

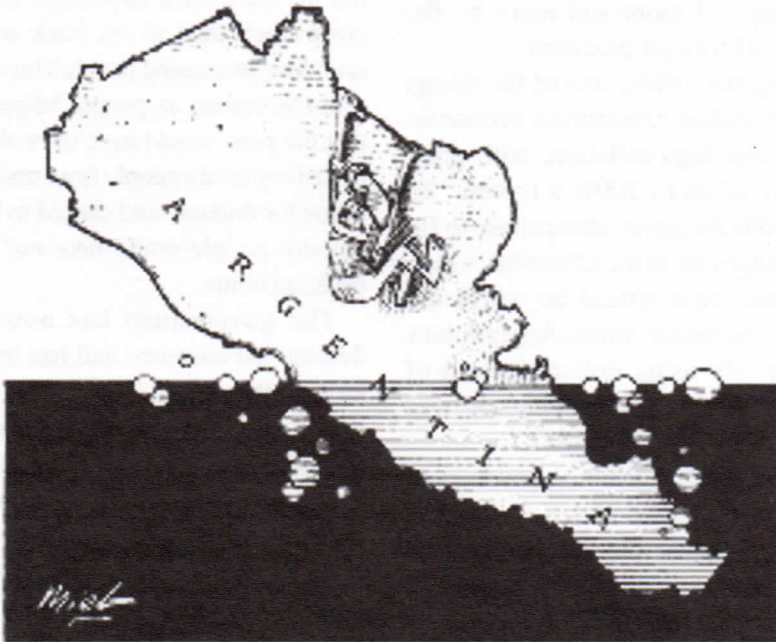


TEACHERS'  
NOTES  
EDITION NO. 29  
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# Global express

The rapid response information series for schools  
on world events in the news

## Argentina sinks into crisis



Deng Coy Miel, *Straits Times*, Singapore, 3.1.02

“Argentina is sinking like the Titanic, but not because of one big hole - rather it is punctured all over.”

Argentina's President, Eduardo Duhalde

**WITH THEIR COUNTRY DROWNING IN DEBT** and more and more people facing poverty, Argentinians took to the streets to try to force their government to act. This edition of **Global express** looks at what led up to this crisis.

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- Listening to young citizens of Argentina

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## Economy goes from boom to bust

"The government has changed but economic policy is just as bad. They are not letting us get our money out of the bank. They are keeping our deposits captive," said Adolfo Alvarez, banging saucepans with his wife and 17 year-old son in the Plaza de Mayo. "This is the worst Christmas in our history."

### Anger on the streets

**In 2000, the number of poor in Argentina grew by three million.**

In December last year, riot police fired tear gas to disperse tens of thousands of angry people who had gathered outside the presidential palace in the capital, Buenos Aires, to protest over the government's handling of the economic crisis. Running battles broke out, with protesters throwing stones at the police. Some rioters set fire to the economy ministry. People were banging pots and pans and blowing car horns, angry at the government's declaration of a state of emergency.

Protests have been escalating since the government halted pension payments and froze bank accounts as a way to deal with the country's massive debts. Since the demonstrations began, many ministers have resigned and the country has had three different presidents.

Argentina's current government has decided to stop payments on its US\$132 billion debt, making it the biggest default in history. The International Monetary Fund (IMF), which loaned the money and which many accuse of allowing Argentina to get into this situation, has agreed to postpone over US\$900 million in loan repayments for one year.

### The fall of a star

At the root of the crisis in Argentina is a recession triggered by years of public overspending, corruption and heavy borrowing.

Only a decade ago many were pointing to Argentina as a good example of how poorer countries could stimulate their economies and grow wealthier by embracing global free market principles. To this end, Argentina made it easier for foreign companies and individuals to trade and invest in their country. This included privatising most of their state enterprises, many of which were bought up by foreigners such as their national airline, 'Aerolineas Argentina'. While this brought in investment it meant that the economy was being led more and more by the interests of foreign investors.

During the 1980s, one of the things that had stifled Argentina's economic growth was high inflation, with price increases of up to 200% a month. To counter this the government chose to fix its exchange rate to the US dollar, which meant one peso would be worth the same as one dollar; many Argentinians were already using dollars instead of pesos because the US economy was more stable than Argentina's.

To do this, the Argentinian government had to keep reserves of US dollars and could not expand the supply of pesos without an equivalent increase in the dollars that it held. Initially this worked. By the mid-1990s, inflation in Argentina had been virtually eliminated.

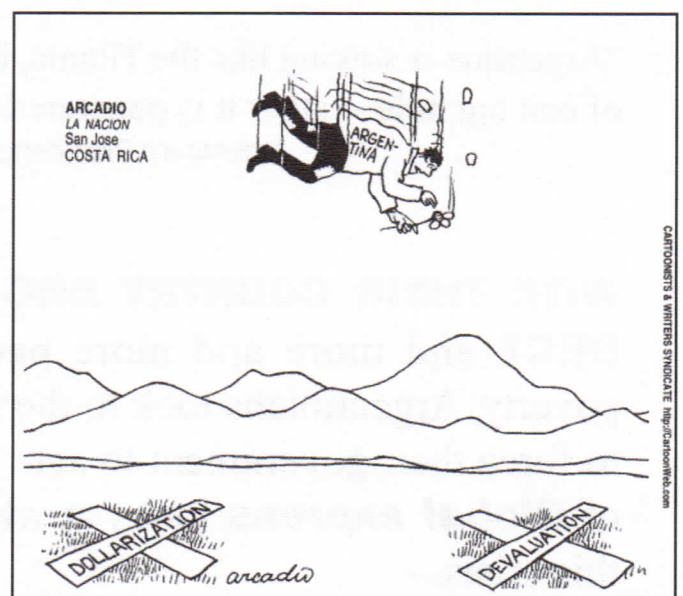
But when the current recession began to develop, the government could not expand the money supply as a means of stimulating economic activity. Worse yet, as the economy deteriorated, fewer dollars were being invested, restricting the country's money supply even further (by the one-to-one rule). And still

worse, in the late 1990s, the US dollar actually strengthened against other currencies, which meant that the value of the peso also went up. This meant buying goods from Argentina cost more than buying from cheaper, neighbouring countries like Brazil. And so the decrease in income made it more difficult to pay off its debts.

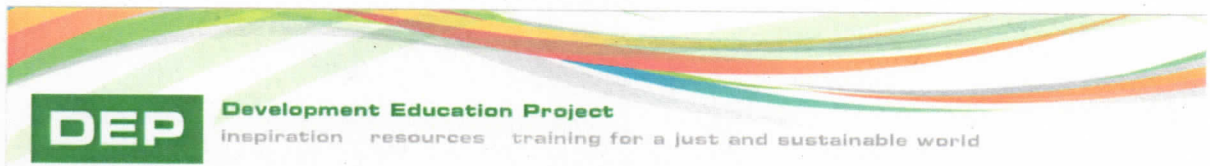
### Poverty spreads

During 2001 the Argentine recession grew worse and more and more people became poor. Argentina borrowed more money but the repayment conditions meant the government had to cut back on public spending, increasing people's hardship. In mid-December, as people began to fear that the peso would have to be devalued, it tried to prevent people from trading their pesos for dollars, and started to limit the amount people could take out of their bank accounts.

The government has now had to devalue the currency and has broken its tie with the dollar. This means people's wages and savings will be cut, many companies will go bankrupt and basic goods such as flour and petrol will cost more. And because their money is now worth less, their debt has actually increased as it is in US dollars.



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