The IMF and the Argentinian Right*

C.P. Chandrasekhar

On January 10, the IMF announced its decision to release $4.7 billion out of a $57 billion bailout package sanctioned in 2018 to perennially debt-distressed Argentina, then under a right-wing government headed by Mauricio Macrio. That surprised some. Going by the IMF's stated 'principles', the disbursal should not have occurred because the country had failed to meet the conditions and targets specified by the lender for continuation of the programme. Besides, the $4.7 billion reflected not only the delayed release of a $3.3 billion tranche that was due last November, but also the release in advance, or ahead of schedule, of an additional $1.4 billion. That was, from an IMF perspective, a handsome payoff for a delinquent.

Two factors seem to have played a role here. The first was the IMF's intent, influenced no doubt by the US, to strengthen the hands of the new president of Argentina, the maverick, self-proclaimed anarcho-capitalist, Javier Milei. The extreme-right president had in recently held elections defeated the candidate of the left-of-centre Peronists who had governed Argentina during a prolonged crisis with three-digit hyperinflation. Milei, who, as of now, has held back on his election promises of dollarizing the economy and abolishing the central bank, has not disappointed domestic elites, international finance and the US. In late December, days after taking over the presidency, he devalued the peso by 54 per cent and issued a decree incorporating 300-odd measures involving wide ranging economic deregulation and liberalisation, rendering major public enterprises eligible for privatisation, dismantling worker protection, and imposing austerity in many areas. The decree remains in place unless voted out by both houses of Congress. The objective clearly is to use presidential power to pursue at the expensive of ordinary citizens a misguided effort to reduce in record time the deficit in the government's budget and the size of its external debt.

A week later, Milei sent a 664-clause bill to Congress, that provides tax amnesties and concessions to the rich in an unequal society, does away with election to Congress based on proportional representation, penalises protestors blocking roads, and strengthens the government's powers to curb demonstrations. The political and class character of the "adjustment" programme is amply clear. Tactically, the intention seems to be to heap so many right-wing "reform" proposals on Congress, where Milei is in a minority, so that he can push through some of them while riding on the partial legitimacy that the electoral verdict has given him.

The immediate thrust is to impose severe austerity to generate resources. However, it is not clear how the resources released through this effort at "shock therapy" can be transformed into foreign exchange to pay off international creditors. Milei's strategy provides for spending cuts and regressive tax increases that would deliver a primary budget surplus. Receipts from privatisation would be used to retire public debt and the associated interest bill, and innocent citizens would be made to contribute to the effort by arbitrarily trimming the value of domestic public debt held by pension funds and banks. As the Peronist governor of Buenos Aires province, Axel Kicillof, noted, the decree "proposes privatising everything, deregulating everything, destroying the rights of workers and wiping out entire production sectors."

The IMF, however, appears pleased. It selectively refers to the austerity measures to justify its generous financial support to the right-wing government. Fund officials negotiating the terms for the release of the recent, enhanced tranche of funds noted that the new government had “moved quickly and decisively to develop and begin to implement a strong policy package to restore macroeconomic stability,” showing the new government is “fully determined to bring the current program back on track”.

What that assessment misses is that Argentina has been economically vulnerable and affected by periodic crises involving cycles of inflation, austerity and recession since the 1980s. Beleaguered by foreign debt, Argentina has repeatedly defaulted on repayments. One major instance was in 2001, when a crisis that followed a disastrous experience with a currency board arrangement installed to deal with hyperinflation led to a default on external debt. Having tied its hand in multiple ways, the government of the day chose to succumb to IMF conditions to get itself emergency finance. The IMF to saw in this an opportunity to take control of a country that was an important player in the US hinterland and a lucrative target for international finance.

During the long crisis that followed, Argentina’s government was supported by around a dozen conditional loan agreements with the IMF. Partly because of those ‘programmes’, the country has been a location for a wide variety of market-friendly experiments that have failed to correct the fundamental causes for the external vulnerability, to manage which exchange rates were either administratively fixed or massively devalued. That long period saw the government roiled in external debt which it was hard put to repay because it lacked access to the needed foreign exchange earned through the exports of Argentinian goods and services. Meanwhile, the country’s elite had partly insulated itself from the volatility by holding their wealth in dollar denominated assets.

This situation was the basis for a class standoff. Directly addressing and reversing dollar dependence with protection and capital controls would hurt the elites. Seeking to squeeze the mass of citizens to curb dollar expenditures through austerity would hit the working population. The fact that the Peronists depended on worker support to ascend to and remain in power during Argentina’s era of democracy, made austerity experiments difficult to implement. And with domestic elites, backed by international finance, the IMF and the US state, exerting influence any direct attack on dollar-dependence was stalled.

Amid this impasse, the IMF has been caught in a “lender’s trap”. It has not been able to get Argentina to stabilise its balance of payments and routinely honour its debt service commitments. On the other hand, its image and record of being a preferred creditor, payments to which are never in default, could not be risked. In the event, it has resorted to bailing itself out by ignoring Argentina’s performance record relative to the unrealistic targets it sets, and keeping credit flowing to the country so that it can service its past debts to the lender. Thus, in Ponzi-fashion, the IMF’s latest tranche of credit to the Milei government would be used to service past debt from the IMF, on which $2.7 billion falls due in early February.

Not surprisingly, the IMF favours right wing governments willing to experiment with austerity as panacea. But it is unlikely that in this round of the class standoff, the IMF will win.

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