



For immediate release
June 29, 1993

WELCOME MR. ARGENTINE PRESIDENT

- Menem comes to Washington to receive his milk bone
- Argentine leader wishes to hold onto presidency mainly in order to forestall independent investigation into financial scandals surrounding his administration and irregularities involved in sale of state assets
- Big winners and losers in Menem's Argentina
- Self-serving opportunist laughs at charges of corruption and hopes his house of cards will stay put until he wins a second term
- Current prosperity could burst if parity between dollar and peso ends
- Argentine president will raise issue of U.S. agricultural subsidies but will not press the point

Argentina's ebullient Peronist president, Carlos Saul Menem, has come to Washington to discuss issues ranging from medicine patents to U.S. agricultural protectionism to bilateral anti-drug efforts, but most of all to receive what he urgently needs--the imprimatur of approval from the new U.S. president. Menem can look forward to a warm, if not entirely warranted, greeting at the White House, because, at first glance, he seems to have all the credentials that Clinton Administration trade-oriented officials cherish. In addition, Menem is the personification of the accommodating Latin American leader who is willing to mount an aggressive foreign policy--even sending token Argentine military forces to world hot spots to bolster U.S. foreign policy objectives, be they in the Persian Gulf or against Cuba--in order to win Washington's favor. This was his arrangement with President Bush and is something which Menem desperately hopes to sustain with President Clinton.

Although he repeatedly has had kind words to say about Menem's Argentina, Clinton may not realize that when it comes to the health of that country's economy and democratic institutions, there is far more than meets the eye. While the country's stock market has boomed, the quality of life and standard of living of at least one-third, if not more, of the population, as well as the resilience of some of its most important institutions, have noticeably deteriorated.

Latin America's next corruption scandal?

Following in the spirit of Brazil's Fernando Collor de Mello and Venezuela's Carlos Andres Perez, his administration has been surrounded by controversy and scandals, and, in retrospect, it seems a small miracle that to date he has not met their fate. Menem himself has aptly characterized his presidency: "I prefer to be authoritarian with public support rather than democratic with the support of 20 percent." Such words are particularly ominous in light of Menem's current political campaign, much like that of Peru's president Fujimori, to amend the constitution so he can attempt to extend his presidential tenure to a second term. Some White House officials and international lending agency representatives have suggested that the principle reason that Menem wants to hold onto power is to prevent the release of potentially embarrassing information regarding scandals and corrupt practices within his administration which are currently being covered up by loyal judges and state officials.

Since taking office in 1989, Menem has attempted to convert Argentina's sluggish state-dominated economy into a more efficient market-oriented one. The "dollarization" of

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the economy engineered by Minister of the Economy and Public Works Domingo Cavallo, who is also in Washington, and his team during 1991-92 was extremely successful in alleviating such domestic problems as inflation and monetary instability. A consumption boom, the elimination of import quotas and the steady appreciation of the peso in terms of the dollar, have convinced local elites that strict measures have accomplished the desired goal of Westernizing the economy. Nonetheless, it is open to question whether or not democratic procedures and public rectitude were sacrificed in the name of economic progress, calling to mind Mexican President Salinas' justification of draconian rule in that country, when he said that Mexico must first strengthen its economy before partaking in full democracy.

If there is no question that the parity of the dollar and peso and their free convertibility is at the heart of the so-called Menem miracle, the unravelling of that relationship could easily destroy his presidency. Currently, the government has sufficient foreign exchange holdings for the central bank to back up the peso, at least until October's legislative election, but after that the deluge could very well occur. That is why Menem is in a race against time, and that is why he must woo the U.S. president and Washington-based lending agencies to stand by him in the difficult months ahead.

Successful stabilization?

To the outside world, President Menem's reforms have succeeded in turning the Argentine economy around. There is no question that his privatization programs relieved the country of massive economic drain and facilitated the negotiation of the loan-reduction plan, signed in April by Buenos Aires' creditors, putting an end to the decade-long debt crisis. Virtually all of the most unprofitable and inefficient state-owned enterprises have been, or are currently being, sold to the private sector, thus freeing up government funds and cutting wasteful subsidization expenditures. State enterprises that have been wholly or partially privatized include the national airlines, railroads, electric company, telephone system, ports, highways, and waterworks projects, as well as the petrochemical industry.

Yesterday Argentina began the biggest privatization sale in Latin American history, a major, but non-controlling interest in the state-owned oil company, Yacimientos Petroliferos Fiscales (YPF), whose estimated total value ranges between \$6.5 and \$8 billion and is being offered at \$19 a share, with the sale expected to bring in \$3 billion. Yet, once the sale of these public assets is completed and the profits frittered away, the nation will be all the poorer because of the government's tendency not to wisely invest the sums that it receives in the capital infrastructure of the country. In fact, Menem's economic miracle depends upon a \$10 billion annual capital inflow, which may be drastically cut when the Argentine economic balloon bursts.

Problematic privatization

Privatization has occurred at such a fast pace that many corporations have been unable to sufficiently train private management teams to effectively run the former state enterprises. In some cases, this has caused administrative and productivity problems far worse than those encountered when the plants were owned by the government. In addition, new foreign management, with no particular loyalty to Argentina or Argentines, often is insensitive to the country's traditions and sensibilities, as well as any interest in questions of social justice. Recently, the sale of a state-owned power plant outside of Buenos Aires to foreign interests precipitated fierce demonstrations as residents of a shantytown protested the cut-off of an illegal power supply by blocking streets and burning tires.

The whole process of privatization has been associated with widespread corruption. Powerful local groups took advantage of the absence of an adequate regulatory framework governing the sale of state companies. As a result, ten conglomerates profited excessively

through the purchase of 40% of the formerly state-owned enterprises, at suspect prices. The social costs of free market reforms have tended to be shouldered by the poorer sections of the population. While a small number of elite have enormously benefitted legally as well as illegally from Menem's neoliberal reforms, a third of the nation lives in poverty. Despite politically expedient promises made recently by Menem and Cavallo, the unemployment rate, now at about 7.8%, shows no sign of declining and will in fact be exacerbated by the administration's policy of pegging the peso to the dollar.

Economic achievements mask social costs, political failures

Thanks in part to an ostensibly booming economy, the teflonized Argentine president has thus far been successful in weathering numerous scandals, criticisms of his authoritarian tendencies and social unrest generated by his neoliberal reforms. It is ironic that these harsh policies, mainly affecting the middle and poorer sectors of the population, have been implemented by the representative of the party which traditionally has been their champion. In the land of cattle and grain people are now literally starving, and a country that boasted the highest levels of schooling in all of Latin America now spends only 1.5% of its GNP on education—one of the lowest figures in the hemisphere. Today the quality of Argentine education is as much a matter of dissatisfaction as it is in the United States. Social services have deteriorated to the point of being almost non-existent for those who cannot afford even basic needs such as medical care, electricity and plumbing. This is the price that Cavallo and his team seem more than willing to pay in order to propitiate the international lending agencies and some Washington policy makers. The desire to reposition the country in "her proper place in the world order" is driving a model of development which falls far short of promoting political and economic democratization.

Steady transference and concentration of income at the upper levels of the population inevitably has damaged the middle and lower-middle classes to a significant degree. Salaries have remained stagnant while prices have inched up steadily each month, and because the dollar does not change with the peso, the middle class faces constantly diminishing purchasing power. According to the World Bank, the bottom 20% of the population earns only 4% of the GDP, as compared to 7% in 1967—representing close to a 45% drop. The plummeting living standards caused by Menem's neoliberal reforms have impacted the social fabric of that country as demonstrated by family breakups, intra-family violence, mounting crime rates, and suicides.

Economic reform or political posturing?

The Argentine president is not below engaging in populist politics to further his second-term ambitions. The auction of YPF, originally scheduled for later this year, was pushed forward at Menem's request. The president has promised that the profits received from the company's sale will go towards paying the I.O.U.s on the pensions of the one million long-protesting retirees who were required several years ago to buy more than \$2 billion in bonds that will come due just one month before congressional elections. Rather than a windfall, many—perhaps a majority—of pensioners have had to sell off their claims at heavily discounted prices, with the speculators having a field day. As late as a year ago, Menem was of a different mind, adamantly refusing to consider raising pensioners' stipends from \$150 to the sought after \$450 a month—which would still put most pensioners below the \$500 poverty line.

In the face of the mid-term congressional election scheduled for October 3, Menem is also making overtures toward the politically important agricultural sector. Farmers have long felt that the government has ignored their interests, and many are now facing ruin due to lower commodity prices abroad. Dependent on a steady stream of loans for equipment and supplies, farmers presently are faced with astronomically high interest rates which

often make such credits difficult to obtain and unmanageable to service. In response to their complaints, Menem has suspended some asset taxes, giving farmers investment and tax breaks and vowed to simplify their tax system, but it is expected that most of these modest relief efforts will evaporate immediately following the election. Those efficiency gains made during the Menem administration have come at the expense of the small farmer as land holdings have become increasingly concentrated.

The support of the country's agricultural sector, as well as that of its senior citizens, will be crucial to President Menem's attempt to fill the legislature with Peronists. The upcoming legislative balloting is particularly important to the president as he is now seeking passage of a constitutional amendment permitting presidential reelection, to his direct benefit. He is not calling for the constitution's revision to address the country's pressing social problems, but is only asking that it be modified to further his own political ambitions.

As now written, the Argentine constitution, dating from 1853--making it one of the oldest in the Americas--allows an unlimited number of non-consecutive six-year terms. Menem wants a U.S.-style format which would provide for the possibility of two consecutive four-year terms.

History of corruption

In light of the pattern of corruption and authoritarian tendencies which have defined Menem's first term, constitutional tinkering aimed at extending his mandate seems hardly justified. Because of this, Argentines might want to think twice before satisfying their president's ambitions by reversing a hallowed hemispheric principle of non-reelectability. Fellow Argentines also might ask whether they mean to continue the environment of scandal which has surrounded the Menem administration. One of these instances of corruption involves the president's brother-in-law and former foreign ministry official Karim Yoma. Revelations up to now are said to represent only the tip of a massive corruption iceberg. Yoma has been accused of culling funds from official transactions involving the Argentine government and Italian companies.

Two years ago, Yoma's sister, Amira (Menem's personal secretary at the time), was forced to resign after being indicted by the Spanish government for laundering drug money. The disgrace of having abused her official position was only surpassed by the shabbily conducted cover-up which followed. Other scandals involved the sale of 25 tons of contaminated milk to a government welfare program, \$15 billion in defaulted loans, unseemly favors done for BCCI officials, and the enormously controversial pardon of 280 archviolators of human rights, responsible for much of the torture, murder and disappearances which occurred under military rule.

Menem has been able to contain the political damage of such scandals largely through the exercise of undue influence over the judicial system. In 1991, the president pushed through legislation which arbitrarily increased the size of the Supreme Court from five to nine justices and which gave him the power to appoint six of those members. The president subsequently has used the emergency decree powers granted to him by his compliant high court to implement controversial policies which most likely would not have made it through the legislative process, as well as to block investigations of alleged corruption within his inner circle. He also deserves high marks for manipulating the political levers at his disposal, including well-timed, if self-serving and ill-advised populist programs, influence over the judiciary and exaggerated claims of economic "miracles," in order to distract the public and the international community from scrutinizing some of his questionable political and economic decisions and the pathetic lack of public ethics defining his administration.