

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

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