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Argentina: Economic Adviser To New Government, Harvard Economist Jeffrey Sachs, Calls For "taxation Revolution"

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President-elect Carlos Menem and his economic team have solicited the assistance of Harvard economics professor Jeffrey Sachs in the attempt to stop hyperinflation and reorganize the domestic economy. Sachs, who served as economic adviser to the Bolivian government in the early 1980s, played a major role in establishing policies which slashed that country's over 10,000% per annum inflation rate to manageable levels. The US economist has been hired as a high-level adviser by Buenos Aires. Menem will take over as president on July 8. On June 29 at a conference with Argentine businesspersons in Buenos Aires, Sachs said Argentina must inform its commercial bank creditors that making timely debt service payments at current levels and ignoring Argentine citizens' demands is simply impossible. According to Sachs, arresting the hyperinflationary process will require reducing the fiscal deficit to the maximum level, and informing creditor banks that the foreign debt cannot be paid. Recent estimates indicate that Argentina's fiscal deficit is equivalent to 12% of gross domestic product. Additional requisites for resolving the inflationary crisis, said Sachs, are a strong "political consensus," and a realization by the government that it cannot say yes to all social demands. Next, Sachs stated that the greatest resistance to an anti-inflation program of this kind is presented "by businesspersons, who in Argentina do not pay taxes but instead insist on subsidies." In Argentina, said the economist, the business community's responsibility for the inflationary spiral is greater than that of the labor unions. He noted that interest rates must be maintained at exhorbitant levels to persuade members of the business community to keep their money in Argentina instead of in foreign bank deposits. Current estimates indicate that the Argentine business sector has between $35 billion and $40 billion stashed away outside the country. According to Sachs, Menem should place more emphasis on a "taxation revolution" than on a "productive revolution" as promised in his presidential campaign. Tax evasion by the Argentine business sector, said Sachs, is a major "tragedy." Next, Sachs mentioned Argentina's unequal distribution. After noting that 30% of the population receives 15 times more income than the remaining 70%, he told conference participants that if the wealthy refuse to give nothing in exchange for economic stability and prosperity for the nation as a whole, what they will receive is chaos. Sachs said Menem will have only one real political chance to deal with the economic crisis. In order to make good on this opportunity, said the economist, the new government must adopt a "shock" treatment strategy to stop the inflationary spiral within a few weeks. Pros and cons of anti-inflation strategy have unleashed a debate within the ranks of Menem's designated high-level officials. Some argue in favor of a shock treatment, while others, headed by future Economy Minister Miguel Roig, prefer a "gradual process." According to Notimex, the debate appeared to have been resolved in favor of gradualism last week when Guido di Tella was replaced as future secretary of economic coordination by Orlando Ferreres, a long-time Roig associate. [Menem said recently that the central bank had only $140 million. Private economists say the government is "semi-insolvent." The central bank recently announced that it would refuse almost any request to transfer more than $1,000 in hard currency. In the last week of June, Roig met with International Monetary Fund officials in Buenos Aires with the aim of resuming talks on negotiating $1 billion
in stand-by credits. Talks with the IMF were interrupted in April 1988 when the government of President Raul Alfonsin decided to suspend interest payments on the foreign debt. Argentina is currently in arrears by about $3 billion. Notimex reported on June 29 that Menem's government wants to sign a letter of intent with the Fund by mid-August. The buying of dollars on the black market continues. According to an unidentified official of the incoming government cited by the New York Times, $5 million may have been carried to Uruguay by Argentines during one recent weekend. (Basic data from Notimex, 06/29/89; New York Times, 07/04/89)

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