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Argentina: Notes On Recent Economic History

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In early 1985 inflation spiralled toward an annualized rate of 2,000%. The government's fiscal deficit increased apace, as taxpayers settled liabilities incurred months before with depreciated currency. President Raul Alfonsin's government responded with the Austral Plan. The plan was named for the new currency that replaced the peso, and consisted of a temporary wage, price and exchange rate freeze, and an foreign debt restructuring agreement. To secure the agreement with the foreign creditors, the government pledged to raise taxes, reduce subsidies, and other public expenditures. Inflation dropped to 2% per month. The Alfonsin administration, however, could not meet its promises to refrain from granting wage hikes to public employees, or to "privatize" enough state companies. Inflation accelerated again in 1987 and 1988. In mid-1988, Economy Minister Juan Sourrouille negotiated wage and price controls, higher interest rates and fiscal housecleaning measures. After a short period of declining inflation, this plan, too, reportedly failed. Harvard economist Jeffrey Sachs, who has served as an advisor to Latin American governments, argues that foreign creditors must share some of the blame for the Alfonsin administration's economic troubles. According to Sachs, the critical moment came in 1986, when the Austral Plan had temporarily reduced inflation and the fiscal deficit had dropped from a 1982 peak of 19% of national income to just 5%. Foreign commercial banks, said Sachs, could have responded to Argentina's painful efforts by making a deal on the huge gigantic foreign debt accumulated by the earlier military regimes to buy political support from well-to-do Argentines and to finance the Falklands War. Instead, the banks "stayed the course." Nearly \$3 billion in interest was collected from Argentina, money that could have gone into domestic development projects, and compensating thousands of workers laid off by state enterprises. Another opportunity to give Alfonsin some breathing room occurred in late 1988, after wage and price controls had resulted in a lower inflation rate. The World Bank was reportedly convinced of Argentina's seriousness about reducing its fiscal deficit, and had agreed to grant a \$1.25 billion loan. The International Monetary Fund and commercial bank creditors, who had not received interest payments since April 1988, were not interested in a concessionary deal. "The Alfonsin government was forced to limp on alone toward hyperinflation and an almost inevitable electoral loss" in May. (Basic data from New York Times, 06/18/89)

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