablemente al nuevo gobierno democrático de Alfonsín en Argentina, que confiaba en recibir apoyo durante el periodo de transición del régimen militar. Los salarios siguieron disminuyendo, el desempleo fue en aumento y el capital siguió saliendo del país. El gobierno de Argentina se vio obligado a invertir casi el 40 por ciento del presupuesto en la compra de divisas extranjeras para afrontar el problema de la deuda, por lo que apenas quedaron recursos para mantener la calidad y el alcance de los servicios públicos básicos. Al final, el gobierno recurrió a la impresión de dinero, iniciando un proceso de inflación que no se frenó hasta 1991, fecha en que se introdujo un plan de estabilización que anunció una nueva fase del proceso de reajuste.

A principios de la década de los años 90, la desesperación condujo a una reforma económica mucho más profunda en Argentina—y en la mayor parte del continente. El gobierno, incapaz

de afrontar las obligaciones del servicio de la deuda, comenzó a privatizar las grandes empresas públicas—entregándolas a los acreedores a cambio de certificados de adeudo. Este proceso atravesó varias fases hasta que se entregaron casi todas las empresas, pero la privatización en Argentina no mejoró notablemente las cuentas del Estado a largo plazo. Una parte de los ingresos se destinó a combatir la deuda, y otra parte a apoyar los ingresos del Tesoro durante la transición de la inflación. El Estado siguió disponiendo de recursos limitados para sus iniciativas y la deuda continuó aumentando, no sólo mediante la capitalización del interés de antiguos préstamos, sino mediante una nueva forma de servidumbre por deudas que surgió a finales de la década de los años 90.

La venta a gran escala de los bonos del Estado y el regreso de Latinoamérica a los mercados financieros privados condujeron a la aparición de nuevas deudas. La participación en los mercados de obligaciones comenzó a principios de la década de los años 90, cuando James Brady, Secretario de Hacienda de los Estados Unidos, elaboró un hábil plan para afrontar la larga crisis de la deuda. Los bancos pudieron intercambiar sus valores de la deuda por bonos, emitidos por los países acreedores y garantizados por los títulos del Tesoro de los Estados Unidos, lo que mejoró considerablemente el balance general de los bancos y abrió un nuevo e importante mercado financiero para los países endeudados.

La deuda de Latinoamérica emitida en bonos (incluidos los bonos de Brady) aumentó de 18 mil millones de dólares de los Estados Unidos, en 1986, a 125 mil millones, a principios de la década de los años 90. En este mismo periodo de tiempo, los préstamos bancarios disminuyeron un 97 por ciento (a 30 mil millones). La amplia liberalización de normas financieras atrajo nuevas oleadas de capital especulativo, así como nuevas inversiones extranjeras directas. La afluencia de capital fortaleció las divisas locales frente al dólar y, en el caso de Argentina, esto se ha mantenido por una ley del Congreso, que fijó un tipo de cambio de un peso por dólar. La nueva política aumentó el valor del PIB, expresado en dólares, y redujo el peso nominal de la deuda en la economía de Argentina. Así, la deuda disminuyó de golpe, del 99 por ciento del PIB en 1989 al 40 por ciento en 1992, mientras que el coste en la divisa local de la deuda externa disminuyó del 8 por ciento del PIB a mediados de la década de los años 80 a menos del 2 por ciento en 1993. Pero la solución fue el resultado de un escamoteo financiero, ya que no reflejó el tipo de cambio estructural necesario para solucionar el problema de la deuda.

La fuerza del peso argentino ha mantenido una ola de importaciones, y el aumento de estas importaciones amenaza a su vez al empleo en la industria manufacturera local. El empleo en el sector de la industria disminuyó un 30 por ciento en la década de los años 90, por lo que numerosos trabajadores se añadieron a las filas de los trabajadores sin empleo a causa de los recortes del personal en el sector público. Al mismo tiempo, la compra de productos extranjeros ha agravado el déficit comercial, por lo que aumenta el volumen de la deuda externa, que se duplicó entre 1992 y 1998 (de 60 a 120 mil millones de dólares de los Estados Unidos). El ciclo de la década de los años 70 está volviendo a surgir en nuevas condiciones.

Actualmente, Argentina se enfrenta a un vencimiento del capital de 10 mil millones de dólares de los Estados Unidos al año. En consecuencia, Hacienda debe negociar nuevos créditos todos los años en función de esta suma, únicamente para posponer el pago. Además, los tipos de interés de los nuevos préstamos varían, y aumentan considerablemente cuando los organismos internacionales de clasificación de valores perciben un “riesgo nacional” mayor. Esto da lugar a que la dependencia de los mercados del capital sea considerable y continua, y obliga a los gobiernos a adaptarse a las normas generales de la economía política establecidas en virtud de los intereses financieros mundiales. Si estos últimos no concedieran nuevos préstamos, el país entraría inmediatamente en una crisis de balanza de pagos.

Así, la evolución de los mercados financieros ha dado lugar a que la presión por introducir reformas estructurales, a raíz de la crisis de la deuda, se haya convertido en un proceso “normal” y continuo, lo que limita considerablemente el campo de acción en las sociedades que siguen estando afectadas por un elevado índice de pobreza, desempleo y desigualdad.

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Introduction

The foreign debt crisis, which exploded at the beginning of the 1980s, surprised everyone by its sudden appearance and some people by its intensity. In the early stages, few people imagined that the problem could last for long. The optimists, mostly representatives of the creditors, maintained that there would be a simple and rapid solution. The pessimists were convinced that it was impossible to pay off the debt and took the view that a way out would be found through interstate political agreements to resolve the problem. Consequently, few people realized that it was the beginning of an extended period of debt-derived conflicts and changes throughout Latin America more serious, persistent and deep-rooted than those caused by the 1929 financial crisis.

The structural impact of the debt is key to understanding the evolution of the region, just as the earlier breakdown explained much of what occurred in the 1930s. The shock wave of the 1929 crisis, through long-lasting social and political upheaval, caused the inevitable closure of the economy and launched the strategy of import substitution industrialization, which characterized the course of these countries during almost half a century. The current debt and its effects are the cause of the great transformations taking place in every country. This paper presents the Argentine case against the background of the evolution of Latin America during these two decades, so as to demonstrate the validity of this statement and the extent of the consequences of the phenomenon.¹

The Origin of the Debt and the Crisis

For almost half a century up to the beginning of the 1970s, the Latin American countries suffered from intense and persistent foreign exchange shortages. As a result, they had to limit foreign purchases to the amount allowed by the value of exports. Most countries opted for the obvious solution: reducing imports, regulating foreign trade and applying other instruments typical of a “closed” economy. Available credit was scanty and the supply was concentrated in a few hands: the official agencies of a few developed countries (such as the US Eximbank) or multilateral organizations (such as the International Monetary Fund—IMF—and the World Bank), which set conditions, not always easy to accept, for the granting of funds. Consequently, even foreign investment was seen as a panacea, in as much as it offered a direct contribution of foreign exchange (although it became a liability when the corresponding dividends came due).

At the beginning of the 1970s, the situation changed so quickly that even observers of the phenomenon had difficulty imagining its effects. At the time, transnational banks began to offer abundant credit to the Latin American countries with no formal conditions—or very easy ones. This supply can be explained by the sudden increase in international liquidity which, by swelling deposits, drove banks to seek new customers to place the extra funds. They took the view that it was simpler to lend to a country rather than to a private company. On the

¹ This presentation is based on a series of studies and analyses, referred to throughout the text, which tend to confirm the hypotheses and arguments put forth.

supposition (according to the theory of sovereign risk) that a country could not become bankrupt, no risk analysis was carried out, as was required in the case of other loans.² In their eagerness to do business, the banks rushed to lend to their new customers without taking into account the actual situation of each country, to the extent of becoming the main suppliers of funds to the region.

Between 1966 and 1970, banks supplied only 8 per cent of the flow of resources from the United States to Latin America; 10 years later (in 1978) they were responsible for 57 per cent of the total. Loans increased 50 times during the decade, from \$260 million per year to about \$13 billion per year. At this stage, the market replaced the state; private bank loans made it possible for Washington's official assistance to fall from 60 per cent of the total cash flow to barely 7 per cent in 1978.³ The IMF also started to withdraw and even encouraged governments in the region to direct their demand for foreign exchange to private banks which, it explained, required no conditionality for their operations.

The banks took only basic precautions. They made short-term loans (not more than one year) although governments sought long-term credit. Thus, on the occasion of each refinancing, they could adjust the rate of interest to the evolution of the market, insuring themselves against the risk of changes in that variable. As compensation, the banks guaranteed the long-term renewal of the loans. These conditions were accepted by the borrowers, who were both interested in overcoming external restraint and confident that the new relations that had emerged in the financial market would continue.

The supply of funds was generalized but use depended on the strategies of the borrowing governments. Some, such as Brazil, used the loans to continue programmes of industrial development. Others were not as successful in pursuing this objective because they were also trying to satisfy the domestic demand for consumer goods from abroad, as in the case of Mexico. At the other end of the spectrum were Argentina and Chile, which tended to use the funds more speculatively. Both opted for a strategy of containing inflation based almost exclusively on controlling the exchange rate. The governments offered to buy or sell dollars at a fixed price (which was changed daily according to a table announced in advance) to guarantee the value of the exchange rate in the hope that, by this means alone, they would succeed in curbing the rise in prices when the devaluation rate reached zero. In order to apply this policy, the governments needed foreign loans that would enable them to accumulate foreign currency reserves, which would allow them to influence supply and demand in the foreign exchange market. When confidence in the policy evaporated, the Argentine government sold the foreign currency stock to local buyers for pesos.⁴

² It was W. Wriston, President of Citibank, who made the well-known statement that "sovereign nations do not go bankrupt" (quoted in Krugman, 1990).

³ These figures come from official sources and were calculated from the abridged tables included in Griffith-Jones and Sunkel (1987:83).

⁴ There is already a vast literature on the monetarist experiments carried out in the Southern Cone of South America in the late 1970s and on their effects. With regard to the Argentine case, see the study in Schvarzer (1986) that examines the logic, implementation and first effects of the policy carried out by J. Martínez de Hoz, Minister of Economic Affairs.

Differing use of the external supply of funds explains varying situations in the Latin American countries when the debt crisis exploded. Brazil was in the best productive position in the region, thanks to its huge investments; conversely, Argentina exhibited the disastrous results of unheard of levels of financial speculation. The counterpart of its debt consisted not of productive fixed assets but of foreign currency in the hands of a small segment of society that had enriched itself as a result of these manoeuvres, while the majority of the population was impoverished. In addition, Argentina's policy had generated shortfalls in productive investment, fiscal deficit and an extra impulse to an inflationary spiral, the effects of which would be felt throughout the 1980s.⁵

On 24 March 1981, there was a programmed changeover of the military government that had seized power in the *coup d'état* of 1976. This signalled the outbreak of the external crisis. In the months prior to the changeover, the outgoing government sold all remaining foreign exchange and left the country almost without reserves and with a short-term debt, contracted with the banks, which reflected unprecedented amounts virtually impossible for the national economy to cope with. In only 15 months (from January 1980 to March 1981), net public sector debt increased from zero to \$13 billion, without counting another \$12 billion of debt contracted by the private sector. Within six months of taking office, the new Minister of Economic Affairs had to deal with maturities of \$11.6 million "of short-term debt taken up in the last months of the [previous] Government, generating an inadequate debt profile".⁶ The pressure was insupportable (if the entire debt was not immediately refinanced); the shortage of foreign currency made it necessary to devalue, generating a new wave of inflation and a deep recession, in addition to the natural uncertainties of the economic agents. At the same time, it was imperative to engage in low-profile negotiations with the creditors. The latter were reluctant to make new loans, but were also unable to see any other way out in the short term.

At this point, Argentina could have provoked the debt crisis, but the financial market was not yet prepared for it. Creditors preferred to act quietly so as not to generate panic in their headquarters (subject to the control of state regulators) and demanded that the country initiate an adjustment programme, make the classic passage through the IMF and begin to pay, however possible. Thus began the policy later known as "muddling through". The tough demands made on the country, combined with triple-digit inflation and harsh recession, led to the fall of the government at the end of 1981. Within a few months, the new military government started the Falklands (Malvinas) war. This might have presented a renewed opportunity to begin unravelling the debt crisis at the global level—if Argentina, for example, had announced *urbi et orbi* a suspension of payments. In the meantime, Poland faced an external crisis that was also passed over in silence by the financial actors.⁷

⁵ The sale of dollars to local buyers at a price lower than their value undoubtedly implied the largest subsidy offered by any Argentine government. This transfer of receipts, which contributed to the generalized use of the dollar as local currency, was higher than that applied by any populist government in the country's history—although, ironically, it was carried out in the name of orthodox economic science. See the analysis in Schvarzer (1983).

⁶ Quoted in Schvarzer (1986:115), where the subject is examined in detail.

⁷ The notable history of the Polish crisis, and its refinancing in the midst of the country's change in political status, is related in "A nightmare of debt", supplement to *The Economist*, 20 March 1982.

In general, the debt problem was treated as minor and transient, and the conditions were right for the Mexican declaration of August 1982 to light the fuse of the crisis. The difficulties encountered by the government of Mexico revealed the extent of the problem; causes that had been half submerged in the market began to rise to the surface. From then on, the Argentine crisis was an aspect of the global situation and was dependent on it, although it retained some unique characteristics.

Reasons for and Effects of the Crisis

Loans accorded by the banks during the 1970s had two clearly differentiated purposes, although neither was explicit. One purpose was to increase the supply of funds to countries in the region, while the other was to compensate for interest payments generated by earlier loans (which, of course, were paid only in the account books as these amounts were periodically added to the existing debt). With the passage of time, and the increase in the total debt, the latter purpose required a growing proportion of the new loans, so that the sums involved tended to increase automatically by simple capitalization of the interest (the “magic of compound interest” as Keynes called it).

This phenomenon became more acute in the 1980s as a result of the US Federal Reserve’s new strategy to combat inflation, which caused a brutal and unexpected rise in interest rates at the end of 1979. Interest rates reached about 20 per cent per year, as opposed to single-digit figures in earlier years, and applied to all Latin American loans when they were renewed. The rate increases explain why total debt began to grow at such a pace—about 20 per cent per year—purely as a result of the capitalization of interest, even if the banks did not accord any new loans for other purposes.

Creditors began to consider the accumulation of obligations as dangerous, since it exceeded prudential limits for the banks. In 1982, the Argentine debt alone represented 18 per cent of the capital of the nine biggest banks in the United States. Obligations entered into by the 17 most indebted countries (including Argentina) were equal to twice their capital, so that a default could have had serious consequences for the balance sheets of these banks.⁸ However, the debt was still increasing in relation to both the economies of the debtor countries and the net worth of the creditors.

Faced with these risks, the banks meted out new credit as slowly as possible, including that which they inevitably had to offer in order to record payment of interest due. The banks were in a difficult situation. If they did not grant new loans, the collection risk increased and they faced a dilemma when submitting their balance sheets, since the stock market and state regulators could react negatively. However, if they did grant new loans, their exposure would continue to increase. The dilemma lasted throughout 1982, while the banks tightened restrictions on new

⁸ These data are presented in Cline’s tables (1995:72–73) and suggest that a formal suspension of payments by the debtor countries would have brought the banks’ balance sheets into a position of negative net worth, if irrecoverable loans had to be written off as losses in accordance with the requirements of US accounting regulations.

loans to the maximum extent. It was in this context that the Mexican government announced that it could not pay on such terms.⁹

The Mexican crisis laid bare the seriousness of the problem and produced a rapid reaction by the US government to save its financial system. Washington made assistance immediately available to Mexico, to overcome the short-term problem, and began to organize a salvage operation for its own financial system based on principles that were consolidated over time. In the first place, it was stressed that the crisis was not a general one but a dangerous combination of national cases, with different problems, which could be addressed on a case-by-case basis and definitely not in a multilateral way. Next, the crisis was diagnosed as one of liquidity and not of solvency, which meant that it could be resolved as a short-term problem using classical adjustment measures and was not a deep-seated structural shock. Lastly, responsibility was placed squarely on the borrowers (who had allegedly applied *mistaken* domestic policies) or on unforeseen factors (such as the fluctuation in oil prices) outside the control of the agents involved. The creditors thus remained free from all responsibility and exempt from dealing with the potential costs of the crisis.

On these premises, the IMF devised a strategy to pressure the indebted countries to undertake the necessary adjustment policies (to rebuild their economies and pay their debts), and the banks were encouraged to continue renewing loans during what was assumed would be a relatively short transition period. For all intents and purposes the diagnosis and proposal were theoretical justification for “muddling through”—at least until the transnational banks were able to recover their financial balance and a new prospect could be seen.¹⁰

The diagnosis gave rise to classic IMF prescriptions: devalue the currency (to increase exports and reduce imports); reduce public expenditure; and apply a stabilization policy. These measures simultaneously generate an inflationary impact (caused by devaluation and a rise in charges for public services) and a recessive one (caused by reduced expenditure), and the combination worsens the process of falling wages and loss of income by the working classes. Such measures are debatable even in the best scenario—short-term economic imbalance—and have been the subject of an impassioned and prolonged polemic. They are clearly irrational in a case where the accumulated foreign debt has had deep structural impacts—although the international organization concerned refused to envisage measures different from those put forward.

A few figures will give an idea of the magnitude of the problem. The ratio of debt stock to the Argentine gross domestic product (GDP), for example, increased from 12 per cent in 1978 to more than 50 per cent in 1982, a jump representing an average increase of more than nine GDP points in each of those years. This ratio continued to grow in the following years by the mere accumulation of the interest coming due. Moreover, the annual interest rate jumped from 7 per

⁹ There is a good account of the Mexican problems that resulted in the spreading of the crisis in Kraft (1984).

¹⁰ Diagnoses and positions diverging from the official line were silenced in Washington by the financial establishment. Treasury officials based their position on Cline’s book (1983), (in which the partial examination of the debt is distorted and self-justifying) and brandished it in relevant meetings “as if it were Mao’s little red book”, as an observer of the period (Bailey, 1990) vividly recounts.

cent to 20 per cent in that period, so that in four years debt servicing climbed from 0.8 per cent to 10 per cent of GDP; a jump surprising in its size and rapidity. The actual effect on the Argentine economy was worse than these figures suggest. The debt was serviced in full only in 1978, although full payment was insistently demanded by creditors throughout the 1980s. They did not seem to understand the implications for Argentina of transferring such an enormous sum abroad.¹¹

No country could handle an abrupt transfer of 10 per cent of its income abroad without facing severe imbalances at home. In the best of situations, a transfer of this magnitude could (theoretically) be carried out only after some years of economic readjustment. But the creditors' insistence on finding a solution imposed unbearable and immediate changes in the country. It was no accident that Argentina, like the entire region, fell into a crisis of recession and inflationary spiral (even worse in this country because it began at higher levels than the others) made acute by global imbalances in all relevant variables.

Keynes warned against the consequences of interstate payments of such a magnitude in connection with war reparations demanded of Germany by the Allies after the First World War. But his message was not heeded, at least not until hyperinflation brought the Weimar Republic to the edge of the abyss. And the enormous transfers required of Germany represented "only" 2.5 per cent of its GDP, compared to four times that in the case of Argentina. The imbalances lasted through the 1980s and ruined the first democratic government that followed years of military dictatorship. President R. Alfonsín shortened his term of office in the midst of a hyperinflationary explosion in 1989, while social conflicts worsened. When the transition came to an end, wage-earners had lost almost 30 per cent of their income in real terms, and the entire economic structure had changed to the detriment of the working classes. The debt was the major cause of these events, with the bulk of the social costs of the crisis placed on the most disadvantaged sectors of the population.

The prime condition for debt servicing was to earn foreign exchange through exports. A foreign trade surplus of 10 per cent of GDP would suffice to pay the interest alone. It should be noted that this figure was only a first step, since the creditors continued to renew the loans, and in the (hypothetical) case that Argentina reached its goal, it could lead to bank demands that the capital be repaid. The first stage in achieving such a surplus was the recession, as the fall in domestic demand made it possible to reduce imports rapidly, as occurred in Argentina and all of Latin America in the early years of the crisis. Increasing exports was not so simple; it required the availability of local production that could be placed on international markets, a capacity the country did not possess on account of the strategy applied in the period prior to the

¹¹ The percentages mentioned illustrate orders of magnitude only—in view of the well-known lack of precision in calculating GDP, variations in the exchange rate (used to convert local currency figures into dollars), and the difficulty in establishing the average value of interest in each year—but they are sufficiently representative of the factual situation. Cline (1995:48) gives a ratio of 79 per cent for 1982, whereas the estimate of Husain and Diwan (1989:20) for the same year is 32 per cent. The crucial fact is that the same ratios are repeated in all the indebted countries: the debt/GDP quotient for 109 countries rose from 16 per cent in 1975 to 34 per cent in 1982 and increased to 48 per cent in 1987 (Husain and Diwan, 1989:19). It is estimated that interest payments jumped from 0.8 to 7 per cent of the group's annual GDP in the same period of time.

crisis. It is thus no accident that Argentina was slow in making progress as an exporter until the end of the 1980s. It has recently been noted that there was a greater supply of commodities and surpluses from some basic industries set up in the earlier period; in any case, as will be seen, this supply was not sufficient to resolve the problems caused by the debt.¹²

Foreign exchange earnings did not resolve the problem. Since the debt was a public one, the state had to have resources of its own to purchase foreign exchange from exporters. This task burdened the budget and faced a major additional constraint: the 10 per cent of GDP required for interest on the debt must be compared with the 25 per cent of GDP constituting total official resources. Simple arithmetic indicates that the state had to devote 40 per cent of its annual budget to buying foreign exchange for debt servicing. The amount was hidden in the public accounts by the fact that the debt was recorded under various administrative departments (public companies, the central bank, self-governing corporations, etc.), but this accounting trick did not make it less crucial. The budgetary conflict turned out to be one of the most serious of the entire period and continues to this day.¹³

Maximum cutbacks in imports made it possible for Argentina to generate a positive trade balance of some \$3 billion per year between 1982 and 1988 (with a maximum of about \$5 billion in 1985). Revenue generated in this way was only partly used for servicing the debt obligations because the treasury did not have the resources to buy it. The result was an acceleration of capital flight and a deepening of the crisis.¹⁴

To face such budgetary demands, a government must either reduce expenditures or increase revenues. In the first case, it may reduce the number of public employees, average wages or public investment – and it is notable that the government of Argentina gradually had recourse to each of these alternatives. Public investment fell from 10 per cent of GDP at the beginning of the 1980s to only 2 per cent in the mid-1990s (although it is true that part of the decline is to be explained by privatization, which will be discussed later). Public salaries and wages also dropped, affecting large groups such as teachers – who for more than 10 years had been engaged in a fruitless campaign to recover lost income, while the education and training of

¹² The objective contradiction between the policy of recessive adjustment applied in the region and the need to expand the installed capacity so as to increase exports was not taken into account in the assessments made at the time because this diagnosis implied a change of strategy. In that connection, the countries reacting most effectively on the export side were Brazil (which had established a large production capacity in the previous period), Chile (which had copper resources and benefited from good prices on the international market) and Mexico (thanks to its greater facility in entering the US market due, in the first place, to its *maquiladoras* – cross-border assembly plants – and, subsequently, to the establishment of NAFTA). One of the key cases for examining this topic is that of South Korea, which suffered a debt crisis during the same period but had time to reconstruct its economy and refinance the payments. It was the only one of the most heavily indebted countries that did not have a trade surplus in the 1980s, so that there were no real transfers abroad while it continued to invest in the development of its economy (which collapsed again in 1997, for other reasons).

¹³ Heyman and Navajas (1989) give a good account of the distribution conflict that the fiscal deficit generated in Argentina in the 1970s and 1980s – although it does not bring out the full impact and importance of the debt payments in the second period considered.

¹⁴ This problem did not affect governments possessing export companies, because the latter transferred the foreign currency earned by their operations, such as Chile (copper), and Mexico and Venezuela (oil), directly to the governments. However, the gravity of the problem was noted in countries where foreign sales activities were dominated by private interests, such as Brazil and Argentina. Not many authors mentioned the ironic advantage of possessing state companies when privatization began to dominate economic thinking in Latin America.

future generations suffered the effects. In the second case, to increase revenues a government must consider the possibility of increasing taxes—but this option is often fiercely resisted, and in Argentina social groups with significant political influence opposed this course of action (and, to date, it has proved difficult to apply). In these circumstances, and given the virtual impossibility of financing its deficit from local or international financial markets, the government adopted the simplest method available: printing money, passively regarding the unstoppable inflationary process. In 1991, after a decade of crisis, a stabilization plan halted the rise in prices, but by then the distribution of income within the country had already changed and a new economic model had begun to consolidate itself.

In more technical terms, the debt crisis had been exerting enormous pressure on the balance of trade, on fiscal equilibrium and on the macro economy in general. All in all, these constituted formidable challenges for any government. The curious thing is that these challenges were systematically denied in the creditors' official reading of the situation and were little recognized by the debtors, who faced the enormous difficulty of putting a different view forward in the international environment.

The Painful Period of “Muddling Through”

Argentina passed alone through the first part of its debt crisis. In 1981 and 1982, concern was focused on the great domestic crisis, political problems and the effects of the Falklands war. During the period of the Mexican crisis, and while the creditors launched a feverish global strategy to deal with it, Argentina began its transition to democracy, culminating on 10 December 1983 in the installation of a government elected by the people. In the interim, creditors did not press the military government too hard: it is probable that they feared a desperate response from people who, although in retreat, had dared to wage war on the United Kingdom. In January 1983, an adjustment agreement—valid for only 15 months—was signed with the IMF and the government of Argentina encountered problems with its implementation. The IMF granted \$1.5 billion, which, like other Fund loans, served to pay off a fraction of the interest owed to the banks; the latter, thanks to this recycling of resources, reduced the loans they had had to make to finance the interest on the debt, which had increased their exposure to the country.

The new democratic government took power highly aware of the economic and social importance of the debt and convinced that it was unjust (having been contracted by the military government) and illegitimate (considering how the monies had been applied). Moreover, the new government firmly hoped that developed countries, bearing in mind the grave social costs of Argentina's military period, would support the restoration of democracy and help to solve the problem. However, it soon became apparent that dialogue was not possible. In Washington, blame for the debt was placed solely on Argentina and there was a demand for the start of an adjustment programme to enable payment. A favourite argument against assistance was that US taxpayers had no responsibility for problems resulting from a mistaken policy carried out in Argentina. It was ironic that the eager democracy should be weaker than the military

government in negotiating abroad, perhaps because its own rules prevented sudden decisions, such as those feared by the debtors.

The banks would not assent to negotiations unless the country signed an agreement with the IMF, which in turn would accept nothing less than an orthodox adjustment plan. Financial officials in Washington supported the IMF's demands. The government of Argentina tried to negotiate with these actors, but without success. It later sought the support of other Latin American countries and achieved a certain unity of approach in the Cartagena Consensus, but this did not result in joint action or effective responses. Reduced to its own means, the government tried some unorthodox adjustments to end inflation and the domestic recession that were categorized by the creditors as proof of mistaken local policies. Among these measures was the Austral Plan (launched in June 1985), whose antecedents go back to the German stabilization plan of 1923. The plan froze prices and introduced a new currency, the Austral, linked to the US dollar. After initial success, the plan failed. In considering various causes, there is no doubt that the decisive one was the impossibility of finding a genuine solution to the debt problem, such as achieved by Germany with the Dawes Plan, which made it possible to refinance its obligations after controlling hyperinflation.

Next, the government of Argentina sought support from the World Bank, which was more inclined than the IMF toward development policy during the 1980s. But the outcome of these different approaches was fragile: pressed by Washington, the Bank withdrew its support and, furthermore, reached an agreement with the IMF that it would not make any more loans to countries that had not signed an adjustment agreement with the IMF. Once again, regardless of their internal differences, the creditors tended to close ranks and present a united front, thus reducing still further the debtors' margin of manoeuvre.

The sole possibility left was to accept the conditions of the "impossible" adjustment in hopes of finding a solution in the future. Otherwise, the country would remain outside the international scene, prevented from making headway. Creditors were threatening to cut off all credit to Argentina if it did not pay up, in which case the country would have difficulty importing the goods needed for normal functioning. In addition, so as to push the country into a corner, the creditors insisted that there was the possibility of an embargo on all national goods—including ships, aircraft and even merchandise—arriving in developed countries that could be applied to the payment of the debt. Like the other debtors Argentina could neither pay the debt nor continue to function without ongoing contacts with the rest of the world. In this situation, the costs of not paying tended to be even higher than the costs of paying. The most rational option seemed to be to formally decide to pay up: such good intentions (increasingly recognized by the creditors) would relieve pressure and make it possible to refinance part of the debt obligation until a solution could be found.

Threats of reprisal were not implicit, nor were they made only by private actors. R. McNamara, US Under-Secretary of the Treasury, explained during the arduous debt negotiations that countries not ready to pay would suffer painful trade embargoes. He asked, rhetorically, "Can

you imagine what would happen to the president of a country whose government was suddenly prevented from importing insulin for its diabetics?"¹⁵

In the first stage of the crisis, however, actual measures of reprisal were limited because there were still doubts among creditors concerning the capacity of the debtors to carry out adjustment without serious social conflicts and perverse political changes. In their assessment of the problem, two analysts from the Brookings Institution maintained that it seemed unlikely that the Latin American countries would "resign themselves to slow growth" (as a consequence of adjustment) and that furthermore there could be "order and security risks" in their political systems.¹⁶ In fact, adjustment provoked many political disturbances throughout the region, from the social uprising known as *caracazo* to the threats by Peruvian President Alan García. These protests were gradually absorbed, in one way or another, while the creditors' pressures continued.

After five years of crisis, toward 1987, most debtors were convinced that the commitments required of them were impossible to implement, but they were unable to openly oppose the strategies imposed by Washington. They tried to comply with certain minimum requirements, while seeking some opportunity to escape from the debt trap. Consequently a phenomenon of the period, as characteristic as it was curious, consisted of the silent moratoriums adopted by various countries faced with the impossibility of maintaining even a façade of normalcy. Argentina adopted this approach in April 1988, after losses of foreign currency reserves due to foreign trade problems. However, in contrast to the strategy of President García, Argentina's moratorium was not made public; an open attempt was made to oblige the creditors and the international financial organizations to recognize (though not to accept) that the country could not pay, although it wanted to do so. Argentina was not alone in this position. Brazil tried a moratorium in 1987, and other countries adopted the same practice when faced with the impossibility of paying. While they did not make headlines, the moratoriums were massive; in 1990 only four countries in the region were "up to date" with their commitments and the arrears of the rest totalled \$25 billion, equalling 20 per cent of the total debt.¹⁷

Washington as well was beginning to experience "debt fatigue", together with doubts about the future. In 1987, US Treasury Secretary James Baker was constrained to launch a plan to deal with the problem. The Baker Plan did not constitute a significant advance in practical terms regarding the debt. It was limited to offering additional World Bank loans designed to once and for all recycle previous commitments, while requiring the banks to continue the loans (despite their increasing reluctance to do so). The decisive part of the plan consisted of a new view of the problem, making future "support" of the creditors conditional on the debtors' implementation of a series of structural reforms in their own economies. The Washington view insisted that the debt was due to mistaken policies of the debtors; the Baker Plan went beyond adjustment and

¹⁵ Noted in *Fortune*, 18 February 1985; quoted in *La Nación*, Buenos Aires, 18 April 1985; and commented on in Schvarzer (1987) in an account of debt negotiations during that period.

¹⁶ Enders and Mattione (1984:56).

¹⁷ This phenomenon is covered in Altimir and Devlin (1993), from which the reference to the arrears is taken (p. 15), \$7 billion of which were Argentine commitments that had fallen due. The same work contains the story of the Argentine moratorium, told by Machinea and Sommer.

required basic changes in the functioning of these economies to overcome the crisis and avoid others of the same kind.

The Baker Plan was ineffective as far as the debt was concerned because it did not propose genuine or even possible solutions, but its reform proposals turned into a kind of dogma in Washington. The hypothesis that the way out was through reform of the region's economies—including opening to international competition, privatizing public companies, and reducing the role of the state—quickly became a fixed idea throughout Latin America. At a seminar held in 1989, J. Williamson expressed his satisfaction at the rapidity with which these “consensuses” had become established in the region and limited himself to enumerating the policies that Washington deemed necessary.¹⁸ Other seminar participants were more specific. R. Feinberg wondered whether the debt was a perverse load on stabilization and adjustment or a catalyst for change, an external lever that the IMF could use to strengthen reform. R. Webb stated emphatically that there was no question of alleviating the debt problems because that would delay political decisions. Only “desperation will bring about adjustment”, he concluded.¹⁹

After a decade, the creditors had perfected their diagnosis (which placed all blame on the mistaken policies of the indebted countries), established medium-term proposals (which gave all responsibility to the debtors), and discovered that the debt offered an ideal lever for imposing their solutions. The threatened reprisals of the first stage, brandished against those who departed from the proposed strategy, gave way to formal requirements to implement practical policies in the direction marked by the structural reforms arising from the Washington Consensus.

From Desperation to Reform

The hidden conflicts between the government of Argentina and the creditors during the 1980s deepened the instability of the economy and its fragility when faced with external shocks. Inflation created a gradual reduction in the use of local currency and a growing demand for dollars, sought as a refuge of value in the face of instability. The same tendency caused local agents to set their prices in dollars, though converted to pesos at the current exchange rate. In these circumstances, the rising exchange rate caused a generalized increase in prices on the domestic market, which resulted in more inflation. The Central Bank tried various ways of controlling the dollar/peso exchange rate, but circumstances led to the depletion of its reserves; this deterioration reduced its manoeuvrability in that market to a minimum by the beginning of 1989. The situation was a delicate one, both on account of the economic situation and because it came in the midst of an electoral campaign, with the attendant political and social uncertainty concerning the outcome.

¹⁸ See John Williamson (1990:1), in which “Washington” is described as the IMF, World Bank and the executive branch of the United States Government, although the term can be extended to cover at least the Inter-American Development Bank (IDB), the members of Congress interested in Latin America, and the think-tanks devoted to economic policy.

¹⁹ Feinberg and Webb cited in Williamson (1990:23 and 339). The idea endures that nations adjust only under the pressure of external circumstances. A recent commentary in *The Wall Street Journal* mentioned with concern that the reforms in Asia had stagnated due to the fact that the economies had recovered before the reforms were applied, reducing the pressure for change (note by R. Frank, reproduced in *La Nación*, 28 April 1999).

At such a time of uncertainty, a single spark sufficed to ignite a wildfire. The first warning signal came from the World Bank, which refused to grant a new loan to the country. Another was given by the advance in the polls of the opposition presidential candidate, C. Menem, whose campaign proposed a clearly populist policy. At the beginning of February 1989, a series of such processes started a dash to the dollar that caused its quotation value to multiply by 45 in only four months. In the meantime, the election was held and Menem won (he immediately abandoned his campaign promises, and his policies approached those of the orthodox economists), and prices rose in proportion to the dollar. The inflationary conflagration brought down the outgoing government (which was unable to bring about control and had to hand over power earlier than scheduled) and generated the social desperation that produced the expected consensus to implement deep-rooted changes in the functioning of the economy, as Webb had imagined.

The new government asserted that the “closed and statist” economy that prevailed in previous decades was the cause of hyperinflation, ignoring the debt and any other explanation of the local problems. Its diagnosis suggested that the solution lay in the measures of the Washington Consensus: privatization of public companies, economic opening, and elimination of market regulations, along with reducing the role of the state and refinancing the debt.

The privatization of companies was one of the first measures adopted. It was carried out energetically and exceeded only later by some experiences in Eastern Europe. But, in this case, the criteria for privatization were connected more with the demands of the creditors than with a supposed “march toward the market”. Some banks, looking for a way to get rid of the amounts owed them without greater losses, discovered that the exchange of debt for shares in privatized companies offered an adequate solution. In the first place, this exchange did not require the debtor state to generate a tax surplus to pay part of its commitments (as occurred with cash payments). In the second place, privatized companies could offer their acquirers profits equal to or greater than the interest on the debt, if shares were handed over in adequate conditions. Finally, this process was in keeping with orthodox economic principles, while offering a reasonable promise of maintaining the profits expected by the banks and enabling them to reduce their direct exposure to the indebted countries.

The most significant element of privatization was the method chosen. If the government wanted to create an atmosphere of greater discipline for public companies, it should have prepared some competitive market conditions that would have obliged new owners to contemplate deep-rooted reform of their methods and technology. However, if it wanted to favour the creditors, so they could exchange the sums due to them for shares, certain market privileges had to be maintained that would ensure the profitability of those companies. Only then would the transfer be economically attractive. Consequently, it was no accident that at the very beginning of its term of office in 1989, Menem’s government launched the sale of two key public corporations—those providing telephone service and air transport—on special conditions. The strategy was carried out to obtain respite from the demands of the banks, at the time of the long *de facto* moratorium that had been keeping the country going.

The privatization of the telephone company is a key to understanding the process. The company had little or no market value, which is calculated as the amount of capital yielded, at the current rate of interest, by the flow of future profits. Since that flow was zero or negative under state control, so was the market value. Therefore, one of the first measures of the privatization process was to raise charges for telecommunications and promise the presumed beneficiaries that, in real terms, levels would be maintained (avoiding possible inflationary erosion). Moreover, the government guaranteed the monopoly for 10 years to give the new owners an outlook of certainty (while proclaiming the need to attract “risk capital” to the country). On these conditions, it ensured an appreciable profit rate, as subsequently recorded in the balance sheets of the privatized company during the 1990s.²⁰ Lastly, the government provided that the company would be sold for debt certificates, which of course were in the hands of the creditors (or of speculators who had acquired minor quantities in the secondary market in recent years). This privatization method granted real privileges to the creditors as against other agents prepared to buy the company. The technical aspects of operating the service also required that the purchasing consortium include an associated firm with a background in the telephone business; it was not a question of selling the telephone service to a company in the same line of business, but of requiring that at least one of the buyers be associated with a successful related entity so as to ensure telecommunications service.

The sale of the telephone company followed the same logic as an embargo operation. A government that was unable to cope with its debt servicing delivered as part of the payment a company it had taken over and which, moreover, it did not know how to operate. The final price was \$5 billion in debt certificates at nominal value (a criterion that generated long polemics concerning the real value obtained, since the certificates were quoted then at only 15 per cent in the secondary market). In nominal terms, that amount was equivalent to one sixth of the total debt owed to foreign private banks, and reduced by the same proportion the country’s obligations and the banks’ degree of exposure.

The privatization of the national airline company followed a similar path. In this case, it was not possible to fix special rates for international service (since it was a competitive market), but the government guaranteed the buyer the “flag right” (which reserves half the supply of services for the national line, although in this case it was conceded to a foreign company). Furthermore, the new company was permitted to merge immediately with another non-international airline, so that it had the initial monopoly on domestic flight service. Lastly, the government repeated the practice of requiring debt certificates instead of money and required that the buyer provide a recognized operator as a junior partner. This sale brought in another \$1 billion in debt certificates.

There were some additional privatizations based on exchanges for debt certificates, but they were significant mostly for their amounts and effects. The sale of public companies, with different criteria, continued in stages until virtually all had been handed over, including some

²⁰ Strictly speaking, the process was more complex than the account given here for the purpose of assessing the forces that played a part in the privatization. A detailed analysis of the process and of the political logic behind it can be found in Schvarzer (1993 and 1994, respectively).

services that normally fall within the purview of the state (such as customs control). This process reduced the role of the state to a minimum and caused a mass reduction of personnel. The same process occurred in some areas of public administration, under the flag of “rationalization”, but usually going no further than a dismissal of staff. The final figures are not known but it is probable that during the period 1990–1994 at least 200,000 public sector employees lost their jobs, joining the growing mass of the country’s unemployed.

The privatizations did not significantly improve the public accounts. Part of the receipts went to reduce the debt and another part helped support the treasury’s revenue during the transition to stability, but the effect was limited to the immediate economic situation. The state continued operating with limited resources and restrictions, which had repercussions on employees’ wages and pensions, caused a deterioration in certain basic activities (including health, security and education), and brought about a reduction of investment in—and even the maintenance of—public works.²¹

The contraction of the public sector did not resolve any of the local problems, while its deficit continued to block debt repayment. As discussed below, the debt actually continued to increase, through the capitalization of interest falling due, although its character and the composition of the creditors was changing.

The Brady Plan and the New Financial System

The sudden change of direction in Argentine economic policy coincided with the launching of the Brady Plan—proposed by US Treasury Secretary James Brady—which was applied initially to Mexico and, subsequently, generalized to a number of indebted countries. The plan offered ingenious financial machinery that, in essence, made it possible to exchange the banks’ debt certificates for debt securities, known as zero bonds, with an amortization term of 30 years. The initial value of the bonds was very low (because the principal was to be paid off 30 years later); they were purchased by the indebted countries with funds loaned by the international agencies and delivered to the banks in exchange for the tabulated debt. The operation supposedly included a “release” by the banks on the nominal value of the debt, a release that was generally lower than the surcharges applied by the creditors in the 1980s.²²

Even Cline (1995:18) recognizes that the “relief offered by the Plan was relatively small”. He adds that, strictly speaking, it was “a paradox that it should have been so successful”. The real

²¹ In the 1990s more than a million retirees were receiving a pension of less than \$200 a month in an economy where its purchasing power was much the same as in the developed countries. The amount in question is 30 per cent lower than the real income of those people in the 1980s (although the inflation in that period and the changes in prices render precise comparisons difficult). Most of these people have become part of Argentina’s new poor.

²² From the debt crisis forward, in punishment the banks applied additional rates to the capital owed which, all in all, increased the nominal amount of the debt more rapidly than before. The punitive rates were very high in the periods of moratoriums or arrears in payment, creating a spiral of disproportionate indebtedness. This made it possible, 10 years later, for the banks to offer nominal “releases” that hardly compensated for the surcharges previously applied. The technical nature of the Brady Plan precludes dealing with it in greater detail in this paper. For elaboration, see studies such as those in Husain and Diwan (1989), written at the time the Plan was launched, or Cline’s comments (1995), for a later view.

effect was due to the fact that the exchange of debt for bonds (which were guaranteed by the US government) changed the logic of the system. Firstly because, from that moment on, the banks removed from their account books the entries against the debtor countries that joined the programme and replaced them with the bond holdings. Their balance sheets thus displayed a significant improvement in assets and released them from the debt risk. Secondly, the bonds began to be quoted on the markets and their generalized purchase and sale resulted in a change of holders; it is currently difficult to know who owns the bonds and the only relevant information is their quotation, which reflects the “confidence” of financial agents in the country.

The transformation of the debt into securities (securitization) opened up a new financial market for the indebted countries. They discovered that there was a mass of liquid capital, ready to flow toward profitable proposals anywhere in the world, that was being used to buy the new securities issued to settle the external deficit.²³ In the mid-1990s, financial activity in the developed countries reached \$20 trillion, whereas the flow of funds to the developing countries amounted to only \$120 billion. The difference was so great that reallocation of half a percentage point of the amount would have easily exceeded the latter’s demands.²⁴

The government of Argentina, like many others in the region, hastened to use and abuse this new source of external credit, which replaced the real or account book contributions offered by the banks in the two previous decades. The result was a circular phenomenon: in the 1970s bank loans largely replaced public lending to Latin American countries. Twenty years later, bank loans were in turn replaced by financial flows and foreign direct investment. These mechanisms made it possible to recycle (and even increase) a large part of the debt commitments, while maintaining pressure on the committed countries to ensure that they tackled the structural reforms desired by the Washington Consensus.

It was a “historic change”: the Latin American debt issued in bonds (including the Brady bonds) increased from \$18 billion in 1986 to \$125 billion at the beginning of the 1990s. However, bank loans fell by 97 per cent to \$30 billion in the same period.²⁵ For example, in December 1996 Argentina’s \$100 billion of debt was distributed as follows: 60 per cent in bonds; 15 per cent in commitments to international organizations; only 3 per cent still directly in the hands of the banks; and the rest in official and commercial loans from other countries.

When the Brady Plan was signed in 1992, the Argentine Minister of Economic Affairs, D. Cavallo, stated that “the debt problem is resolved”. The statement was correct if it referred to the debt problem *for the banks*—as they succeeded in escaping once and for all from their previous exposure. Argentina, however, continued to be dominated by foreign commitments. The problem continues today and will remain indefinitely if circumstances do not change.

²³ The magazine *Euromoney* described the phenomenon as “Carnival time again for Latin borrowers”, explaining that there had been great returns for the successful countries, although there had been great risks. See the September 1990 issue.

²⁴ The specific reference to these values can be found in Cline (1995:33), but they are repeated in various studies observing how that mass of financial capital in the central countries continues to grow, becoming the major phenomenon in the world economy and the basic cause of what is called globalization.

²⁵ Cline (1995:30).

The need to attract capital to settle the foreign accounts caused the government to seek possible alternative measures. One consisted of opening up all domestic activities to the entry of foreign capital, a measure that generated an appreciable flow of purchases of local companies (as well as some real, though modest, investment). These purchases modified the local pattern of ownership (adding to the effects of privatization) and their sole apparent benefit was the contribution to the balance of payments derived from the entry of the funds—which is only short term because the direction changes as profits derived from such operations begin to flow abroad.

Another measure, following a strategy advocated by international organizations, attracted funds to the local stock exchange, which created the image of a vigorous and attractive “emerging market”. To this end, an attempt was made to offer shares in some of the privatized companies on the stock market. The result was not very successful (except for the first two boom years), but it serves to indicate the similarity of policies in the region. All countries acted in the same way, their policies being derived from the same cause.

Yet another measure was taken to attract capital in every possible form to the local market, deepening relations with the outside world (also known as “financial opening”). After a few years, this policy resulted in most local private banks being acquired by foreign entities, a process that modified the ownership structure and behaviour of the system in a direction that is still the subject of intense debate. The changes did not help to reduce the interest rate, which remained at very high levels, particularly for small and medium-sized companies. This sector pays rates of up to 43 per cent per annum and, barely able to survive, is certainly unable to contemplate expansion, thus reducing the possibility of development.²⁶ Another aspect of the reconstruction of the capital market was the constitution of pension funds, so as to convert deductions from workers’ wages (hitherto earmarked for their retired colleagues) into a financial mass available for other purposes (including in particular financing the public deficit).

In short, balancing foreign accounts, in circumstances of high indebtedness, became the priority of economic decision making. However, some decisions seemed to have no direct connection with the problem and to have a negative effect on everything from income distribution to investment and development sources.²⁷

Trade and the Exchange Rate

Another consequence of the debt was that it influenced the exchange rate. In the first stage, the creditors’ pressure made it necessary to devalue in order to increase exports. However, this

²⁶ This figure is given in a study by the Ministry of Economic Affairs of the Province of Buenos Aires, which found rates of 25 per cent, with variations of plus or minus 18 points, for small companies. See “Dificultades para la obtención de financiamiento en el sistema financiero argentino. El caso de las pyme”, (Difficulties of obtaining financing in the Argentine financial system: the case of the SME), in *Cuadernos de Economía*, No. 30, 1997. In any case, higher rates are recorded in the local market and have been maintained throughout the decade despite the stability of prices.

²⁷ Strictly speaking, most of those capital flows can be explained by the situation of the major financial centres, rather than by the “attraction” exercised by the emerging markets (see, for instance, Hopenhaym and Merighi, 1998). Even so, all these countries are competing to attract the flows, using all the strategies they can find to make them appear different from the others.

requirement soon became negative in other key aspects. The devaluation made the dollar more expensive in local currency terms and it thus became necessary to devote more public resources to acquiring foreign currency to pay the debt. While promoting exports, this machinery increased the public deficit, aggravating internal tensions in the economy. There was theoretical denial of the transfer problem until practice demonstrated its importance.²⁸

Starting in 1987, the government of Argentina endeavoured – through trial and error – to find a trade-off between the requirements to export and to balance the budget. In 1990 the new economic strategy resulted in an unprecedented appreciation of the peso against the dollar, a relationship that is currently maintained owing to the stability of prices achieved in the period and the establishment, by an act of congress, of a fixed exchange rate of one peso to one dollar (supported by a conversion fund). The new policy increased the value of the GDP, expressed in dollar terms, in one fell swoop and consequently reduced the nominal weight of the debt in relation to the Argentine economy. For this reason alone, the debt stock in GDP terms was reduced from 99 per cent in 1989 to 40 per cent in 1992, while the cost in local currency of servicing the interest fell from 8 per cent of GDP in the mid-1980s to less than 2 per cent in 1993. The relief in these variables was, however, the result of a monetary sleight of hand rather than a structural change.²⁹

The new exchange rate discouraged non-traditional exports and directed the economy toward the production and export of commodities in which the country enjoys natural comparative advantages – from natural gas and oil, to cereals, vegetable oils and cotton. In the period 1989–1997, total exports grew from \$10 billion to \$26 billion, but more than 50 per cent of the increase was accounted for by six primary commodities, and another 15 per cent by trade in vehicles and spare parts with Brazil (as the result of a special agreement within Mercosur). The rest included other primary commodities of lesser relative importance and a few manufactured products as agreed within Mercosur.³⁰

This relative boom in exports began after a certain lapse of time, during which the corresponding production increase took place. During the same period, the attendant strategy of economic opening caused a sudden and considerable jump in imports. The exchange rate encouraged the entry of diverse goods – also promoted by the removal of customs restrictions in accordance with the ideas of the Washington Consensus – which flooded the local market. In the eight-year period, exports multiplied by 2.6 and purchases from abroad grew more than sevenfold, from \$4 billion to \$29 billion. Consequently, the country moved from a trade surplus in the 1980s to a constant deficit in the 1990s, which averaged \$1.3 billion per year from 1992 to 1998.

²⁸ At the end of the decade, Krugman recognized that not only was devaluation increasing the debt load, but that its influence had not been taken into account in earlier models (Krugman, 1990:96).

²⁹ For an analysis of this process and detailed figures, see Schvarzer (1994).

³⁰ This analysis is based on Schvarzer (1996), although the figures have been updated for this presentation. The six primary commodities are oil, fish, cereals, leather, seeds and vegetable oils; there are other primary commodities that form part of “the rest” but are not mentioned so as to simplify the analysis.

To understand this change, which at first glance seems to imply less external restraint, we must return to relations between Latin America and the United States and the subject of transfers. For the countries of the region to have a trade surplus (in order to pay the debt), it was necessary for other countries to accept a negative balance; otherwise there was no solution to the problem. And indeed, in the first stage of the debt crisis, the region achieved a positive balance as a result of reduced imports and surpluses in foreign trade caused by the recession. The counterpart was an increase in the trade deficit of the United States, where sales to Latin America fell from \$36 billion in 1981 to \$18 billion in 1983, and remained at that level until 1987. However, US purchases increased from \$27 billion in 1981 to \$37 billion in 1984, so that the trade balance recorded a change of about \$28 billion in three years, also passing from positive to negative. This trade impact gave rise to intense protests by various groups of producers and to a series of negative reactions in the United States Congress.

According to US calculations, \$1 billion-worth of exports create 20,000–30,000 jobs, so the fall in sales to Latin America represented the disappearance of about half a million jobs in a couple of years. A further negative impact came with the rise in imports (carrying less labour content due to characteristics), which is estimated at another 250,000 jobs. Despite protests, the problem was not addressed for a long initial stage. The creditors' pressure coincided with the adjustment strategy applied by the United States and enabled its consolidation, although resistance became stronger with time.³¹

In 1987, James Brady, then a US Senator, made a political impact with a plan that suggested conceding debt relief in exchange for trade concessions for the United States by the countries that accepted the plan. The idea was passed over with the application of the Baker Plan but did not cease to acquire advocates. The conviction that it was sufficient to relax external pressure on the region to buy more from the United States emerged strongly toward the end of the 1980s. The policy of opening reflected these new demands, which henceforth predominated over the subject of the debt since the banks had already resolved their problems and the regulators no longer feared a breakdown of the financial system. On the basis of this new approach, US sales to Latin America increased from \$20 billion to \$140 billion between 1986 and 1997, and the trade balance once more became positive. It was possible for the change to occur because the region had again succeeded in obtaining foreign financing. The contribution of new flows of funds made it possible to combine opening and trade deficit, although the latter entailed more foreign indebtedness (in Argentina and the region in general).

Increased employment in the United States coincided with reduced employment in Latin America. In Argentina, the phenomenon was more pronounced than elsewhere owing to the composition of exports and imports. Goods going abroad had low labour content (since they were primary commodities based on static comparative advantages), while purchases from abroad

³¹ Senator Graham stated that "the Baker Plan starts from a very close relationship between the United States commercial banks and Latin America, as if no one else had any interest in the development of the region other than that those banks should recover their loans. And we are paying an enormous price for it, both in losses of export jobs and in credibility vis-à-vis the region". See **Hearing Before the Joint Economic Committee**, Congress of the United States, 17 September 1990 (United States Government Printing Office, Washington, 1991).

basically consisted of manufactures. What is more, many of the latter tended to replace the local supply, and thus employment, in industry. Because the greater part of the new dynamic activities (in foreign trade) had a low demand for labour—and at the same time manufacturing plants were closing down—it is hardly surprising that employment was reduced. Industrial employment fell by about 30 per cent during the 1990s, adding vast numbers of workers to the growing ranks of the unemployed from the public sector.³² At the same time, purchases of foreign goods generated a trade deficit, which in turn went on to swell the magnitude of the debt. The cycle of the late 1970s was coming around again in new conditions.

Evolution of the Debt and the Crisis

Argentina's foreign debt increased from \$43 billion to \$58 billion between 1982 and 1988, through the accumulation of interest. In the following four years, it was maintained at about \$60 billion, because the interest increase was offset by the payments resulting from privatization. However, from 1992 on, the trade deficit reappeared and combined with the demand for resources to finance the budget deficit—which was becoming more and more difficult to contain with income from privatizations (since the largest ones had already been carried out)—to once again increase foreign commitments. Under these circumstances, by 1998 the amount owed had doubled to reach \$120 billion. The commitments continued to grow in subsequent years, since no changes came about in the Argentine economy that would have made it possible to absorb such an impact.³³

The debt currently presents convergent problems. Capital maturities are on the order of \$10 billion per year, an amount that reveals no significant changes in the period despite efforts made to refinance the commitments in the long term. The loans remain concentrated in the short term. Consequently, the treasury is obliged to negotiate new credits every year for these amounts, solely to postpone payment. To accomplish this, the treasury must display public accounts in accordance with the creditors' expectations.³⁴

Moreover, the government must pay variable rates of interest on the debt that it renews every year, which is an appreciable proportion of the total, as has been mentioned. The effective interest is made up of the international rate and an additional spread that depends on the confidence of bond holders (guided by the global trends of the debt market and the perceived trends of the national economy). The surcharge, known as "country risk", rises in times of crisis—such as in Mexico in 1994, Asia in 1997 or Brazil in 1998—and reaches unheard-of heights in times of major anxiety, so that its average is raised by the simple repetition of negative phenomena in the financial markets. In mid-1998, Argentina's country risk value was

³² During a visit by President Menem to Washington in 1994, President Clinton congratulated him on his decision and expressed satisfaction that the Argentine policy of openness had made it possible to create new jobs in the United States.

³³ The trade deficit in that period climbed to about \$10 billion, to which must be added the current services and accumulated interest, apart from a few official issues of bonds in dollars, intended, however, to refinance debt owed to local agents.

³⁴ Banks "prefer short-term loans", according to a study originating from one of them. Such loans provide a natural mechanism for disciplining borrowers. The bank has the option of periodically renegotiating the terms of the contract and can regularly control the project for which the loan is intended. See Aerni and Junge (1996).

fluctuating between seven and nine points, a magnitude more decisive for the country than the international rate (which was around 5 to 6 per cent).

Given the debt stock and the estimated GDP, it can be deduced that each point by which the spread rises implies an increased cost of \$1.2 billion or 0.4 per cent of GDP for the Argentine economy. When this additional cost surpassed 7 per cent, following the 1998 economic crisis, the country lost an additional \$8.4 billion, which equalled 3 per cent of GDP (and almost a fifth of the national budget).

The bond markets for countries such as Argentina do not accept large debt issues. In the best case, only a couple of billion dollars can be placed at a time. This limitation makes it necessary for the government to resort to the markets about once a week to issue bonds in amounts of \$300–800 million, whose yields make it possible to service the payments of capital and interest. The practice generates a narrow and continuous dependence on capital markets and, consequently, on economic policy requirements. Agents operating in these markets attach high value to austerity in public expenditure, moves toward fiscal and trade equilibrium, and the orthodoxy of ministers and government officials. However, they pay little or no attention to other relevant variables such as the rate of GDP growth or the distribution of income. Consequently, local economic policy (like that of the whole region) is restricted by the ideology of such agents as expressed by their reactions in the market. If they did not accord new loans, the country would immediately enter a balance-of-payments crisis. The Mexican crisis at the end of 1994, like others, revealed the negative impacts of such risks and the need to adjust economic policy to the strategy demanded by these agents.

The evolution of the financial market has converted the pressure for structural reforms that arose from the debt crisis into a “normal” and continuous process. The pressures of banks and international organizations have been incorporated spontaneously in market operation. From this it can be deduced that the debt has tangible costs (with respect to payment) and also less tangible, but no less important, costs derived from its capacity to “discipline” the governments of the countries concerned, which are almost all developing ones. The agents in these markets have an uneven approach to “emerging” countries, arriving as a tentative flock but departing in a stampeding herd. Consequently, the financial crises of recent years have been sudden and unexpected. The slightest signal is enough to provoke a stampede and every government has to be very careful in what it says and does.³⁵

³⁵ In June 1999, at the beginning of the electoral campaign, E. Duhalde, presidential candidate of the Partido Justicialista, referred to the debt as a national problem (something that very few people had dared to say until then) and added that he thought that some form of write-off should be requested in the future. The “spread” for Argentina immediately rose and criticisms of such statements began, stressing that they increased country risks and costs. This minor example shows the degree of discipline to which the Argentine government is being subjected, due to the attitudes of international financial capital, which in turn operates in accordance with the views of a few opinion organs, such as the IMF, and of some risk assessors.

External Forces and Internal Dominance

Argentina's dependence on foreign financial agents helped to modify the structure and dominant forces of its society. The new forces in play made it possible to reverse the process that had begun in the crisis of the 1930s. The alliance of producers and wage-earners forged at that time in defence of the domestic market, gave way to an internal evolution that changed the state of affairs; the presence of the social forces mentioned became weaker while the power of others increased. The holders of liquid assets benefited to the detriment of the owners of fixed assets. Among the latter, those who lost ground to the greatest extent were undoubtedly the holders of producer goods. Factory owners and wage-earners were the most affected, while the winners were the new, and privileged, concessionaires of the public service companies, financial and property agents and other social groups capable of engaging in new lucrative activities in the country's restructured economy. In this sense dependency is not just related to the action of external forces, but results from a complex process through which the social structure and the functioning of the economy adapt to the dominant requirements.³⁶

When he was Minister of Economic Affairs, L. Bresser Pereira said that the debt "offers speculation and profit opportunities" which "are a way of gaining control over the elites of the debtor country and giving them common interests with the major creditor banks".³⁷ In Argentina, the situation filled orthodox economists and the large entrepreneurial stratum with enthusiasm. This explains why the Chairman of the Argentine Central Bank, P. Pou, stated that "ongoing monitoring by the international [financial] markets" was advantageous for the country, and why one of the biggest local entrepreneurs declared that "the establishment is not frightened of anyone because [if somebody breaks the rules] the country will end up like an African country The next day it will lose all its creditworthiness".³⁸

These statements are connected with changes that occurred in Argentina, some of which must be mentioned here to facilitate understanding of the structural changes that entailed a loss of economic dynamism and social equity. Between the censuses of 1974 and 1994, 20 per cent of industrial establishments disappeared. In the same period, the total number of workers employed in the sector fell by 30 per cent. The 1994 census also recorded a fall in the value added per unit of value handled in factories, which is explained by the partial replacement of local production with foreign inputs as the economy was opened to imports. As a result, industry has become smaller in actual dimension, in capacity to generate value, and in the role of job creation. The productivity of what is left of the sector has improved, but it is difficult to believe that this offsets the negative figures mentioned. The statistics for manufactured goods indicate that the contribution of industry has not yet significantly exceeded the levels recorded

³⁶ This phenomenon is examined in the original version of the theory of dependence (Cardoso and Faletto, 1966), although it is largely ignored in the later literature due to the emphasis placed on the power of the external agents, which conceals to some extent that acquired by new (and some old) privileged local groups. The theme of the presence and growing power of the holders of liquid assets, in the local and international spheres, has been well treated in various studies, for instance in that of Frieden (1989).

³⁷ Bresser Pereira in Husain and Diwan (1989:249).

³⁸ For these statements, see *La Nación*, 21 May 1998, and *Página 12*, 20 April 1997, respectively.

in 1980, or similar levels at the time of recovery in 1987, so that the value added by the sector has remained stagnant for the last 20 years.³⁹

The corollary to the closure of industrial establishments is the withdrawal of large numbers of entrepreneurs engaged in production, and the obvious disincentive to other candidates for that form of activity. The breakdown in industrial development has arisen from the logic of the economic strategy and the social change it has generated. Activities have expanded in the primary sector, but with lesser inputs of capital and entrepreneurial initiative, and intense growth rates are observed only in special areas – such as communications, luxury housing construction and financial activities – which ensure neither economic development nor social equity.

The GDP did not recover its 1980 value until 1992, after 12 “lost” years. Evolution in the 1990s was irregular: five years of expansion (1990–1994), followed by a recession (1995–1996) and a recovery (1997–1998), cut short by another recession (1999). The average rate of growth in the period 1992–1998 was, officially, 4 per cent per year, which is a possible overestimation of the actual rates.⁴⁰ In any case, since the local population is still growing, the result is that per capita GDP is only 5 per cent higher than two decades ago. Moreover, Argentina has recorded one of the worst economic performances in the region, with a 1998 GDP value of 133 (on an index of 100 in 1980), as against 149 for Latin America as a whole. Absolute progress in these two decades exceeded only the meagre data recorded for Haiti, Nicaragua, Peru and Venezuela.⁴¹

Economic stagnation has been accompanied by a redistribution of income, the regressive character of which has further worsened the position of the lower social strata. The poorest 10 per cent of the population received only 1.5 per cent of total income in 1999, or less than half the 3.2 per cent that it had secured in 1980. This deterioration contrasts with the evolution of the richest 10 per cent, which jumped from 27 per cent to 37 per cent of the total in the same period. The ratio between the average incomes of the two extremes of society increased, therefore, from nine times to 24 times.⁴²

This increase in poverty originates in particular from the fall of wages in real terms, the increase in unemployment and the reduction in social transfers through the government (especially with regard to pensions and health services). Average real wages during the 1990s were 30 per cent lower than 10 years earlier. Unemployment increased from an average of 6 per cent of the labour force in the 1970s to 8 per cent in the 1980s and jumped to more than 13 per cent from 1994 onward, with peaks of up to 19 per cent during the recessionary periods. Throughout the last five years, unemployed workers have gone for periods of more than a year without a job

³⁹ These data are taken from census information and the industrial product series, the trends and statistical reliability of which are assessed in detail in Schvarzer (1997). The effects on employment of the policy of opening up to manufactures can be seen, for instance, in Beckerman (1998).

⁴⁰ See, in this connection, the assessment of these problems in Schvarzer (1997).

⁴¹ These figures are taken from the ECLAC statistical series, reworked with a base of 100 in 1980, for this analysis.

⁴² These data, which are evaluated in many studies, come from INDEC's Periodic Household Survey.

(and without compensation owing to the absence of a social protection system), as compared with the high turnover experienced in the previous decade.⁴³

The increase in unemployment reduced the workers' resistance to the fall in wages and in other forms of social protection; poverty has worsened. It is currently estimated that at least 40 per cent of wage-earners do not contribute to social security, so that they have no recourse to health services or any possibility of a pension.

Poverty and unemployment have heightened social exclusion, which is now evident in Argentina's cities with the reappearance of infectious diseases, increasing child mortality, a growing number of school leavers, and the expansion of socially harmful activities such as drug trafficking and prostitution. It follows that the majority of people falling into these categories lose their capacity for political and social representation or follow demagogic leaders to dead ends, while power is concentrated in those favoured sectors that control financial wealth.

The long shadow of the debt, reaching across two decades, has been one of the basic causes of this change. All the while, the debt itself was changing in nature, with respect to the character of the creditors and the forms of payment and refinancing. A major problem remains how to pay it off. An even greater problem is the presence of the debt as an instrument of domination already fully integrated into the functioning of the Argentine economy and society. In this way, the debt blocks desirable paths toward a development process that would make it possible to increase the production of wealth and improve its distribution.

⁴³ This assessment of the local labour market is based on a study of its evolution over the last 50 years in Schvarzer (1995).

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