

The first question asked these days by American businessmen visiting Argentina and also the question uppermost in the minds of all of us in Buenos Aires is:

Will the Government be able to carry out its austerity program?

Before trying to answer that vital question let me review, briefly, the causes of Argentina's economic troubles, the corrective measures that are being taken, and the nature and strength of the forces that are opposing as well as supporting these measures.

The economic thinking in the early 30's led to the establishment in Argentina, as elsewhere, of exchange controls and the accompanying restrictive measures. Perón did not originate the causes of Argentina's present plight; he merely extended the basic system to its ultimate consequences. He also added his own flavor of demagoguery which terminated in the nationalization of public services, of the banking system and of other private enterprises and in the creation of a pseudo welfare state, the benefits of which, as is invariably the case, were erased by the accompanying inflation. Politically he injected the workers with a mysticism which will take time to fully counteract, but which meanwhile is exerting a degenerating influence. He overpaid the workers in relation to their productivity. In addition he showered them with fringe benefits, which had the effect of eliminating the incentive and the will to work. Regular massive wage increases tended to make the workers look to the Government for benefits instead of to their employers, thereby making wages a political issue.

When Perón was overthrown in 1955 he had squandered 90% of the country's gold and foreign reserves and had impaired her foreign credit standing

to the point where all imports from hard currency areas had to be prepaid. The balance of trade had become increasingly adverse and dividend and profit remittances had been almost entirely frozen for eight years. Strangled by exchange and other controls, bled by a pie-in-the-sky system of subsidies, and weakened by living beyond its means, the country, as well as Perón, was brought to its knees.

The Revolutionary Government, unsophisticated in the art of governing, yielded successively to political pressures from the nationalists, the socialists and the left-of-center Radicals and consequently failed to follow a consistent economic policy. It did, however, take five important steps in the right direction: It established a free exchange market for financial transfers; it abolished many direct subsidies; it dissolved the State trading organization; it returned the country to an orthodox banking system; and it adopted a positive attitude toward foreign capital. These measures have laid the foundation for a return to sound economics.

When President Frondizi took office 13 months ago he recognized that severe corrective action was urgently required. Before imposing unpopular austerity measures he felt it necessary to secure discipline in his newly-formed political party; to take steps to resolve the petroleum and power problems, and to further create a more favorable investment climate by satisfying the expropriation and other claims of foreign investors.

To consolidate his political situation and to pay off electoral promises, he granted an ill-advised massive wage increase to all the workers. Although inflationary, he felt that this would make it politically possible to attack that sacred

cow: the country's nationalistic oil policy.

To resolve the petroleum problem he has granted drilling and exploration concessions - the first since 1925 - to almost a dozen private foreign companies. The authorities believe that as a result of these contracts and the stepped-up production of the Government's oil monopoly, Y. P. F., self-sufficiency should be attained by the end of 1961. Private estimates, however, are that self-sufficiency will probably not be achieved until 1963 or 1964 but, in any case, rapid progress is being made.

The problem of electric power and that of the confiscated foreign assets were also approached in a realistic way. Constructive steps were taken to resolve the situations of the power companies, the meat packers, and other confiscated or intervened properties. The climate now became propitious for launching the recovery program.

Dollar credit during the period of transition from a controlled to a free economy was imperative. The Argentine Government agreed with Washington's new and salutary policy of making financial assistance contingent upon satisfying the International Monetary Fund that steps be taken to "put its house in order". Credits totalling \$329 million were granted by the Fund, the U.S. Treasury, The Export-Import Bank, the Development Loan Fund, and by a group of the private banks in this country. Of this sum, \$155 million will be made available during this year to cover, on the one side, the balance of payment needs of the country and, on the other, the fiscal deficit of 1959. The balance of the credits will be used to acquire capital goods and to consolidate short-term debts.

The stabilization plan went into effect at the beginning of this year and followed the classic pattern designed principally to: a) restore competition between the domestic and the export sectors of the economy, b) eliminate the distortions between costs and prices and c) halt monetary inflation by reducing Government deficits to manageable amounts and by confining credit to the private sector to non-inflationary sources of financing.

To eliminate the budget deficit, surcharges on imports and taxes on exports were imposed together with increased realistic tariffs on railway fares and other public services. All direct consumer and producer subsidies were eliminated, public works projects were pared down or postponed and steps are to be taken to discharge excess personnel in the railways and other State dependencies. With the accomplishment of these measures it was believed that the budget could be brought into balance. Despite the unlikelihood of reducing to manageable proportions during this year the deficits of the State-owned enterprises, credits to the Government sector has been limited to the local currency proceeds, estimated at 10 billion pesos, of the balance of payment loans, not including that of the IMF.

Credit restrictions in the private sector are likewise severe. The Industrial Bank will be able to increase its loans only as its deposits grow. Mortgage credit financed by advances from the Central Bank has been cut off completely. Reserve requirements on bank deposits have been increased substantially (60% on new sight deposits). These restrictions will severely curtail the ability of the banks to cope with the greatly increased demand for loans brought about by higher import and production costs and by the working capital require-

ments associated with new investments. In studying new capital investments in Argentina, gentlemen, it would be well for you to face the fact that you may very likely have to convert dollars to meet your peso requirements.

A very important feature of Argentina's program for recovery was the establishment at the beginning of this year of a single, free, fluctuating exchange market. There is no longer any discrimination against imports based on their origin and producers now receive close to world prices. By allowing the forces of supply and demand to dictate the value of the peso, exports are encouraged while imports and consumption are discouraged. The result this year should be that except for capital goods financed abroad, exports should balance off imports.

Another salutary step toward a free economy has been the elimination of price ceilings. The only prices presently frozen are rentals, sugar, yerba mate and, most unfortunately, interest rates.

To avoid further price inflation and pressure on the credit system, the Government has announced that future wage increases will be restricted to improvements in productivity, even though the cost of living may outdistance wages. Undoubtedly there will be some back-sliding here, because the pressure is great, but the authorities insist that the wage-price spiral will be halted. The Government is placing principal emphasis, in the renewal of wage contracts, on eliminating clauses linking wages to the cost of living.

All of the stabilization measures that I have detailed have been taken and are being implemented successfully except for the two most difficult - the reduction in the bureaucracy and the curb on wage increases. These, of course,

are the two most sensitive areas and the program as a whole will succeed or fail depending on the Government's ability to control the internal fiscal deficit and to bring about a sound relationship between wages and productivity.

Let us now look at the forces arrayed against Frondizi and the austerity program and at the factors favoring its success:

Frondizi, as you know, by virtue of promises and concessions, secured the support of the Peronistas and of the Communists without which he would not have reached the Presidency. These marriages of convenience, however, have since been dissolved.

Insofar as Frondizi's own party members are concerned, they are dismayed by the about-face in his previously generous attitude toward labor, by his establishment of friendly relations with the U. S., and by opening up the country's petroleum to foreign interests. Although he has lost the support of part of the rank and file, Frondizi has managed to maintain control over the party machinery. Therefore, there is little likelihood that the Congress, where he has an effective majority, will torpedo his program.

The opposition parties are not helping the Government; to the contrary, they are trying to make political capital out of the austerity program. Despite their attacks on the authorities, however, they cannot be considered a threat.

Frondizi's strategy was to replace Perón as the leader of the workmen by winning over their labor bosses in the ingenious manner that Perón did. To facilitate this he tried to re-create the General Confederation of Labor - - on the theory that it would be easier to deal with just a few bosses instead of with each individual union. Instead, however, labor has split into three fractions:

the so-called Democratic, with about 50% of the workers, the Peronist, with about 32% and the Communist, with about 18%. These latter two on occasion combine their efforts, but each of these three groups is seeking preponderance over labor by winning the largest concessions for their members.

A survey which we made last month in Buenos Aires indicates that, on the whole, labor is becoming more tractable, efficiency is improving and, incidentally, earnings are such as to encourage the majority of the industries to plan new investments in order to increase production. Despite this favorable trend, demands for wage increases are still the order of the day, some running as high as 150% in addition to further fringe benefits. Management, still accustomed to allowing the Government and price inflation to bear the cost of wage increases, has not actively resisted these demands but, little by little, credit restrictions and consumer resistance are making management more conscious of competitive economics.

Labor is undoubtedly a threat to the stabilization program and work stoppages are increasingly frequent. Two disruptive strikes, by the railway and the petroleum unions, were promptly squelched by the harsh expedient of mobilizing all the workers into the Army and making them subject to military discipline. The armed forces were reluctant to intervene in the prolonged bank strike, which has been only partially effective, and the Government's apparent victory in that engagement is generally regarded as the turning point. It is expected that wage demands will in future be more realistic and that the workers will be more reluctant to follow their agitator leaders.

Despite the turmoil which we may still expect to see in the labor picture, the fact that the unions are divided and may be dealt with separately is insurance against a prolonged and effective general strike that might endanger the Government.

The only force, therefore, that might overthrow Frondizi is the Military. It appears that the majority of the officers distrust Frondizi because of the manner in which he was elected, because he has not broken, to their satisfaction, with Perón and with Communism, and because they suspect that his desire to control labor is prompted by the ambition to create a strength that could offset the power of the Military. They see in him another Perón in the making and although they favor the stabilization program they criticize its implementation and would like to reform it to preclude the possibilities of corruption.

Notwithstanding these feelings of distrust, the armed forces, in common with the civilians, wish to solve the country's problems in a constitutional manner. They do not want to overthrow Frondizi and would only do so if they became convinced that the recovery of the country and its liberation from the threat of Communism depended upon such action. They would prefer, instead, that by applying pressure on Frondizi he could be induced to rid himself of all of the objectionable elements that surround him and to take a firmer stand with labor. This would enable the Government to take more effective action in dismantling the bureaucracy and in keeping wages within economic possibilities. On the other hand, Frondizi is trying to solve the labor and other problems without the help of the Military in order to preserve his freedom of action. He is resisting the

pressure from the Military and, only at the last minute, surrenders the bare minimum which he feels he can concede with impunity. This explains the partial and belated renewal of his Cabinet recently.

Given these circumstances we cannot dismiss the possibility that because of a miscalculation in over-playing his hand, Frondizi may be replaced by the Military. In such a contingency it is commonly believed that the stabilization program would not be hampered, lamentable as Frondizi's overthrow would be from a democratic and constitutional point of view.

That Frondizi, or the Military, as the case may be, will be able to carry the stabilization program through to its successful conclusion, however, cannot be taken entirely for granted. It would be flippancy to underestimate the country's problems, especially when taking into account its still undeveloped civic consciousness.

There are two important factors favoring Argentina's efforts to carry out her program. In the first place, failure to comply with the stand-by agreement would automatically halt further drawings against all of the credits that have been established to assist the program. Argentina's credit standing would fall to the point where for lack of imported raw materials the inevitable result would be widespread unemployment and a lowering of living standards with the accompanying social disorders. The incentives to carry out the program are obvious and equally obvious is the disastrous situation which is its only alternative. The weight of sheer logic and self-interest, therefore, are heavily in favor of a continuation of the program and this is rapidly becoming recognized not only

in Government but also in Military and civilian circles.

The second favorable factor is that as the measures taken bear fruit the benefits to be gained from free, competitive private enterprise will be more readily recognized and resistance to the program will decline.

Higher relative prices for their products are spurring cattlemen and farmers to increase production. Argentina's agreement with the U.S. regarding the marketing of P. L. 480 products assures Argentina her share of the world market for cereals. Her meat position is likewise favorable; there is an ever-increasing demand from the U.S. and Europe. Consequently, and in contrast to some of her neighbors, Argentina may continue to expect an assured market for her important export products.

The new investments that are being made, principally by U.S. companies, in oil, steel, trucks, tractors, synthetic rubber, chemicals, plastics and pharmaceuticals, as well as the expansion of existing plants, will drastically reduce Argentina's import requirements under these headings which today absorb most of her export earnings. The creation of this new wealth will raise living standards with the consequent easing of social tensions. I might mention here that although a few of these new investments are being made with Argentine businessmen as partners, most of them are being effected through locally-formed affiliates which are 100% owned by the foreign parent companies.

You have perhaps read of the steps being taken toward the eventual establishment of a Latin American Common Market. This, of course, is a development for the distant future but there is another movement under way which should begin to show benefits in the near future. This is the formation of a Free

Trade Area to comprise Argentina, Brazil, Chile, Uruguay, Paraguay, Perú and Bolivia. There is heartening evidence of progress in this direction which will assist Argentina, as well as the other countries, in expanding its markets for industrial goods as well as for raw materials by progressive mutual tariff reductions during the next ten years.

As a minor sidelight, but one of interest in view of Argentina's traditional nationalism, you'll be interested to learn that the country has engaged U.S. management consultants to streamline two important ^{Government} agencies - Y. P. F. and the Industrial Bank. To those of you who know Argentina this is certainly indicative of a profound change.

One robin doesn't make a spring but attention should be drawn to the provincial elections in Mendoza in April. The election was won by the Conservatives and the impressive feature is that the Conservative campaign was based on sound economics and was directed against demagogic labor leaders. The party manifesto could have been written by our late Senator Bob Taft - and to the surprise of all it was successful!

To summarize - responsible opinion in Buenos Aires believes that the rehabilitation program will be carried out and that it will bring the stability necessary to attract and to build up the capital that is needed to bring prosperity. The Monetary Fund is satisfied with the progress that has been made to date.

With rich natural resources and a vigorous middle-class population, Argentina is an expanding and promising market. Those of us who have been watching the Argentine revolution and evolution are confident that Argentina will regain its position as leader of the Spanish speaking world and by its example will contribute to san economics and stability in South America.