Is There an Argentina In Mexico's Future?

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Undoubtedly, every time we hear something new about the crisis Argentina is going through, we Mexicans ask ourselves if something similar could happen to us. This also happens when someone makes a presentation about the Argentinian economy to more specialized audiences: one of the thoughts that always pops up is, "It sounded like you were explaining the state of the Mexican economy." Distinguishing what both situations have in common and how they differ is the aim of this article.

In the first place, it should be pointed out that the Argentinian crisis expresses conditions related to the functioning of its economic structure generated at least 30 years ago, together with others of more recent origin linked to economic policy implemented in the last 10 years. The most immediate and obvious has been the explosion of the financial, banking crisis resulting from the end of the dollar-peso peg that has set off social and political mobilizations. However, among the factors explaining what is happening in Argentina are the following:

a) It is crisis derived from a series of economic policy measures that have brought about a very significant drop in living standards.
b) It is also the expression of the political and social decomposition of a society that has had an economic model imposed on it that has blurred the project of the nation built from the end of the nineteenth century to the 1970s, a model bent on a "Washington-consensus"-style modernization, which has included measures that have deepened a trend toward increasingly shunting aside the immediate needs of the majority of the population.
c) The international context, with the dynamic of the international financial system, is also a factor of the first water. This system is more centered on stabilizing economies than reactivating them and establishing sustained growth; it is more concerned with incentives to consumption than with policies to foster production, with indiscriminately opening up markets rather than strengthening spaces for local production.

All of this is similar to what is happening in the Mexican economy and society, particularly because Argentina, just like Mexico and the rest of the Latin American countries, carried out a series of structural reforms that radically changed both economy and society. They implemented policies for stabilization and trade and financial openings; they privatized state companies and reformed the state.

The differences are in the timing, rhythms and intensities with which these instruments were applied. Since the time of Argentina's military governments in the 1970s, leaders have sought to implement economic policies more linked to the opening and a more dynamic insertion into the world market, but they maintained state participation and ownership in the country's main economic activities. With the advent of civilian governments, they avoided implementing

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extreme adjustment policies —known as "shock treatment"— in an attempt to combine opening with foreign indebtedness and maintaining high wages and salaries with public spending. The result was a negative growth of the economy and periods of hyper-inflation, annual price variations of over two digits. This resulted in economic stagnation from 1975 to 1991. From 1975 to 1990, the gross domestic product (GDP) averaged only 4.7 percent greater than that of 1974; investment was 2.2 percent less; and consumption, 4.4 percent higher.[1] Between 1980 and 1984, average inflation was 222.8 percent; from 1985 to 1989, it was 444.4 percent.[2]

In the case of Mexico, stabilization and adjustment policies were implemented with the aim of counteracting the negative impact on income levels and wages, as well as measures that, as a whole, also brought about economic stagnation. Between 1981 and 1990, GDP grew 1.8 percent annually on the average and per capita GDP showed a negative -0.3 percent yearly. Investment also showed a negative -0.1 percent, while inflation was an average of 70 percent between 1981 and 1990.[3]

It was in 1989 with the inauguration of Carlos Menem's Justicialista government that the neoliberal structural reforms like the economic opening and privatization would be put into effect, together with the deregulation of the economy, the reform of the state and fiscal and pension reforms. These policies, plus the Convertibility Plan adopted in 1991, turned around the growth of the Argentinian economy and brought down inflation.

The Convertibility Plan implemented as of April 1991 was a stabilization policy that pegged the peso to the dollar, eliminating indexing and backing convertibility with international reserves. At the same time the Central Bank became autonomous, making it an exchange house, eliminating its ability to finance public deficits. The most obvious result was a drop in inflation, which even turned into deflation from 1999 to 2001. All these policies also served to encourage investment, which grew 14.6 percent a year from 1991 to 1998, compensating for the negative -7.6 percent from 1981 to 1990.

Exports also grew 7.9 percent annually between 1987 and 1996, and imports grew even more (65 percent in 1992 and 21.2 percent in 1994). This produced a continuous deficit in the country's trade balance in the 1990s which would become one of the central factors in the current crisis and recession.

If we look only at macroeconomic figures for the 1990s, we could be led to suppose that the Argentinian economy was going through a period of dynamic growth with clear indications of recovery. However, the relative increase in economic growth between 1990 and 1997 (3.5 percent GDP increase a year) only translated into a 1.8 percent growth of per capita GDP, a level that could not recover the value of what was being produced nor could it approach the income levels of the first part of the 1970s. The industrial sector, one of the most dynamic during the 1990s, was increasingly structured to depend on external financial cycles. Because of its links to foreign direct investment and the largest multinational corporations, and in the perspective of competitiveness and increased productivity, these dynamic manufacturing activities did not make for more jobs. On the contrary, with the creation of processes with great technological innovation, jobs were lost overall; also, greater emphasis on assembly and services meant less and less involvement of techno-productive capabilities. This resulted in very high unemployment, which oscillated between 15 percent and 24 percent of the work force in the 1990s.

At the same time, Mexico's macroeconomic performance between 1991 and 1999 was relatively successful: the GDP grew 3.1 percent annually; per capita GDP, 1.3 percent; investment, 5 percent; exports, 2.1 percent; and imports 13.5 percent. Inflation dropped from 29.9 percent in 1990 to 9 percent in 2000. However, despite an average 3.5 percent open urban unemployment, the growth of the work force was 3.9 percent and of every 100 jobs created, 60 were in the informal sector.[4]

I have already stated that one of the most important effects of the model imposed in Argentina has been a drop in living standards: median income dropped 30 percent between 1980 and 1998.

Because of Argentina's history and how it was constituted as a nation, as well as because of the economic model in place since the 1920s, poverty had never reached significant levels. However, in 1980, 9 percent of homes were at the poverty level; by 1999, the figure had reached 16.3 percent. In 1980, 2 percent of homes were indigent and by 1999, the figure had doubled, reaching 4.3 percent.[5]

These indicators do contrast very significantly with the Mexican case, in which the drop in income has been even greater. To index income, taking 1990 as 100, in 1980 the minimum wage was 252.9 and in 1996, it was 76.9. The average wage went from

MACROECONOMIC INDICATORS
(AVERAGE ANNUAL GROWTH RATES)

	1970-1980	1981-1990	1991-1999	1997	1998	1999	2000	2001
GDP								
Argentina	-	-0.7	3.2	8.0	- 3.8	-3.4	-0.6	-3.8
Mexico	6.6	1.8	3.1	6.8	4.9	3.5	7.0	-0.1
Per capita GDP								
Argentina	-	-2.1	3.3	3.5	0.6	-1.2	-1.8	-5.0
Mexico	3.5	-0.3	1.3	5.1	3.2	1.8	5.4	-1.6
Investment								
Argentina	-	-2.4*	-	17.5	6.7	-12.8	-8.6	-15.0
Mexico	9.1	-0.1	5.0	21.7	10.7	7.7	10.0	-3.5
Exports								
Argentina	2.1	7.1	6.6	12.0	9.9	-1.4	1.8	-
Mexico	7.8	7.2	12.1	10.7	12.1	12.4	16.0	-
Imports								
Argentina	-	-	-	26.6	8.1	-11.7	0.2	-
Mexico	12.0	4.4	13.5	22.8	10.6	13.8	21.4	-
FDI								
Argentina	-	-	-	4,924	4,175	22,633	10,553	3,500
Mexico	-	-	-	12,830	11,311	11,915	13,162	24,500
Foreign Debt								
Argentina	-	-	-	124,696	140,489	145,300	146,200	142,300
Mexico	-	-	-	149,000	161,300	166,381	149,300	146,100

Source: ECLAC, *Balance Preliminar de la Economía de América Latina*, several years; and IDB, *Progreso Económico, Social de América Latina*, several years.
* 1975-1990.

128.3 in 1980 to 111.5 in 1996. In 1989, 39 percent of all homes were at the poverty level, a figure that rose to 43 percent in 1996 and dropped again to 38 percent in 1999. Thirteen percent of all homes were indigent. Comparing the Mexican situation with Argentina, the obvious question is why there has not been a social explosion in Mexico. I think that migration to the United States and the informal economy have been structured as escape valves, in addition to the lack of a political culture of citizens' organization.

Clearly the hardest hit sectors in Argentina's current bank crisis are the middle classes, who, accustomed to a certain standard of living based on jobs in the formal sector, have had to deal with a drop in their income, losing their jobs and the plunder of their savings. In addition, this model made possible what no other before had: a polarization of income, which is a matter for concern because the Argentinian population is resisting greater impoverishment and exclusion from productive life and therefore, from society.

Argentina's per capita GDP is U.S.$7,000, but 72.5 percent of the population earns less than this average and 44.5 percent earns half the average.[6]

We can identify all these circumstances as the basis for the current social crisis, which can only be resolved with the construction of a viable economic model that will make it possible to establish new social pacts.

In the midst of this dynamic, the peso peg to the dollar came to an end after the public debt came due, which meant an exchange of U.S.$30 billion in securities. Given the lack of external financing and the drop in bank deposits, the government was forced to slash public spending with measures such as cutting public sector wages, and pensions higher than U.S.$500, by 13 percent. Later, in November 2001, given the drop in international reserves, it became necessary to limit withdrawals from bank accounts, and in December the moratorium was declared on the public foreign debt, by that time a hefty U.S.$142 billion.

Argentina's emergence from the current crisis is still uncertain and the viability of the economic system is at stake. The economic policy measures adopted in the 1990s managed to contain inflation and reactivate some productive sectors, but at an enormous cost for the population as a whole.

The financial and banking crisis showed its first signs of being played out in 1995 as a result of the Mexican crisis, but it was maintained artificially until now, when all its implications and distortions are showing up. Meanwhile, credit for small and medium-sized firms decreased and interest rates on state bonds in dollars have been higher than those applied to the debts of the more advanced economies.

Stabilization measures are being implemented in Mexico, particularly since the 1994 crisis. Seemingly the only objective is to control inflation; to do this, a flexible exchange rate has been established, controlled by the Central Bank, which maintains a fictitious parity that is currently acting against the exporting sector and encouraging imports, as well as changing productive chains that are now being structured with the external market. It should be remembered that the bill for solving the 1998 banking crisis was presented to the entire population: Mexico's bank bail-out transferring its debt to the public cost U.S.$60 billion. The head of the Bank Savings Protection Institute (IPAB), the body that took the place of the Savings Protection Bank Fund (FOBAPROA), stated in September 1999 that the debt came to U.S.$873.1 billion, the equivalent of 19.3 percent of the GDP. In the year 2001, payments on this debt came to 0.87 percent of GDP.

Argentina, like most countries in Latin America, has carried out all the measures dictated by the international financial organizations. The government sold off all its state companies, opened up the market and liberalized the financial sector, causing the virtual disappearance of national banks. And despite important amounts of foreign direct investment and the structural reforms, there was little effect on domestic savings, mainly because the required number of jobs in the formal sector were never created. And despite it all, capital will continue to be transferred out of the country, through capital flight or in the form of foreign debt servicing and payment or in profit remittances. Unfortunately, the cost of all this is coming out of the population's savings because people transferred the results of their life-long efforts to the banks, now foreign owned. They lost money when they changed pesos to dollars and now they will once again lose out when they change dollars back into devalued pesos. We are once again seeing a process of forced savings that will turn into a process of accumulation differing little from the plunder experienced every time capital has required liquidity.

In Mexico, the government has also sold off state companies and merged others; the national banking system no longer exists; we also had a profound banking crisis; and our growth is once again insufficient to generate a sustained reactivation. While the economy managed to recover in 1996, this was thanks to international financial aid and the bank bail-out; this aid has turned into a kind of "financial bullet-proofing" since 1999 to the tune of U.S.$26.44 billion that was given because of our geographical proximity to the United States, because we have become its second trade partner and because the U.S. economy was growing. We are now entering a recession because we are following the lead of our neighbor to the north, and we have no dynamic domestic market that can revive growth. What is building up is the lack of jobs, the number of unstable jobs, the highly polarized income distribution, public debt and the financial requirements of fiscal policy.

The Argentinian crisis and Mexico's economic depression, as well as the deterioration of the entire Latin American region brings into question the validity of maintaining economic models that emphasize stabilization, low inflation based on a tight monetary policy and zero public deficit at the cost of impoverishing the population. We must question these policies that insist on economies becoming part of the international market without increasing investment in education and development and try to turn the banking system into simple exchange houses with no impact on public finance or local production or deny any possibility of implementing policies to encourage investment and production. VM

Notes

[1] Carlos Bonvecchi, "Una evaluación del desempeño de la industria argentina en la década de los noventa," Bernardo Kosacoff, comp., *El desempeño industrial argentino. Más allá de la sustitución de importaciones* (Santiago: CEPAL/ONU, 2000).

[2] CEPAL, "Quince años de desempeño económico" (Santiago: CEPAL/ONU, 1996), and CEPAL (a) "Balance preliminar de la economía de América Latina" (Santiago: CEPAL/ONU, 2001).

[3] Ibid.

[4] INEGI, "Encuesta ingreso-gasto de los hogares en México" (Mexico City: INEGI, 1998).

[5] CEPAL (b), "El panorama social de América Latina, 2000-2001," (Santiago: CEPAL/ONU, 2001).

[6] Idem.