1-1-1995

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THE DEBT CRISIS
Art Comstock

Introduction

In April 1982, Argentina declared default on the servicing of its foreign-denominated debts. This event has been called “one of the most traumatic episodes in the history of world financial crises on account of its intensity and length.” (Montanaro, p. 73) Its effects on Argentina and the rest of the world still linger today.

The Argentine debt continues to limit the nation’s quest for development. Rather than investing in its future, Argentina continually pays for its past spending. Until recently, economic progress has been slowed while scarce resources are sent abroad to pay the debt. In order for Argentina to develop further, a solution must be reached; but the country cannot do it alone. The United States must make every effort to help alleviate the crisis and create a mutually acceptable solution. After all, the United States has not only a financial interest, but also a political and a future investment interest in the resolution of the Argentine debt crisis.

In order to develop a solution, it is crucial to understand the nature of the crisis and the changes in the Argentine political structure that have occurred up to the present. In this article, I review the origins of the debt crisis which largely reflect the ineffective past political and economic policies of the government. I then analyze the effects of the crisis on the Argentine economy and the current attempts to rebuild and restructure. Finally, I examine proposed solutions to the crisis and the potential effectiveness of each.

Origins of the Argentine Debt Crisis

A financial crisis can be defined as a momentary lack of liquidity. It is usually caused by the inability of financial institutions to make debt payments. Then, a “snowballing” effect occurs as investors panic, removing their funds from the system. A dangerous financial collapse ensues.

However, countries in the intermediate stage of their industrialization process (like Argentina) often have very different underlying reasons for a financial crisis. In such instances, the main contributing factor can often be classified as a structural insolvency of the foreign sector. The situation evolves from a sustained growth in foreign debt due to certain characteristics in the economic system. These countries generally have a primary and an industrial sector which are distinct from one another. The primary sector is highly pro-
ductive and efficient, but the industrial sector is immature and undeveloped.

For instance, in the Argentine case the primary sector—farming—has been successful due to the fertile land of the pampas. But, the industrial sector's relative productivity lagged behind to such an extent that it could not compete internationally with industries of more developed countries. This inefficiency created problems due to the exchange rate. In order to be competitive, the Argentine exchange rate was set at a level which allowed what was produced in the agricultural sector to be exported competitively. Thus, the exchange rate was set on the basis of the competitiveness of the primary sector, without recognizing the inefficiency of the industrial sector. In other words, Argentina created a pampas dollar that could not be sustained by the underdeveloped industrial sector. (Wionczek, p. 236)

As Argentine industry began to grow, however, it required more and more foreign exchange for importing raw materials and capital goods. But, because of the protective tariffs established to make industrial products more competitive on the international market, the industrial sector did not export. All generation of foreign exchange was then left to the primary sector, which was growing much more slowly than the industrial sector. Eventually, the primary sector could no longer supply the foreign currency needed by the industrial sector, and the foreign exchange reserves were exhausted. In order to continue its economic activity and pay its foreign debt, the government thus resorted to attracting foreign capital and credit. Of course, these funds only created more debt payments that went unpaid as the cycle continued. And as the crisis in the balance of payments progressed, more foreign indebtedness was incurred to finance expenditure in foreign currency. The end result was a growing accumulation of foreign debt and periodic crises in the balance of payments.

This structural insolvency of the Argentine system may have been the underlying cause of its foreign indebtedness, but ineffective political and economic policies further increased the structural difficulties. In fact, the financial history of Argentina beginning in the 1940s can be termed as one of "backward development." (Montanaro, p. 73) The Argentine financial system began with a policy of "financial repression" which forces a transfer of savings towards the protected sectors of the manufacturing industry, thus promoting an import-substituting industrialization. The newly established Banco Central de la República Argentina (BCRA) implemented such a structure, which brought about a period of temporary economic growth. The BCRA took upon itself all responsibility for the government's decisions in the financial sector, in the cost of credit, and in the reward for saving. It imposed high reserve requirements and interest rate restrictions on loans. Taken together, these factors created a system that rewarded productive investments and punished the accumulation of liquid assets. (Montanaro, pp. 73-74)

Over a period of about thirty years, this model managed to sustain a stable and efficient financial structure. Its success was mainly a result of this government encouragement of savings through investment in the economy. Such a trend in savings is often a necessary ingredient for the economic growth of an underdeveloped financial structure into a developed financial structure. However, these political decisions throughout this period limited the overall growth of the Argentine economy. Due to this financial repression policy of generating economic growth through import-substitution, the Argentine economy remained closed to foreign investment and dependent solely upon government institutions for productivity and growth. The domestic industry was sheltered from competition, due to the protective tariffs mentioned earlier; and as a consequence Argentina experienced low growth as compared to other developing countries. Furthermore, as a result of the structural insolvency of the foreign sector as mentioned earlier, the balance of payments crisis worsened; and the government unwisely chose to increase the money supply in order to service the interest payments on the foreign debt. As a result, inflation began to rise steadily in the middle 1970s. In fact, in 1976 the annual rate of inflation was about 382 percent, compared with an average of only around 25 percent between 1960 and 1974. (Montanaro, p. 76)

The new government regime that took
control in 1976 hoped to alleviate the inflation problem by freeing the economy and increasing productivity in the government-owned industries. A plan of financial deregulation, along with the abolition of foreign trade laws which previously hampered international exports, was also implemented. The plan’s intention was to stimulate competition through a laissez-faire approach. Soon afterwards, the Banking Act of 1977 allowed banks to have direct control over interest rates on deposits, yet still called for a 100 percent guarantee by the government of domestic deposits. In other words, the act allowed the banks, investors, and market competition to determine the going rates. As these and other deregulatory measures continued, an increase in \( \frac{M2}{GOP} \) from .12 to .245 followed in the next year. (Montanaro, p. 77) This increase in the money supply relative to GDP growth showed the inability of the economy to grow at a rate equal to the increase in the monetary base, which was a result of the money expansion freedom suddenly given to banks. By allowing interest rates to float freely, the government opened the financial market for product innovations in investments such as time deposits and acceptance certificates of deposits; and so investors concentrated on these new short-term, profit-making opportunities. However, this shift towards other investment opportunities only furthered the decrease in long-term demand deposits that had been occurring over recent years.

Another unsuccessful move by the financial system was the establishment of an active crawling peg exchange rate from the peso to the dollar. The crawling peg system bound monetary authorities to future quotations of exchange rates for a certain period, with the hope of limiting the amount of devaluation. In essence, monetary authorities were forced to maintain the established rate of exchange for that period, even if market forces called for an adjustment, in order to slow the fall of the peso against the dollar. The main intent was to instill some confidence in the peso’s stability and to reduce investors’ dangerous inflationary expectations. But as a result of the arbitrage opportunities between the official and the effective rate of exchange, the plan failed. Market investors recognized the discrepancy between the position held by the monetary authorities and the true position of the peso in the market, and they continued to profit from it.

Furthermore, due to the discrepancy between the crawling peg exchange rate and the true rate, a banking “euphoria” erupted in the late 1970s. The Argentine financial system and the number of banks expanded rapidly. In fact, deposits grew by 86 percent and credit grew by 110 percent over the three years preceding the crisis (1979 to 1981). Also, the spread between bank rates on loans and deposits increased significantly. This difference showed the inexperience of a banking system which had never had the opportunity for correct risk evaluation due to thirty years of financial repression.

Along these same lines, foreign speculation further accentuated the debt problem. Financing in pesos became the primary method by which to acquire financial assets to use as collateral for dollar debts. This speculation was caused both by the greater profitability available due to the high differential between interest rates in Argentina and those rates on the dollar, and by the overvaluation of the peso as stated above. For these reasons, between 1979 and 1981 the foreign currency debt obligation expanded from $19 billion to $35.7 billion. And foreign debt overall showed an increase of $30 billion from 1976 to 1982, while GDP shrank over the same period.

On February 2, 1981, the peso was devalued by ten percent in an attempt to eliminate the discrepancy between the official and the effective exchange rates and to discourage foreign speculation. Within a few months, financial authorities were again forced to devalue the peso, this time by thirty percent. However, it was all too late. A dramatic rise in U.S. dollar interest rates triggered a financial panic. Since most loans were granted at a variable interest rate, the reduction in the likelihood of Argentine debtors making the payments scared investors. Foreign short-term credit agreements were not renewed, and the flight of private capital rose sharply. Foreign investors became fearful of an Argentine default and thus began to withdraw their capital. As a consequence, a spread of insolvency occurred, which

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1 \( M2/GDP \) is the ratio of the money supply, including bank deposits, to the gross domestic product.
progressed from firms, to the banking system, to the government, and to the central bank.

Finally, in 1982 Argentina was forced to default on its foreign currency debts. Another round of panic soon spread, followed by even more massive flights of capital. Virtually all international lending to Argentina likewise ceased, and the bulk of private foreign debt was then assumed by the government. As the public sector undertook the debt denominated in foreign currencies of the private sector, a still larger budget deficit had to be financed domestically, which again stimulated inflation as the public sector attempted to raise money through its own domestic means.

The Crisis and Its Effects

Upon declaration of default, investors quickly pulled out of Argentina. All faith in the Argentine economy was lost. Short-term loans became the only form of investment, as restrictions were imposed upon Argentina by the international capital markets. By the end of 1983, Argentina's total foreign debt amounted to $45 billion, more than double the level of the late 1970s. Any further investing would need the financial support of the IMF and the World Bank.

In addition to the continuously increasing interest payments, inflation deepened the problem. In fact, the annual Argentine inflation rate reached over 200 percent by 1982. (Bowne, p. 9) This increase had mainly been a result of the lack of control exercised by the BCRA and the government over fiscal policy and the money supply. The government and its agents lacked the self-discipline necessary to achieve stability. Evasion from government taxes was common as the tax collection system was not strictly enforced, and the federal government lacked the authority to do so. Furthermore, the many state-owned enterprises were provided with large subsidies due to their inability to meet market needs. Because of these large subsidies and the tax evasion problem, even larger public-sector deficits resulted. These deficits were again financed in large part through increases in the money supply and external financing attempts. And as inflation continued to soar, real economic growth turned negative for 1982.

Although strong efforts were made to reduce government expenditures and increase revenues through higher taxes, the effects were limited. The reasons were again the inefficiency of the tax system as well as a budgetary process based on bilateral negotiations with special interest groups. Due to the political support of these influential groups, many federal expenditures that could have been eliminated were still kept. Even though government expenditures in real terms were cut by 10.5 percent and tax revenues were increased by 10.7 percent between 1983 and 1985, the above restrictions hampered further reductions in expenditures and increases in revenues. (Bowne, p. 9)

With the public sector debt still out of control and inflation still accelerating, the Argentine government in 1985 initiated a plan to stabilize the economy. This new effort, called the Austral Plan after the hoped-for restoration of the value of the new currency, was based on a strict wage and price freeze, a fixed exchange rate, positive real interest rates, and fiscal adjustment. The government fixed the exchange rate of the Austral to the U.S. dollar with the intention of adding stability and investor confidence to the currency. In 1986 the Austral Plan managed to reduce inflation to an annual rate of 90.1 percent (the lowest level in 12 years), while real GDP grew by 7.3 percent over the 1985 level. However, because the government could still not maintain control over the budget deficit, the improvements turned out to be short-lived. Public revenues declined as export taxes were greatly shrunk to offset low international prices for Argentine agricultural products. Also, the BCRA continued to expand credit to the public sector through rediscounts. Credit increased through the use of these instruments by re-valuing the debt already owed and accepting a value less than the actual face value so that creditors were given even more borrowing opportunity. Thus, short-term debt increased, and the BCRA deficit climbed.

As the rate of inflation remained high and even began to rise again, still more stabilization attempts were made. In August 1988, the Primavera Plan was adopted. Similar to past attempts, this plan relied upon a wage and price freeze to slow inflation, a gains tax on grain sales, and an increase in interest rates. Its stabilization efforts were nearly identical to those
of earlier plans, and so its results were likewise short-lived. Inflation quickly dropped from 27.6 percent per month to 5.7 percent per month. (Bowne, p. 9) The fiscal situation improved slightly, and real interest rates turned higher. As a consequence, inflows of short-term external capital began to rise once more. But once again, the public sector failed to improve. As more and more citizens evaded their federal tax requirements and as prices of public goods remained relatively high, private investors' overall lack of confidence in the system heightened. This lack of confidence was manifested by a decrease in consumption and investment in the second part of 1988 and a drop in GDP of 1.9 percent for the year. (Bowne, p. 9)

Furthermore, the Primavera Plan faced sudden failure when yet another crisis in the foreign exchange and financial markets occurred in early 1989. Due to the high prices of public sector goods relative to the prices of similar private goods as noted above, a severe price imbalance between the two markets resulted. That imbalance, along with the impending national elections, led to expectations of a huge devaluation. Thus, flight from the austral increased, and the gap between the free and official exchange rates reached an average of 165 percent in March 1989. Hence, a self-fulfilling prophecy was realized when a major devaluation occurred. The nominative value of the austral declined 146 percent relative to its 1988 year-end level. (Bowne, p. 9)

The Bonex and Convertibility Plans

In July 1989 the Menem government took control of the Argentine nation. It inherited an economy racked by a hyperinflation so great that the CPI was rising by 196.6 percent per month. (Bowne, p. 9) External creditor relations were at a low point as the ability of Argentina to pay its debts remained questionable. In fact, interest payments on commercial bank debts had gone into arrears in April 1988, and payments to the World Bank were often late. As a result, the IMF and the World Bank programs designed to help alleviate the Argentine inflation problem had failed.

The key objective of the new government was to stabilize prices and hence reduce the hyperinflation. Therefore, the government devalued the austral, implemented a fixed exchange rate relative to the dollar, instituted wage and price controls, and sharply increased public utility rates in order to slow any future price jumps. These policies were fairly successful with the monthly inflation rate soon reduced to 7.2 percent near the end of 1989.

However, as had been the case in the past with previous stabilization efforts, expectations of a return of hyperinflation caused a sharp decline in the price of the foreign exchange markets. As gaps in prices occurred, investor anticipation that these reforms would be unsuccessful caused many to reduce their holdings in the Argentine currency, thus causing the decline in exchange markets. As a consequence, the government decided to take a different approach. The main focus now became reducing the public deficit, which had been the principal cause of the inflation. Thus, the Bonex Plan was implemented in December 1989, which featured tax reforms and stricter control of public enterprises and of the lending activities of public sector banks. Previously, these banks had been financing local government deficits through loans which were in turn financed with discounts from BCRA. Hence, public sector banks were financing loans through other discounted loans. The plan also eliminated all restrictions on foreign exchange transactions in order to allow for more freedom of movement of the currency. Lastly, the plan froze short-term bank deposits in which short-term deposit holders (under thirty days) were only allowed to withdraw up to the equivalent of U.S. $1,000 from their accounts. The balance of their accounts was then made payable solely in Argentine government bonds. These bonds, called Bonex 89, were 10-year U.S. dollar denominated bonds. Investors were thus required to keep their short-term deposits in Argentine banks, creating greater stability in the financial community.

Once again, though, the Argentine economy slipped into its old ways as the financing of government expenditures went undisciplined and unrestrained. As funds for the social security system and provincial governments became depleted, the BCRA again expanded credit lines. It lent funds to the social security system and
to provincial banks that were facing deposit runs. Events turned full circle as the provincial banks ignored the dictates of the Bonex Plan and continued to lend for the purpose of financing provincial government deficits. Once again downward market pressure was exerted on the austral due to the credit expansion, and along with this pressure came a resurgence of price inflation.

Therefore, in a pattern that was becoming all too common, still another stabilization program was created in 1991 in an attempt to reduce the public sector deficit by raising public utility rates and taxes. This latest effort is titled the Convertibility Plan, and it is based on two basic principles:

1) There is to be full international reserve backing for the monetary base. The monetary base also may not exceed BCRA's gross international assets at a fixed rate of one peso per U.S. dollar. In other words, the money supply can only be increased when backed by a similar increase in the level of international reserves. Thus, fiscal self-discipline is imposed by not allowing the government to increase the money supply whenever the public or financial sector needs to be financed. Furthermore, the peso is made fully convertible to the U.S. dollar at a one-to-one rate.

2) The fiscal deficit is to be eliminated and a surplus in the primary current accounts balance is to be achieved. In doing so, the government will be able to service its debt and thus eliminate the need for further borrowing.

The Convertibility Plan began in March 1991 and has been in effect ever since. Its success has won the support of the IMF, which designed a financial program for the Argentine public sector. Up through the first quarter of 1994, Argentina has attained or surpassed the IMF primary balance targets. Overall, the plan has also been successful in reducing tax evasion and raising tax rates, in reducing public sector employment, in providing stricter discipline for provincial banks, in strengthening the social security system’s finances, and in rescheduling public sector debt. Since its implementation in March 1991, the inflation rate has dropped from 27 percent per month to .4 percent per month in June 1994. For the year 1993, the annual inflation rate was only 7.4 percent.

In order to achieve such successful results, three important structural changes in the government had to be implemented. First, the independence of the BCRA had to be established and enforced. No longer could it be used as a "tool" of the government to make money and to finance debt. Second, the deregulation of the economy had to occur. Economic restrictions such as import tariffs were lowered in order to encourage international trade. Other legislative restrictions were likewise removed in order to allow the private sector to provide several public services, including telephone, electricity, and natural gas. Markets were finally allowed to function freely, and competition was promoted. Third, privatizations of several state enterprises were put into effect. This last measure helped to reduce the government’s outstanding debt, to increase reserves, and to increase tax revenues from the new owners of the enterprises. It has also led to renewal of direct foreign investment in Argentina. Overall, the privatization program has raised about $9.7 billion in cash proceeds for debt repayment and has reduced public sector debt principal by $13.4 billion through December 1993.

The Brady Plan

As of December 31, 1993, non-financial public sector debt (federal government and public utility debt, but not provincial debt) was $66.3 billion. A total of 92 percent of this net non-financial public sector debt was denominated in currencies other than the Argentine currency (mainly in U.S. dollars). (Bowne, p. 44)

Earlier, in April 1992, Argentina had announced an agreement with the U.S. and the IMF to refinance this debt under the Brady Plan. In brief, the Brady Plan was to reduce the debt amount conditional upon the Argentine government’s carrying out of structural economic reforms that met the approval of the IMF, such as removing government-imposed impediments
to productivity and competitiveness and attracting capital from abroad. Then, the existing debt would be converted into a form acceptable to the banks involved, while it would also reduce the overall debt burden. Basically, the Brady Plan called for governmental policies involving capitalism and competition to be fully implemented in order to reduce the debt burden.

The reduction of debt by the Brady Plan occurred through the use of par bonds, discount bonds, and floating-rate bonds. These bonds were exchanged for previously outstanding commercial bank debt, including interest arrears. Overall, this plan reduced the face amount of debt denominated in foreign currency by nearly $3 billion and reduced by about 35 percent the net present value of the interest service. As a result of this reduction, the Argentine public debt as a percentage of GDP declined from 68.7 percent in 1989 to 25.9 percent in 1993. (Bowne, p. 44) Just as importantly, people’s confidence returned to the system as Argentines brought deposits from other banks back to Argentine banks. In fact, $35 billion in foreign assets were returned over this same period. Furthermore, investment increased significantly to about 19 percent of GDP by the end of 1993.

Pursuant to this plan, Argentina has refinanced over 96 percent of its commercial bank debt. An estimated $28.5 billion of debt, $9.2 billion of which was interest arrears, was accepted by the IMF under the regulations of the plan. About 85 percent of those arrears to foreign banks was released in October 1993, and the remaining 15 percent was released in April 1994. (Bowne, p. 44)

**Restoring Confidence**

As shown by the many previous plans that failed, greater discipline and stricter reforms in government policies are necessary in order for Argentina to avoid falling back into its former state of hyperinflation. Furthermore, success requires additional progress in three major areas if the necessary confidence is to be restored in the system.

First, and most importantly, the government must continue to display monetary and fiscal discipline. Memories of hyperinflation still linger strongly in people’s minds, and any hint of such a return would stimulate panic and collapse of the economic system. Thus, it is of utmost importance that the money supply and the exchange rate are kept in check. Moreover, strict regulations over the daily actions and interactions of provincial banks must be instituted and enforced in order to keep the financial sector sound. In doing so, investor confidence will increase further and possible credit opportunities will then become more readily available.

Second, state reforms must continue along the lines followed in recent years. For instance, competition and privatization projects must be encouraged. Argentina must join the rest of the world with an open and free market. However, as previously mentioned, these steps must be implemented gradually so as not to alarm investors or trigger yet another panic.

Third, the government must continue to follow tight budgeting procedures. Until recently, the executive branch of the government has not been required to submit a budgetary proposal to the legislative branch. The Convertibility Law now requires the government to prescribe a budgetary proposal for expenditures. This budget is supposed to be closely maintained. Of course, due to the lack of experience with such procedures, this process is still in its early stages and improvement in the financial budgeting methods is needed. But it is still important that such a procedure be continued and enforced in the future.

These are the three most important political and financial objectives that must be pursued if Argentina is to recover fully from the debt crisis of 1982. Only if these objectives are met will the proposals to reducing the foreign-denominated debt as assumed by the public sector finally succeed.

**The Future of the Argentine Debt Problem**

As we have seen, from the onset of the debt crisis in 1982, a number of proposals to resolve the Argentine debt problem have been introduced. In each case, though, the proposals have revolved around two crucial questions: 1) who should bear the losses and 2) what reforms are required to reduce the chances of a similar sit-
uation arising in the future.

Initially, the "solutions" required only the debtor country, Argentina, to sacrifice and make the necessary adjustments and reductions in general expenditures; but, these "solutions" seem to have ignored the responsibility of the lending institutions who are at least partly accountable for their own previous lending decisions to absorb some of the losses. Several of these proposals, which simply attempted to reschedule the debt payments, were basically ineffective since they just postponed and increased the arrears of the already extraordinary debt level.

For example, although the Brady Plan appeared to solve a portion of the Argentine problem through a reduction in the face value of the debt, the basic premise has once again been to refinance the debt through new debt. In sum, the attempt was to create a market-oriented system for Argentina in order to help it eventually repay the debt. However, the plan may in fact just be delaying the need for another Brady Plan to be put in place at the maturity of the newly issued bonds.

The reason why finding a solution is so difficult results from the age-old Argentine problem of a lack of exports. The only way out of the problem in the long run is to increase the volume of exports. Export expansion can be achieved only if the Argentine economy grows, a condition which of course requires capital.

From where can this capital come? At the most obvious level, lending institutions need to provide some of this capital, as is the case with the Brady Plan. However, Argentina cannot remain entirely dependent on foreign bank loans and bond issues. As noted above, it must attempt to create a trade surplus so that its exports can help finance the repayment of interest. More importantly, the private sector needs to provide some of the capital. Only if this domestic market for generating capital develops will long-term success be achieved, and only then will large-scale foreign investment return to Argentina.

The only long-term solution then is to ensure that the returning foreign investment is devoted to projects that generate more production and benefits than their investment cost. Those funds must be put to good use in order for Argentina to raise itself up to the standards of production and living of other developed nations. Greater success with its investments will occur only through 1) the implementation of free-market-oriented policies including the encouragement of competition and privatization, 2) the reduction of barriers, by developed countries, to Argentine exports, and 3) more robust domestic economic policies. These policies must also center around investment in the Argentine people. Furthermore, Argentina has to improve the climate for enterprise. For example, the government must reduce intervention in industrial and agricultural pricing and focus more on improving infrastructure and institutions. Finally, firm macroeconomic policies must be followed. As already stated, inflation must be held in check and fiscal deficits kept low. Incentives for savings and investment must be set in place. It has been well-established in the financial world that high domestic savings and investment rates are necessary for a country to reach a more economically developed stage.

The end result of these policy improvements will be both economic growth and financial growth. If such developments occur, in addition to the necessary political reforms mentioned earlier, then a "solution" can be both reached and maintained.

The Involvement of Other Nations

As previously stated, the Argentine debt crisis is a two-sided problem. Both the borrower and the lenders are partly to blame. The lesson to be learned by both parties is that an optimal level and composition of debt does exist, and that the amount of debt undertaken was far too great. The key, however, is for all countries involved to more carefully search for this optimal level, to take precautions to reduce the chances of such a crisis from occurring again, and to continue to search for methods to reduce the debt problem.

Borrowing and lending nations must realize that country financing should be done with more equity and less debt. Of course, such measures will transfer more control from the borrowing country to the investor. However, this transfer will then increase the country's
capacity to carry debt by improving its productivity through wise investments. This increase in private sector productivity will in turn raise overall output and hence the debt capacity of the country as a whole. Furthermore, because equity investors will be sharing a portion of the risk, they will search more thoroughly for good investments. Foreign investors must also be able to generate sufficient foreign exchange to pay their own way, which will increase the country's capacity to service foreign financing.  

Among the possible measures to increase equity and reduce debt in country financing are debt-for-equity swaps and privatization. In a debt-for-equity swap, a portion of the debt is traded or sold for equity in domestic companies. This instrument requires a government appreciation of and initiative toward increased foreign investment and a more open economy. However, no major government intervention should be necessary since an open economy should attract the foreign investment anyway, providing the country with the foreign exchange necessary to buy back the debt in the secondary market. The important step, again, is the opening of the economy in order to allow for the other benefits to follow.  

In addition, debt-for-equity swaps could be combined with the already successful privatization program. The debt could be exchanged for ownership shares in state enterprises, as happened in 1992 with the sale of the Argentine telephone company, ENTEL. The government split the company into two parts, selling 60 percent of each part through debt-for-equity swaps. Several foreign and domestic banks and telephone companies were involved in the swaps. Other U.S. banks contributed some of the debt from their own balance sheets, thus easing the burden. However, the bulk of the debt was acquired on the secondary market where the defaulted Argentine debt was trading for as low as 14 cents on the dollar. Overall, the Argentine foreign debt was reduced by $5 billion, and interest costs were cut by nearly $500 million per year.

**Conclusion**

The Argentine debt crisis is not over, and perhaps it can never be solved. It has evolved from decades of structural insolvency, backward financial repression, and unwise political and economic policies. Its history is long and bitter, while improvements are only recent and possibly short-lived.  

However, Argentina is a country full of potential. Perhaps these past few successful years are a signal of what the future holds. In order to progress further, though, Argentina must pursue economic policies that instill confidence in the minds of its people. Monetary and fiscal discipline must be maintained, especially during government transitions. The economy must grow through the stimulation of investment. In other words, the domestic market must develop further in order to advance the privatization program and achieve a growth in exports.  

Of course, such reforms will not occur — nor will the debt crisis end — overnight. But if Argentina can continue along its recent path of improvement and if the United States and the other countries of the world make every attempt to aid in Argentina’s development, then at least the worst aspects of the debt crisis can be alleviated. No matter how gradual the process may appear, a solution is attainable. Its success, though, can only be assessed through the passing of time. In the words of Argentina’s Undersecretary to the Minister of Economics, Dario Braun, “We’re renting stability, and each month we have to pay the rent.” (Braun)
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