Number 47

THE ECONOMIC POLICIES OF ARGENTINA'S LABOUR-BASED GOVERNMENT, 1973-1976

by Guido Di Tella
St. Antony's College, Oxford University

Author's note: This draft paper was prepared for a June 1979 Workshop on "Economic Stabilization Programs in Latin America: Political Dimensions" organized by the Latin American Program of the Woodrow Wilson International Center for Scholars, Smithsonian Institution, Washington, D.C. 20560. The views expressed are those of the author personally.

This essay is one of a series of Working Papers being distributed by the Latin American Program of the Woodrow Wilson International Center for Scholars. This series will include papers by Fellows, Guest Scholars, and interns within the Program and by members of the Program staff and of its Academic Council, as well as work presented at, or resulting from seminars, workshops, colloquia, and conferences held under the Program's auspices. The series aims to extend the Program's discussions to a wider community throughout the Americas, and to help authors obtain timely criticism of work in progress. Support to make distribution possible has been provided by the Inter-American Development Bank. Single copies of Working Papers may be obtained without charge by writing to:

Latin American Program, Working Papers
The Wilson Center
Smithsonian Institution Building
Washington, D.C. 20560

The Woodrow Wilson International Center for Scholars was created by Congress in 1968 as a "living institution expressing the ideals and concerns of Woodrow Wilson . . . symbolizing and strengthening the fruitful relation between the world of learning and the world of public affairs."

The Center's Latin American Program, established in 1977, has two major aims: to support advanced research on Latin America, the Caribbean, and inter-American affairs by social scientists and humanists, and to help assure that fresh insights on the region are not limited to discussion within the scholarly community but come to the attention of persons interested from a variety of other professional perspectives: in governments, international organizations, the media, business, and in the professions. The Program is being supported by three-year grants from the Ford, Kettering, Rockefeller, and Tinker Foundations and from the Rockefeller Brothers Fund.

ABSTRACT

The Economic Policies
of Argentina's Labour-Based Government,
1973-1976

This paper analyzes the policies and evolution of the Argentine economy under the populist governments in power from 1973 until the military coup of 1976. It starts with an appraisal of the effects of the two main political twists: one towards the left, during a short initial period, and later on, after the death of Perón, towards the right. These twists contributed, to a significant degree, to splitting the government coalition, creating the conditions for a chaotic finale.

The economic evolution, however, is surprisingly similar to that of previous stop-go-stop cycles. The initial relatively successful period achieved a certain degree of price stability, but, as in previous cases, at the cost of creating significant disequilibria, particularly in the business and foreign sectors. It was followed by a price outburst, partly necessary to again create equilibrium conditions. What was new was the intensity of the process. In a way, it was a vastly exaggerated repetition of previous instances.

Also very significant was the enormous oscillation of relative prices. The oscillatory character of Argentine inflation appeared very clearly, particularly after the price outburts of mid-1975. The oscillation was partly the consequence of the inflationary process, but at the same time helped to aggravate the process and to maintain the rate of inflation at more than 150 percent per year. The period shows quite clearly the enormous antagonism created by the attempt to change a relatively small share of the national income, but at the same time it shows even more clearly how the clumsy measures through which this shift was attempted enhanced the antagonism, contributing to the final collapse.

THE ECONOMIC POLICIES OF ARGENTINA'S LABOUR-BASED GOVERNMENT, 1973-1976

by Guido Di Tella
St. Antony's College
Oxford University

Introduction[1]

The analysis of Argentina's economic evolution from 1973 to 1976 must be viewed against a background of persistent economic and political instability over a period of more than 40 years. Since the Second World War, the country has experienced five military interventions (in 1943, 1955, 1962, 1966, and 1976) and four civilian governments (1945-55, 1958-62, 1963-66, and 1973-76).[2] In a way one could say that Argentina has, in fact, had a three-party system. During this period, the labour-based party has won the only two relatively free elections, while parties with middle-class support were successful in the two restricted elections when the former was banned. The conservative groups have taken power four times through military interventions.[3] This instability should not hide Argentina's not-indifferent level of economic and social development. It has achieved an intermediate level--i.e., $2,200 per capita. While Argentina's rate of economic growth has not been negligible and has tended to increase over the last decade (up to four percent per year), it has probably lagged in comparison with the significant increase in social mobilization.

The middle classes, since the First World War, and the working classes since the Second World War, have erupted into the social, economic, and political life of the country. Argentina has been one of the few countries in Latin America which has attempted a mass democracy with full participation, a fact that may, paradoxically, be at the root of the conflictive political and economic evolution of the last 50 years. Whatever the reason, the fact remains that the political stability which the country had enjoyed since the end of the last century was lost around the 1930s, while economic stability, which proved to be more resilient, was lost sometime during the 1940s and 1950s.

In this paper we shall analyze the economic problems faced, and the policies carried out, by the four successive governments which came into power as a result of free elections from May 1973 to March 1976. They include the presidencies of H. Cámpora, R. Lastiri, J. D. Perón, and Isabel Perón. We will have to make some references to the political scene which, however schematic, are necessary in order to understand, if not the nature of the economic problems--which are not so different from those encountered in previous stabilization programmes--at least their extraordinary intensity, which was indeed original.

To a large extent, the political problems were connected with two departures of opposite directions from the traditional, middle-of-the-road, mildly reformist attitude of the government party. The first departure, very much towards the extreme left, took place during the electoral campaign and coloured the short-lived presidency of H. Cámpora. It created extremely serious strains and was predictably brought to an abrupt end after less than two months. After a caretaker government, Juan Perón was elected by a landslide in September 1973 and as president followed a middle-of-the-road course until his death in July 1974. He was then succeeded by his vice president, Isabel Perón, who started the second major departure, this time towards the extreme right. The consequence was a head-on collision with the trade unions, which staged an open revolt, forcing a partial retreat towards more middle-of-the-road policies during the second semester of 1975. A second, more moderate, right-wing attempt was then made at the beginning of 1976, which was continued until the military coup in March.

While the initial left-wing twist had very serious political consequences, to the point of forcing a change of presidents, it did not affect the economic scene too seriously. In fact, the initial economic programme was carried out rather independently from the general policies of the Cámpora period, and was regarded at the time as a "concession" to the middle-class sectors of the party. The first Minister of Economics--a member of the C.G.E., the small business organization--lasted 17 months, serving under all four presidents and following basically the same economic policy. This consisted of a stabilization programme and a set of reformist measures. The stabilization scheme, as we shall see, had a characteristically two-stage sequence. The first, rather successful one, was based on a "social pact" which tried to enforce a certain distribution of income. It was based on a price freeze and the lowering of certain prices--in real terms--which in turn gave rise to some of the tensions that destroyed the whole scheme later on. The consequent decrease of industrial and agricultural profits (and of private investments) and the maintenance of a fixed and increasingly overvalued exchange proved to be some of the crucial factors in the failure.

The initial success of the scheme was, to some extent, the consequence of the strong authority exercised by a popularly elected government, and particularly by the presidency of J. Perón. This gave credibility to the programme, bringing down inflationary expectations. Another equally crucial factor was the improvement in the international situation, which provided a windfall gain, helping the initial distributionist policies, although hindering the stabilization programme through its effect on the prices of imports.

The deterioration in the terms of trade which took place after 1973 (brought about by even greater increases in import prices), the very significant external inflationary pressures, and the increasing incongruity of a price freeze accompanied by expansionary monetary and fiscal policies, gave rise to increasing economic difficulties: internal shortages, reduction of investment, and a loss of reserves which characterized a situation of repressed inflation.

The set of reformist measures which accompanied the stabilization programme helped to antagonize the established groups from the start, although few of the measures were implemented. They soon lost importance in the face of the more pressing immediate problems.

At the death of Perón, in July 1974, the middle-of-the-road economic programme was showing very obvious strains. While a significant change was necessary, the fact that it was made after the loss of a forceful leader, and was accompanied by a drastic political move to the right, created additional strains and opened a period of unprecedented instability.

In fact, Isabel Perón had five Ministers of Economy, who lasted six, three, one, six, and two months, respectively. While the currency had been stable during the first 22 months of the populist government, during the last 12 months the dollar increased its peso price by 1,330 percent and the price level increased by 731 percent. But the last period is not unrelated to the first; we shall try to point out that in a way it was its inevitable, though exaggerated, consequence.

The movement towards the right on the economic front was carried out rather mildly at the beginning. By mid-1975, an all-out attempt was made. But it required a degree of allegiance from the Justicialista party which was not forthcoming. On the contrary, the trade unions staged an open rebellion which nearly brought down the government, a conflict which was at the root of the extraordinary intensity of the price explosion of the middle of the year. This conflict in a way marks the unsuccessful end of the initial stabilization programme. What followed was its opposite--i.e., the rebalancing of the economy. Normally, stabilization programmes are not studied beyond this point, although in this case, as in the previous stabilization programmes, they have to be analyzed in a comprehensive way, including both stages.

In this case, what was abnormal was not the reversal of a whole set of relative prices--those which had been so lowered in the past--but the intensity. A redress, as in previous cases, was to be expected. What became clear was that the price mechanism was the battling-ground for the distribution of the income shares, and that these fights had become one of the roots of the inflationary process. What was noticeable was the great degree of oscillation of relative prices, and the parallel changes in distribution which had a self-feeding character, a phenomenon associated with the non-competitive behaviour of very significant sectors.

The price outburst was accompanied by a reduction of money in circulation, in real terms, a reduction which was brought about by the tremendous price increases and by the strong flight from money. The outburst was to a substantial degree the consequence of the political struggles, but at the same time it helped to increase their intensity and to create a chaotic climate. One of the more immediate consequences was that the president lost all of her arbitrating power, barely surviving as such. She remained a figurehead president. Her leading supporters were removed from the government, which was taken over by the moderate middle-of-the-road groups, strongly supported by the unions, particularly in the Ministries of Economics and Government.

The second semester of 1975 was coloured by the aftermath of the price explosion, while a gradual redress was made of some of the relative prices that had emerged with gross distortions. These policies were soon hindered by an attempted comeback of the right wing of the party, producing a stalemate by the end of the year.

In January the military coup became rather obvious, heralded by the business and agricultural sectors and by a good part of the intelligentsia. The president got control of the government again, and attempted a more moderate right-wing programme. By that time, however, the imminence of the coup had taken all credibility from the government. When a new price explosion took place, the government retreated into a powerless situation. But the price explosion this time was connected with the government's loss of all authority and, above all, to the extremely destabilizing influence of the expected military coup, which became a fact by the end of March 1976.

Without an understanding of political developments, these years cannot be understood, because the intensity of the conflicts within the government and the loss of its arbitrating power were crucial to the economic process. Still, some of the purely economic dilemmas and alternatives (although not their intensity) have a suspiciously typical character, which can be seen in the previous stabilization programmes.

The political and economic turmoil of these years was connected with the tremendous difficulty of creating a popularly based government that could at the same time exert some kind of restraint and maintain a certain coherence and firmness on the economic front. The personalized leadership, the political ban of more than 17 years' duration, the spontaneous character of the regimes' support, and their extremely wide appeal among rather dissimilar groups, contributed to a very weak organizational structure.

At the same time, the turmoil shows how even moderate changes in power and income can generate enormous resistance from the vested interests, indeed enhanced by some of the weaknesses just mentioned.

We shall first analyze the immediate background, particularly since the 1967-1969 stabilization programme, tackling afterwards in a rather detailed fashion the six periods into which we have divided the 34 months of the popular governments:

1) June-December 1973:	The initial economic policies; the stabilization programme; the social pact and the price and wage freeze; the reformist measures.
2) January-September 1974:	The mounting problems of the price freeze and the contradictory expansionary policies; problems in the foreign sector.
3) September 1974-May 1975:	The partial "flexibilization" of the policies, the introduction of financial restraint, and the crisis in the foreign sector.
4) June-July 1975:	The drastic readjustment, the social conflict, and the beginning of a recession.
5) September 1975-January 1976:	The gradualist approach, the redress of relative prices, the partial indexation of the economy, anti-recessive measures, and the balance-of-payment crisis.
6) January-March 1976:	The attempt to "cool" the economy and the effects of the on-coming revolution.

The Immediate Background

Since the war, the performance of the Argentine economy has not been insignificant, although it has been uneven. The economy had recurrent problems in the foreign sector while experiencing one of the most persistent inflationary processes of any country in the world, and suffered a typical succession of stop-go policies.[4] Growth was negative, however, in 1952, 1959, and 1962-63; it was negligible in 1966 and was again negative in 1975-76. These were years of serious balance-of-payments problems, which prompted stabilization programmes. After the serious political and economic crises of 1962-63, some improvements became noticeable. The country was able to maintain a continuous rate of growth from 1964 until 1974, averaging 5.2 percent per year[5] as if the stop-go cycles had, if not disappeared, at least been toned down.

This fact, coupled with a rate of population growth of 1.4 percent, allowed a modest but significant increase in per capita income. This was largely caused by more subtle economic policies, at least compared with those of 1958-60, the 1964-65 revival,[6] and the 1967-70 stabilization programme.[7] The 1967 programme started soon after the accession of the new military government, achieving for a while a reduction in the rate of inflation to about ten percent per year, without a reduction in the level of activity, and maintaining the share of wages around 44.4 percent of GDP. It was not a classically orthodox policy as initially interpreted by supporters and foes alike.[8] A significant and presumably once-for-all devaluation was made, increasing its dollar price by 40 percent with the idea of thereafter maintaining a fixed exchange, something which was to become one of the stumbling blocks of the whole programme. The novelty was that the devaluation was accompanied by advalorem taxes on agricultural exports, avoiding the initial abrupt transfer to the agricultural sector. [illegible] eliminated gradually, although it barely sufficed to compensate for the increase in internal prices, giving the fixity of the exchange. Another novel element was the expansionist monetary policy (see Appendix IX), based on a tight fiscal programme and a generous credit policy, particularly toward the private sector.[9] This was made compatible by the drastic reduction of inflationary expectations, allowing the level of activity to be maintained. A sort of income policy was imposed through the freezing of wages at 95 percent of their historical real values, together with a rather flexible price agreement with the 500 leading firms.

Unfortunately, the reliance of the programme once more on a fixed exchange rate, while contributing substantially to the initial reduction in the rate of inflation, inevitably built up tensions, depressing the agricultural and new industrial export sectors, and reducing the net effective protection to industry while bolstering imports. The situation was reflected in the poor performance of the external sector. It was bolstered, however, by significant foreign borrowing, which compensated for the rather small amount of direct investment. In this programme, one can detect a clear emphasis on expectations and on the cost side of the inflationary process, which set it apart from the more characteristic monetary solutions. There are even some similarities with the 1973-74 stabilization programme--a fact that has been pointed out by de Pablo, among others.[10] It included an initial successful stage, very much affected by the change in expectations, based on the depression of some particular sectors. This built pressures, followed by an inevitable second stage, with the typical bouncing back of the relative prices, completing the full circle of economic policies.

The change of presidents, from General Onganía to General Levingston, showed the wide discrepancies among the military and destroyed the credibility of their long and firm stay in government. The most immediate economic effect was to impair the foreign borrowing potential which had been one of the bases of the 1967-70 stabilization programme. By 1970, the new Minister of Economy, A. Ferrer, attempted a "developmentalist" policy. But many of the measures were an inevitable consequence of the previous programme. It had inherited an overvalued currency and a depressed agricultural sector, within which the cattle-raising industry was faring very badly and was practically in a state of revolt. This cattle crisis, however, had helped, through the low prices of beef--so important in Argentina's diet--in keeping down nominal wages, which was of crucial importance to the whole programme.[11] A substantial devaluation was clearly necessary. It was put into practice in a succession of small steps, along the lines of the crawling peg of the 1964-66 period. Although this new policy was considered by many people to have destroyed the previous stabilization, it was to a good extent its consequence, aggravated by the beginning of the political troubles.[12]

The delicate situation brought about by the dissolution of the 1966-70 stabilization programme characterizes 1971 and 1972--that is, the period immediately preceding the advent of the new labour-based government. The new change of presidents that took place in 1970, from Levingston to General Lanusse, and the new open-handed economic policy,[13] aggravated the inflationary pressures and worsened the economic outlook. The 1971-72 period was characterized by a very high and growing rate of inflation, which rose from 39.2 percent in 1971 to 64.2 percent in 1972, moving, after a slight slowdown during the latter part of the year, to an annual rate of 101 percent during the first five months of 1973, certainly affected by the uncertainty caused by the electoral process. While the beef cycle had helped the Krieger Vasena stabilization, the sharp upturn of the cycle very much hindered these years. The fiscal deficit was increasing from the low 1968-70 levels of less than two percent of GNP, to somewhat above four and five percent during 1971 and 1972, to a projected rate of more than six percent of GNP in 1973 as a consequence of expenditures committed during the first months of that year, just before the elections, for which no financing had been envisaged.

The external situation, on the other hand, had seen a substantial improvement due to an extraordinary increase in export prices of more than 70 percent from late 1971 to early 1973, exceeding the increase in imports by nearly 20 percent. The country negotiated an agreement with the IMF when the external situation was bleak, just before the upturn. By the end of the year improvement became noticeable, while fears regarding the external situation were removed as the first months of 1973 went by.

The rate of growth had been falling from a high figure of 8.5 percent in 1969, to 5.4 percent and 4.8 percent in 1970 and 1971, and more seriously to 3.1 percent in 1972. During these years, growth had a negative correlation with inflation.

An overall view would have indicated that exports had a good chance of leading a revival, contributing to a possible reversal of the trend in the rate of growth. On the other hand, all indicators were pointing to a delicate situation regarding the inflationary process--the acceleration in the rate of change of the price level, the higher import prices which would eventually transmit themselves to the rest of the economy, the high export prices of agricultural goods (which make up nearly half of the workers' consumption), the fiscal deficit, and the evolution of the monetary supply.[14]

The mounting economic problems began to affect the political situation, impressing upon the military the possible advantages of a withdrawal. But there were specific political developments pointing in this direction which were partly the consequence of disagreement within the military regarding their long-term institutional participation in the government. The situation reached a point where even an eventual return of the Peronista party began to be considered an acceptable outcome. This was a rather surprising conclusion, in view of the military's firm determination to ban the party for more than 17 years. It was indeed helped by the growing awareness of the party's reformist but evolutionary character and the advantages of having the labour unions and their political sympathizers within the political system, instead of keeping them at the fringe where they were more prone to radical infiltration.[15]

The ground was thus prepared for the 1973 elections, which--despite the personal banning of Perón--were won by the Peronista party's candidate, initiating Argentina's second experience with a labour-based government.

June to December 1973: The Initial Economic Policies

The new government began under the influence of its left-wing elements, ranging from evolutionary to radical, which succeeded in obtaining many important positions, including some cabinet posts. The moderate labour unions had surprisingly little influence, although they were able to appoint the crucial Labour Minister following a long tradition within the party. On the other hand, the Minister of Economics, J. B. Gelbard, and the bulk of the other appointments in the economic area were members of the C.G.E., the confederation of small businesses, which had a relatively mild nationalistic outlook. They were basically newcomers who had been at odds with the larger Unión Industrial Argentina, which represented the more established, more efficient, and larger firms, including many foreign firms.

The new economic programme was based, on one hand, on a set of reformist measures, and on the other, on a stabilization scheme. Although it was never fully enforced, the set of reformist measures coloured the initial period.[16] It included: (1) a tax reform, which increased the progressive nature of the tax system, requiring identification of ownership of shares and other financial assets--identification which was never enforced; (2) a foreign investment law, which restricted some areas for exclusive local ownership, defined and classified all foreign and mixed enterprises, restricted percentages of dividends that could be transferred, and required approval by law of all major investments; (3) an agrarian law which allowed, among other things, expropriation of unproductive estates; (4) a greater interference by the state in the foreign trade of basic exportables, making trade with Eastern countries an official policy, a subject that at the time--oddly enough--was rather polemical; and (5) a "nationalization" of credit, which really meant a greater degree of Central Bank interference with the credit system, but not any outright expropriation of banks. Other measures, rather haphazardly taken later on, included some expropriations of foreign enterprises in the banking, manufacturing, and service sectors.[17] Each nationalization was very much heralded as the beginning of a structural change.

It should be pointed out that the reformist programme, presented as revolutionary, was part of a general left-of-centre political mood prevalent in several countries of South America. In Argentina this mood affected many institutions and political groups, including the Army, the Church, and most political parties. After creating some tensions within these organizations, it faded away while the inevitable backlash against the radicalization of the Cámpora period gained momentum. This backlash was exacerbated by the persistence of subversive organizations and their viciously violent feats.[18] But for most of the traditional left, the reformist economic programme was seen as falling far short of a "true" change. The basic differences with the Chilean experiment, and also with the Peruvian, were consistently pointed out. It sufficed, however, to antagonize the established sectors, which were alarmed more by the dangerous overtones of the general political context than by the specific measures of the programme.

The reformist programme was very soon overshadowed by the stabilization scheme and by the "social pact" which was an integral part of it. Control over the inflationary process was of greater concern to most people than the more grandiose and distant "structural" reforms. In fact, just before the new government came in, inflation gave the impression of being completely beyond control, running at more than 100 percent per year and producing obvious negative political feedbacks.

Improved terms of trade, the very high demand for exports, and a favourable change in the trade balance made up the positive side of the picture. On the other hand, the trend in the government's deficit was quite unfavourable and could be expected to deteriorate even more as a consequence of the distributive aims of the new government and the greater anticipated social demands. Real wages had fallen during 1972 by more than six percent below 1969, to one of the lowest levels in the last ten years, a situation which continued up to the last months of the previous government (see Appendix XVI).

It was the[illegible] expected that there would be an upward pressure on wages, with an inevitably strong cost-push effect. Inflationary expectations had been very high and continued [illegible] but by election time, estimates of future inflation tended to vary consi[illegible] on average they were still very high.

Against this background, the government launched its stabilization programme. The basic idea was to induce, or even force under state auspices, an agreement on the distribution of income (i.e., on relative prices and taxation) between wage earners and business, represented by their respective central organizations, the C.G.T. and the enlarged C.G.E. into which the old Unión Industrial Argentina had been brought in. This "política de concertación" (agreement policy), called in this instance the "social pact,"[19] had been and was very essential to the Peronista tradition of inter-class cooperation. It was implemented through a very strict wage and price freeze, leaving the fiscal and particularly the monetary measures very much out of the picture.

The price freeze included an actual reduction in the prices of a very selected group of 57 presumably oligopolistic firms, and in those of a selected list of products, including beef and textiles. Prices for all other firms and products were frozen at their prevailing level.

As for wages, they were to be frozen for two years after an initial rise of 20 percent[20] in order to compensate for the fall in real terms of the previous year. It was much less than the percentage demanded by the union leaders, although it allowed real wages to rise above the 1969 level by 13 percent. At the same time, prices of all kinds of products were frozen at the prevailing levels and a special watch-dog group was set up at the Secretariat of Commerce. The increase in wages, and the slight reduction in unemployment, allowed an increase in the share of wages of more than four percentage points, recuperating the loss that had taken place during 1972, and reaching 46.9 percent of GNP, somewhat above the level of the previous stabilization programme. One of the factors contributing to the initial success of the wage and price freeze was the fact that many firms had made anticipatory price increases before the new government had come into office, as the policy was not completely unexpected--allowing them to absorb the wage increase as required. This was, however, a measure that tended to penalize the more labour-intensive industries, supposedly the base of support of the government's coalition. The impression was that, finally, a government with a strong social-arbitrating power had arrived, and that, at a price, each sector had received a not-untenable share of the income. While the business sector was not happy, it had been alarmed by the runaway inflation of the latter part of the previous period, and even more so by the political outlook and the initial pre-eminence of the radical groups, which had led it to expect much more dangerous policies. In a way they had been scared, and under the circumstances, this programme was seen with a sense of relief. This situation is at the source of the very strict initial compliance with the price freeze, which helped to break quite drastically the inflationary expectations.[21] Probably the best indication was the downward movement in the black-market rate, from 12.5 pesos to the dollar during the first months of the year, to about 10 pesos to the dollar, very near the official rate of exchange.

Not only was the rate of price increases reduced, but the absolute level actually decreased in June[22] by 2.8 percent. From July to December, it increased only by four percent, creating an excessively optimistic expectation that inflation had come under control. This reached a point where the government began to use the expression "zero inflation" as a political slogan, which later had the unfortunate consequence of becoming a straightjacket, reducing the economic alternatives available, and in particular forcing the continuation of rather rigid price policies well beyond their advisability.

Another factor contributing to the initial success was the very great improvement in the international situation. Argentina was taking advantage of the tail of the international prosperity of 1972 and 1973. The terms of trade, which had improved at the end of 1972, remained high until the third quarter.

The enormous increase in export prices (more than 60 percent) and the excellent wheat harvest partially offset a mediocre performance, volume-wise, in the other major staples. During 1973, the country had record exports of $3.266 million, exceeding by 65 percent in value those of the previous year. Imports decreased substantially, in real terms, reflecting the relatively uncertain conditions of the first semester and the highly devalued currency. Imports picked up, however, towards the end of the year, following the expansionary internal policies and the gradual overvaluation of the exchange rate. Imports for the whole year increased in value by 16 percent, reflecting the very large increase of import prices.

The terms of trade remained, during the first three quarters, at the high levels of the previous year. By the end of 1973, the country was able to accumulate a significant current account surplus of $704 million (or about three percent of GNP), compared with a deficit of $218 million the previous year. This began to have an effect on the expansion of the economy and in the growth of the GNP. In the last quarter of the year, the international oil crisis brought an abrupt reversal of the terms of trade, down by more than 20 percent, a trend that was to continue until the middle of the following year. While the external situation was good, the government was allowing an overvaluation of the currency, at the same time that it was engaging in an expansionary policy--a dangerous combination in view of the reversal of the international situation. This expansion could be seen in the increase in the expenditures of the Central Treasury compared to receipts, a trend that was to continue, increasing its deficit from 2.43 percent of GNP in 1972 to 5.43 percent in 1973. The bulk of the problem was the increasing current account expenditures partly owing to the increase in real wages and partly owing to an increase in the number of public employees (Appendix XIV).

Income of the government increased, partly on account of the tax reform, but more so because of the beneficial impact of the stabilization of prices which avoided the reduction in the real value of receipts due to the fiscal lag--i.e., to the time between the determination of taxable income and actual payment.

The money supply, which had been at the relatively high level of 23-25 percent of GNP during 1968-69-70, dropped to about 16.6 percent during 1972, and to 16.1 percent during the first two quarters of 1973. It went up to 18.6 percent in the third quarter and to 21.3 percent in the last, by reason of the drastic curbing of the inflationary expectations and the corresponding increase in the demand for money.[23] While the foreign sector during the second semester contributed to the monetary expansion by 14.5 percent, the government deficit contributed by 30 percent while credit to the private sector contributed 48 percent. Although money and prices had grown by roughly 70 percent from May 1972 to May 1973, during 1973 money increased by 93.16 percent while prices increased increased 30.8 percent. Unemployment fell, but until the middle of 1974 still remained at 4.5 percent (Appendix XV), a figure that does not seem to be lower than the national "natural" rate, a situation which might have been reached later on.

The interest rate was decreased in nominal terms, since cheap credit had been one of the slogans of the C.G.E. even at a time of negative interest rates. Paradoxically, the reduction in the rate of inflation was so drastic that the real rate, which had been negative in 1972 and by 27.4 percent (yearly rate), became positive by 8.5 percent from July to December. This was a beneficial but unintended consequence of the new policies. While increasing costs, it reduced the demand for credit, thereby improving allocation, but it was too short-lived to have any lasting impact on the economy. Negative rates were prevalent once more from 1974 onwards, again contributing to the misallocation of resources and to the flight from cash and monetary assets.

In 1973, growth nearly doubled the 1972 figure, reaching 5.8 percent. Indeed, it was an export-led growth, the change in the current account making up for nearly half of the total figure. This can also be seen in the growth structure; the agricultural sector increased its sectorial product by an extraordinary 13.5 percent, while industry increased by 6.4 percent. On the other hand, construction declined by 5.1 percent in correspondence with the slack in investment, which decreased from 23.6 percent to 22 percent of GNP in 1973, increasing, however, in absolute real terms. No significant changes took place in its composition although public investment went down from 8.8 percent to 7.7 percent of GNP, while private investment was practically unchanged at 14.1 percent of GNP, decreasing by the end of year.

The private sector had seen a reduction in the availability of credit and in its profitability, although not yet reducing its level of investment, something which was to happen in the later stages with very adverse consequences. Foreign capital was intentionally discouraged, and while local capital was officially preferred, it was not sufficient to maintain past levels of private investment.

As a transitory and rather exceptional policy, the social pact had proven its worth, at least in terms of its ability to stop inflationary expectations for a short period. During the first months, inflationary expectations had been cut off in a very dramatic way, far beyond what anybody could have expected at the beginning of the year. By the very end, the international reversal and the local expansionary policies began to create some of the first clouds. Moreover, it was not clear whether the price freeze was intended as a permanent policy, or even how it would be followed up, a problem that was to prove so crucial--in fact the stumbling block--to the whole programme.

January-September 1974:
Mounting Problems

By the end of the year, it began to be clear that the relative prices which had prevailed since the date of the freeze were far from being rational, or, for that matter, ones which could assure a smooth functioning of the economy. Those who had repriced just before the freeze had been able to make good profits, while others who had been unable or had been more moderate were not doing as well. At the same time, it was increasingly true that monetary and fiscal policies were not in line, particularly since the renewal of the inflationary expectations.

The absorption of the wage increase had, as mentioned, penalized the more labour-intensive industries.[24] Many of these were locally owned, constituting precisely the political base of the C.G.E., the main group responsible for the policies in question.[25]

Moreover, import prices had continued to rise, by nearly 30 percent from June to December, while the official price policy still required that they be absorbed by profits. In many sectors this became an impossible condition to comply with, particularly in those sectors with a high import content which could not be substituted locally. Some industries began to incur losses, reducing or stopping production altogether, while others began to violate price controls, selling at a premium collected in black-market money.

It was therefore rather clear, from the very end of 1973 and even more so during 1974, that some degree of price flexibility had to be introduced. The extent to, and ways in, which this could be done became one of the main issues. The government was very hesitant because such a step could imply an abandonment of the "zero inflation" scheme and a renewal of the price rises, with the danger of again creating inflationary expectations with their dradful self-fulfilling mechanism.

The first attempt was made in December 1973 and clearly exemplifies this ambivalent attitude. The government announced that the higher prices of imported products could be transferred to prices, a decision which, before being put into effect, was cancelled and replaced by a revaluation of the currency for the elective list of imported goods, mainly raw materials, which implied an import subsidy.[26]

The excellent foreign-reserve situation, and a certain disregard of the fiscal cost, prompted the government to "buy time," postponing some of the disagreeable measures at the cost of making them, in the future, more necessary and even more disagreeable still.

Some "flexibilization"--as it was called--was introduced during 1974, however, particularly after September when a new Minister of Economy took office.

Prices increased during the first quarter by three percent, while some shortages began to appear. By March, the pressures of the unions became very strong despite the fact that the decrease in real wages was still rather small, well above those of 1972. Although the initial social pact had specified no changes in wages for two years, another increase was granted consisting of a constant amount of $240 per worker, which represented an increase of about 20 percent for unskilled workers and less for skilled workers. This wage increase, compounded by a gradual "heating" of the economy, pushed prices up in the second quarter by another 10.4 percent, a trend that was to continue throughout the year. Zero inflation had become a thing of the past.

During the year real wages remained, on average, at the same level as that of the second semester of 1973, but with more variation as a consequence of the by-now significant rate of inflation. The unemployment rate, after having been reduced to about five percent in the second semester of 1973, fell to 4.2, 3.3, and 2.5 percent during 1974, and to an all-time low of 2.3 percent in April 1975. It may be wondered whether it was approaching a natural rate of unemployment, as to have significant inflation consequences, along the lines of the Philips curve. It would seem, however, that at least in the shorter run the changes in expectations affected the inflationary process much more than the evolution of the unemployment rate.[27]

One of the crucial variables that probably goes farther toward explaining the intense strains of the end of the social pact was the reversal of the external situation, brought about by the sharp reversal of the terms of trade--by more than a third--and the imported cost-push compounded by the local expansionist policies.

Export prices were maintained at the level of the end of 1973, but one of the most important problems was the E.E.C. ban on meat imports imposed about July 1974 (characteristically considered by the IMF as an infant-industry protective measure and therefore not qualifying as trade discrimination). Import prices, on the other hand, increased a further 35 percent, compounded by a significant increase, volume-wise, in imports. The current account surplus went down from $704 million in 1973 to $245 million in 1974, a figure which disguises the even-greater downturn that took place during the year (from a first semester surplus of $395 million to a deficit of $286 million in the second semester).

Despite the price increases and the reversal of the external situation, the exchange rate was not changed. This meant a gradual overvaluation of the currency (see Appendix VIII), a significant increase in imports, and a huge loss of reserves. In a way they were being used once more as a way of delaying the dreadful moment when the peso had to be devalued, throwing additional fuel into the inflationary process. But it is fair to say that at the moment it was unclear whether the export problems were temporary or not.

The internal ratio of imported to national prices decreased, while the agricultural terms of trade, which stood about 130 (1960= 100) before May 1973, moved to 110/115 in May 1974, and fell below 100 by the end of the year (reaching 90 in April 1975). The depression in meat exports accelerated the downward stage of the cattle and meat cycle, helping, however, the cost-of-living index, where meat has a weight of about 22 percent. The situation, moreover, stirred strong sectorial unrest, which later was to have serious political repercussions over and above the purely economic ones.

The expansionary policies could be clearly seen in the increase of the government deficit, which was the result of increases in both current and capital accounts. Indeed, the government acted on a most extreme cost-push interpretation of inflation, expanding money in circulation, increasing current expenditures and the number of public employees, and pushing investment projects as if it were not necessary to watch the demand side.

The renewal of inflationary expectations reduced the demand for money, consequently increasing the inflationary potential of even the same amount of money, not to speak of an increased amount. Money moved from 20 percent of GNP in the second semester of 1973 to 24.5 percent during 1974. Only at the end of the year can one notice a reversal in the trend.

The government deficit represented 32 percent of total money creation, 80 percent corresponding to credit creation. Meanwhile the foreign sector contributed 24 percent during the first two semesters, reversing its role by the third quarter (-21 percent).

The real rate of interest, after having been positive, fell to a negative figure of 9.4 percent (yearly rate) during the first semester and 17.6 percent in the second, as the rate of inflation moved from about eight percent (yearly rate) in the second semester of 1973 to about 40 percent during 1974 .

Again the argument put forward was that higher interest rates would increase costs, offsetting the dampening effect that they would have on the demand side. This is typical when government has to take measures that will feed the inflationary process, either from the demand side or from the supply side. The choice is usually against measures which imply a cost push, particularly because of their more immediate impact.

Investment, which had been sluggish during the middle of 1973, accelerated toward the end of the year, increasing from 19.4 percent of GNP in 1973 to 20.6 percent in 1974. This was a consequence of the increase in public investment, which compensated to a very large extent the fall in private investment, which dropped from 14.1 percent to 11.3 percent.

Profits of the large companies, among the 400 to 500 which were controlled in a rather detailed fashion, were seriously affected until the policy reversal of the last quarter of 1974. The smaller companies, those that were not controlled accurately, did not follow this pattern, because they charged--to a much larger degree than the controlled companies--premium prices for their goods. And this different effect, indeed, agreed with the political base of the C.G.E.

The reduction in profitability and in private investment may explain the rather common view, at that time, that investment was going down (in absolute terms). But the fact is that the government was pursuing both distributionist and developmentalist policies, and both in the short run, a process which could not continue.

The economy's rate of growth was excellent: 6.5 percent, slightly up from the previous year. The increase in the level of effective demand contributed to this figure. Growth in the industrial and agricultural sectors--at 6.2 percent and 6.1 percent respectively--was slightly below the total, which was pushed up by 12.2 percent by construction, partly owing to the government's emphasis on low-cost housing.

The price and wage freeze, which had initially been able to cut short the inflationary expectations, was maintained for an excessively long period. Moreover, when the external situation was reversed, and imported prices increased brutally, instead of a flexible price policy and a restrained monetary policy, the obverse was followed. The freeze was pushed beyond what was reasonable, impairing the profitability of the business sector and the level of investment, eventually creating shortages of all kinds. The most serious was the shortage of foreign exchange, a consequence of the overheating of the economy while maintaining a "frozen" exchange rate.

The renewal of inflationary expectations had the opposite effect of the initial "virtuous" cycle. This time it was a vicious one working through the decrease in the demand for money with an extremely dangerous inflationary potential.

A price freeze is a viable policy only if it is adopted at the right time so as to break expectations (which was the case in Argentina), but it can only be undertaken in a temporary manner, because it introduces a serious degree of rigidity, with pernicious longer term effects. It is also clear that it cannot bring cost-push pressures under control but can only delay them for a while with the danger of making them worse in the future. It must be accompanied by a coherent management of the demand side of the economy. The more stringent and longer the freeze, the more severe the demand restraint should be.

Unfortunately this was not appreciated at the time. It was a policy easier to get in than to get out. In retrospect it can be seen that some of the intrinsic weaknesses of the policy were compounded by the international reversal and by the particular local policies adopted.

September 1974-May 1975: "Flexibilization" and Financial Restraint

While the economic clouds were gathering, far greater ones were accumulating on the political front. The death of Perón in July 1974 meant a significant reduction in the arbitrating power of the executive, a problem particularly serious in any loose political alliance. The problem was compounded by the fact that the new president, Isabel Perón, was identified with the right wing of the party--headed by the Minister of Social Welfare, J. López Rega--to an even greater degree than expected. This group tried to put across a rather straightforward right-wing programme, an essential part of which was a drastic shift towards a rather orthodox economic line and a forceful attempt to curb the power of the unions.

While measures were taken on the political front soon after the death of Perón,[28] they were taken in a delayed way on the economic and labour fronts. In September, a respected middle-of-the-road Minister of Economics, A. Gómez Morales, was named. This was a compromise solution reached rather reluctantly, because it meant postponement of full implementation of the right-wing programme until a later stage: the second quarter of 1975.

As described in the preceding section, some important shifts in economic policies were in any case necessary. Two different approaches were put forward by business groups and political sectors. One emphasized the need for a more flexible price policy and the second a general "cooling" of the economy.

It could be said that a price approach and an income approach were presented as if they were alternative policies rather than complementary ones. The more commonly voiced opinion was in the direction of a readjustment of the prices of some goods, particularly those that were caught at the time of the freeze with relatively lagged prices and those with a large proportion of imported inputs or with a significant labour content. It was quite evident that the higher imported prices and the higher wages had reduced the profitability of the business sector, causing important losses in some sectors, which had reacted by reducing or even stopping production.

The situation had created all sorts of problems on the supply side, creating shortages and imbalances in the flow of goods. At the same time, the increasing violation of the price freeze and the considerable incidence of black-market transactions had created a highly speculative quantity of non-taxed and unrecorded money, which during 1974 was to have serious consequences.[29]

The new economic authorities had an intermediate view regarding the liberalization of the economy, because it was thought that under the circumstances a freeing of all prices could result in an enormous jump in the price level. It was thought that a non-explosive freeing of the economy, and then a partial one, would be possible only if accompanied by a policy of financial restraint, reducing money growth and expenditures of all kinds, and consequently reducing the government deficit.

Many price adjustments were allowed, including some of the public services in February 1975. Prices continued to pick up, increasing by 12 percent in the last quarter of 1974 and by 25 percent in the first quarter of 1975, while inflationary expectations increased significantly. Wages were increased in November by 13 percent, and were allowed to be transferred to prices as part of the policy of increasing business profits. Wage readjustments took place again in March, with increases of about 20 percent ($400 per month). In both instances the increases were granted before any significant real loss (see Appendix XV) had taken place, as if the inflationary process had made the unions overzealous in the defense of the real wage. In any case, this is one of the periods with higher real wage rates, which may in part be related to the very high demand for labour and the very low unemployment rate. But it is also true that despite the economic policy's more orthodox outlook it did not count on a reduction of wages as one of its deflationary tools.

On the other hand, the new policy tried to maintain the exchange "frozen" as a way of controlling the inflationary process, probably counting on the dampening of demand as the main factor in bringing the foreign sector back to equilibrium.

The exchange was maintained until March, while very significant losses of reserves took place. The black-market rate started to move above the official rate, more than doubling the latter by February 1975. At that time, the peso was finally devalued from 10 to 15 pesos to the dollar by reducing but not eliminating the overvaluation of the currency that had reached gross levels (Appendix VIII).

These wide fluctuations in real value of the exchange rate are clearly one of the more important reasons for the difficulty in developing a consistent export policy for anything other than land-intensive goods.[30]

The fact that the official exchange rate was not devalued decreased the level of net effective protection,[31]--which sometimes depends much more on the value of the exchange than on explicit tariffs--and consequently increased imports, value-wise, by more than 50 percent. But as devaluation came to be expected, speculative imports began to be made in significant amounts by the end of the year.

The problem was compounded by the abrupt fall in export prices and by the sharp deterioration in the terms of trade--which went down by more than 20 percent from the first semester of the year to the second. All of this contributed to an impressive reversal in the trade balance and in the situation of the reserves, which, after reaching about $1,972 million during the first semester, went down to about $1,057 million by the first quarter of 1975, a trend that continued until the third quarter.

The deterioration in the price of agricultural exports was made worse by the overvaluation of the currency, which deteriorated, even more the peso price of exports, which were further reduced by the policy of applying ad valorem export taxes. The cattle sector was additionally affected by the closing of the European Common Market, and by the world cattle crisis aggravating the downward stage of the beef cycle.

The agricultural/industrial internal terms-of-trade figures were low (see Appendix III), although only after November did they fall below the 1967-69 level, reaching an all-time low by the middle of 1975. But the situation was even more serious, because these figures are based on industrial prices, which were also low. The problem by the end of 1974 was not so much one of relative prices, but one of absolute prices, both of agricultural and industrial goods--that is, of output prices relative to input prices.

While the various groups affected by these relative price abnormalities were pressing for what came to be called "flexibilization" of the economy, some less powerful groups were worried by the overheating of the economy, and asked for a more prudent financial policy. Of course, wide disagreement existed as to the areas where the cuts had to take place. Some, such as the "developmentalist" group, even asked for an increase in government investments, assuming rather superficially that cuts could be made to such an extent as to make this strategy possible. Flexibilization and/or financial restraint became the alternative or complementary future avenues available.

A strict programme to reduce current expenditures of the government--particularly personnel expenditures--was started. A reduction of some of the rather overambitious government programmes, including cheap housing, was tackled, creating, as could be expected, strong opposition.

While investment peaked in the last quarter of 1974 at 23.4 percent of GNP, it had already fallen in the first quarter of 1975 to 20.8 percent, pushed by the drastic reduction in private investment, accelerating its negative trend. Public investment reached an all-time high, but could not compensate for what was occurring in the private sector.

At this stage, money was seen--and rightly so--as having a very important impact on the inflationary situation. A reversal in the trend of increasing money in circulation was attempted, and to some extent was helped by the deficit in the foreign sector. Of the money created during this period, the government deficit contributed 78 percent of the total, credit creation an additional 90 percent, and the foreign sector a negative 17 percent.

At the same time, a policy was undertaken to settle some of the conflicts with foreign capital that had arisen in the previous period, while a study was started to liberalize the foreign-investment law. These measures were part of a strategy to again attract foreign capital as an important source of investment, replacing to some extent the desired reduction in the level of investment undertaken by the government, something which in fact never took place.

The actions of the Minister of Economics were very much impaired by the extreme right wing of the party, which took an ambivalent attitude, criticizing some of the proposed actions, only to push them in a much more drastic way when they succeeded in naming their own candidate.

While quite a few of the measures undertaken were indeed necessary, it is quite likely that they should have been started much earlier. They were, in fact, late by at least six months and were milder than the situation warranted, particularly in the foreign sector. Whatever the reasons, the necessary measures, price- and income-wise, were not taken. Probably the reliance on the effects of a financial restraint was pushed too far and too unilaterally--i.e., to a point where it was supposed to replace the need for any direct price adjustments, particularly the need for devaluations. When it was made, it had to be done in a much more drastic and abrupt manner, a fact which is at the root of the final convulsion.

The different views on the role of the level of activity, or on the role of price movements, to bring about an equilibrium situation can be detected between this period and the following ones.

June-August 1975: The Drastic Readjustment

Many clouds had been gathering as several groups, particularly in the agricultural and industrial sectors, became quite vocal in their protests, but it was extreme ly delicate foreign-exchange situation that forced a change. The March devaluation and the new wage increases of March had created new cost-induced inflationary pressures. These developments, coupled with political rumours of imminent changes to be led by the right wing, caused destabilizing speculation on the exchanges, increasing the spread between the black market and the official rate.

The change took place in June, when C. Rodrigo--a member of the inner circle of the right wing--became the new Minister of Economy. The new group wanted to free prices, encourage private investment, increase prices of public services and public goods, diminish the fiscal deficit, keep down wages, and finally curb the power of the unions. Within this rather orthodox view, the role attributed to money was not completely clear, except that a reduction in its rate of increase was implied in the reduction of the deficit, although at the same time more credit to the private sector was envisaged.

The main exception to the general line of the plan was an insistence in the continuation, and even increase, of the low-cost housing programme, the main project of the Welfare Minister (the political leader of the right).

In order to understand what happened with the inflationary process--which moved from 67.7 percent in the 12 months before May 1975 to 87.7 percent in the following 12--and the kinds of measures taken by the government, particularly their intensity, the process must be interpreted as part of an all-out fight between the trade-union-based sector of the party and its political right wing, a struggle for power and political domination fought precisely around the readjustment of the set of relative prices, with its obvious income-transfer implications.

The government devalued from 15 pesos to 30 pesos to the dollar, setting the exchange 300 percent above the February figure. Prices of public goods were increased in many cases by more than 100 percent, reaching 200 percent in the notorious case of petrol. This was done while a wage increase of less than 40 percent was offered to the workers. Public opinion was in a state of shock. The direction of the changes was expected, but not their intensity. One may suspect that the intensity was aimed at creating an impossible situation for union leaders, whose replacement was in fact an avowed objective of the government.

Wage discussions which had started under the previous Minister were immediately cut off. What had been rather odd, and probably was one of the reasons for the failure of the programme, was that the devaluation and the price increases had taken place while the negotiations had been going on. By now, union leaders were fighting not so much for a wage but for their political survival. A tentative settlement was nearly reached on the basis of a 50 percent immediate wage increase to be followed by two 15 percent increases (not compounded) in August and October. Finally, the unions rejected the agreement, maintaining a state of political mobilization. One of their main problems was that, as the economic policies had been wholeheartedly supported by the president, their opposition could bring the downfall of the government. They were divided over whether it was necessary to go all the way or not.

In the end, the unions were able to obtain wage increases, negotiated union by union in a tumultuous fashion, ranging from 60-80 percent to more than 200 percent and averaging about 160 percent. Again, the intensity of this reaction can be understood only as a means of bringing a downfall of the right wing of the party--which was what actually happened, amidst military unrest. But the authority of the government was severely damaged and the possibility of an abrupt end became rather obvious, hindering the already delicate economic situation. The immediate effect of all of this was a drastic increase in the cost of living: 102 percent in June-July-August, or 117 percent judged by the wholesale price index. Import prices increased in real terms by 30 percent compared to national prices, following a similar movement of the real rate of exchange (see Appendix VIII), while agricultural prices decreased a further ten percent--unintentionally, since that was the opposite of the initial objective. Real wages increased by 50 percent, which--even though they very soon eroded to the predisturbance level--nevertheless meant a significant one-shot transfer of about four percent of the yearly wage bill. Another very important transfer of 3.7 percent of GNP took place from creditors to debtors as a consequence of the halving in values of debts which had been contracted with an expectation of a four-to-five percent monthly rate of inflation.[32] While the figure refers to the entire year, the bulk of the transfer took place during June-July-August.

Another consequence of the price increase was that money in circulation decreased, in real terms, from 13.7 percent of GNP in the first quarter to 8.1 percent in the third. This was also a consequence of the flight from money, coupled with the very short-term effects of an explicit policy of the Central Bank,[33] which, acting mostly on its own, avoided a worse price explosion, thereby contributing to the toning-down of the inflationary rate in the following months.

The economy moved abruptly from an overheated situation in April, with very strong demand pressures and a very low unemployment rate, to a situation of near crisis in July and August. Unemployment soared from 2.3 percent to six percent in the greater Buenos Aires area, and to 7.5 percent in areas like Córdoba, where the automobile industry was hit hard. From important quarters, unemployment figures of more than one million workers were announced as an immediate possibility. Something very near to a collapse of manufacturing activity was feared. Manufacturing fell during the third quarter by 5.6 percent, becoming worse towards the end of the year and the beginning of the next.

The external situation, which had been at the origin of the whole process, remained very delicate. The devaluation had been very significant, but its effect was not felt until the beginning of the following year. In the short run, the situation was helped by a massive increase of "swaps," i.e., foreign short-term loans, with Central Bank forward coverage.[34] During the year, short-term loans increased to an all-time high of $2.124 million, of which 60 percent was in swaps, becoming an essential factor in the balancing of the external situation, creating the need for a tight-credit policy to the private sector to maintain this flow. The reliance on short-term financing was due to the increasing difficulty in negotiating external medium-term loans, which was attempted without success with American private banks. The government had greater success in making a special deal with the local automobile manufacturers, the single largest importers of manufactured goods--allowing them to free their prices before anybody else, provided they agreed to obtain medium-term financing for their supplies. A total credit of $200 million was accordingly built up.

Despite the increase in the real price of several government services, the fiscal situation deteriorated sharply, mainly owing to the effect of the very rapid inflation on the fiscal lag, i.e., the lag between the determination and payment of taxes, eroding the real value of the receipts of the government.[35] Taxes went down in real terms (Appendix XVIII), while treasury income moved from 6.6 percent of GNP for the previous year to four and 3.8 percent for the second and third quarters of 1975, respectively. But the final effect of the mid-year convulsion was felt in full by the end of the year and the beginning of the next.

Summarizing the aftermath of this drastic attempt to overhaul the economy, it can be said that the devalution of the currency and the increase in some public prices (i.e. petrol)--in real terms--was achieved, while money in circulation was drastically reduced as a consequence of the flight from cash. Contrary to what was attempted, real wages were not reduced, but significant differences appeared between various labour groups, the tax system was disrupted, industrial activity collapsed (while other firms, as all net debtors, benefitted from a reduction in the real value of their debts), agriculture continued to worsen against the explicit wishes of the government, and finally, the economy veered between the danger of hyper-inflation and recession as unemployment increased to high levels.

The turmoil of this period brought about the downfall of the right-wing groups. The unions, with the support of middle-of-the-road politicians, were able to get rid of López Rega and the Minister of Economy. The trade unions moved to the centre of the political scene, becoming the main backers of the regime during the following months, reconstituting in a way the same kind of alliance which had prevailed during the presidency of J. Perón, although playing a much larger role.

A caretaker Minister was named, who devalued an additional 20 percent while the economy was in a situation of chaos and paralysis, amidst persistent rumours of a split within the army, opening the possiblity of a military coup.

August 1975-January 1976: The Gradualist Approach

The previous economic "fiasco" had deeply damaged the authority of the president, who had obviously lost the fight against the unions. Her arbitrating power, which had always been low, practically disappeared. The situation within the army was settled, with the strengthening of the so-called professional group and the removal of the sector that had tried to bring the army into support of the right-wing programme of the government. The commander-in-chief of the army, General Numa Laplane, was replaced by General J. R. Videla. The bulk of the unions were rather indifferent as between the pro-government group suspected of right-wing leanings and an apparently more anti-government group.

One situation which might seem surprising was the lack of army support for a programme which, in the economic field as well as in its attitude vis-a-vis the guerrilla, was apparently so much in the line with the army's wishes. This was due to a deep lack of confidence in the leaders of the right-wing party, Isabel Perón and J. López Rega, partly owing to their past political records and to their personal peculiarities, combined with serious allegations of corruption, which hindered the creation of an alliance.

The new Minister of Economy, A. Cafiero, who took over by the end of August, had long been closely associated with the trade unions, and did not have good relations with most members of the right wing.

There were three extremely pressing problems that deserved immediate attention. The first and most critical was the redressing of the external situation, which remained in a most delicate situation despite some of the previous measures, particularly the devaluation. The second alarming problem was the apparent sliding of the economy into a most serious crisis with an increasing stoppage of industrial production and rising unemployment, which was giving rise to tremendous social unrest and to very strong protests from the business sectors and the trade unions. The third problem, not the least important, was the need to tone down the inflationary outburst of the previous months. While it was improbable that inflation would continue at the same extraordinary rate, it was not clear whether it would be possible to return to the pre-shock levels, or--as seemed more probable--a new and much higher level of inflation could become the new standard. It is clear that these three objectives were to a good extent contradictory and that each could only be achieved partially. Moreover, the new economic team was determined to achieve these objectives through rather gradual measures--i.e., through a succession of small steps. It was felt that the extraordinarily high price increases, the jump in unemployment, the collapse of the external market, the tripling of the rate of exchange, the halving of credit in real terms, and the wide and abrupt transfers of income, etc., had produced a deep wound and that the economy and the various sectors could not withstand further shocks.

Inflation at this stage was not viewed as a primary consequence of monetary disequilibria. The inter- and intra-sectorial fights had become the basic cause for the propagation of inflation rates, as high as 10 percent or more per month. These struggles were in turn exacerbated by the inflationary process and by its differential sectorial character, by its leads and lags. If inflations can be characterized by the different degrees of relative price oscillations, this one during 1975 was certainly one of the highly oscillatory type.[36] Unfortunately, this type of inflationary process is much more resilient to orthodox treatment than the more uniform and least oscillatory ones. The variations of income, a consequence of these oscillations, produced intense reactions from the groups which were harmed, tending to build into the process a perpetuation of the oscillations.

The fight for the share of income was significant not only when waged between the larger groups--i.e., wage earners, and industrial and agricultural groups--but also among different sub-groups within these categories which considered their relative position more significant and their change more attainable than the wider and more ambitious shifts.[37]

One of the worst consequences of the previous shock was that the government had lost the strong arbitrating power which it had at the time of the social pact, and became impotent to settle these vicious fights. Under these conditions, any attempt to stop inflation altogether was thought rather unrealistic. It was thought that it would be a sufficient improvement to lower inflation to "somewhat below 100 percent per year," as was purposely and ambiguously stated, and to avoid abrupt changes in the rates of inflation, which were thought to worsen its effects even more.

Wages had emerged with gross distortions. Those unions that had been the first to sign new agreements during the outburst were the ones that fared worst, while those that had signed last got the higher increases. Those that had deteriorated their relative position soon began to press for a reconsideration of their "special cases," requesting to go back to the traditional interunion differentials, while those which had fared better thought that any allowance made to any group should be extended to all.[38] The government thought that a partial redress of the situation was necessary, and proposed, without any success, a typical half-way solution, moving to a point midway between the old and new relative positions.

Some non-official increases began to take place, and by November, when the real wage had moved below the pre-shock level, the government granted a rise of about $1.500, or about 27 percent. More important was the agreement that wages would be indexed. Every three months, starting in January, wages would be adjusted, so that an average real wage of about 95 percent of the previous year would be guaranteed. A special institute was created to check on the figures and police the indexing of wages, with workers and business participating. Under the peculiar situation created by the outburst, it was felt that keeping down wage demands to previous price increases was in itself a toning-down of expectations. What was feared was that trade unions would again request the same kind of increases they had obtained during the middle of the year.

A redressing of some significant relative prices of goods and services was also considered an essential part of the new policy, but while this was undoubtedly necessary for the longer term, it was clear that it could have a negative impact on the inflationary process. This was but another instance of the conflict between shorter term, mainly anti-inflationary, considerations and longer term, mainly efficiency considerations.

Prices of agricultural products fixed by the government were increased to pre-shock levels, with grain prices somewhat above, while meat prices, despite the reduction and finally the elimination of export ad-valorem taxes, remained at a very low level until the end of the period, when a significant increase took place, reaching one of the highest levels of the 1975-77 period. Two lockouts by the cattle sector took place, each time suspending deliveries to the stockyards for a week. While the lockouts were caused by the economic situation in the sector, they were part of a political plan to bring down the government (particularly the second one). The internal situation plus the closing of the European Common Market were weighing heavily on the internal situation, a fact that probably was not sufficiently appreciated by producers and which was to continue and even worsen after the new military government came in.

The policy was to maintain the real price of agricultural products, from sowing to harvesting, but allowing for changes in real prices from year to year. The plan was to move to international prices,[39] over a period of three years, a time which was thought necessary to effectively install a tax system based on the potential productivity of land, which, while being the law, had not been implemented.

The prices of some public services were indexed formally, as in the case of the price of electricity, while in other cases a re-adjustment was made every two to three months. In the case of loan and tax debts, the ground was prepared for the indexing of medium- and long-term loans. This was much resisted, not only because of the novelty of the system and the ending of the previous implicit subsidy, but because of the danger of leads and lags in the price of specific goods produced by the debtor compared with the general wholesale industrial index used for the re-adjustment.

These cases were part of a general indexation of the economy, which was pushed as one of the few ways of diminishing the harm that a continuous inflationary process would cause to the economy. Some of the prices were indexed, but not all, because the latter would have assumed an initial, "correct" relative-price vector, which obviously was not the case; moreover, it would have run the risk of freezing a source of inefficiency which could be very harmful in the longer run.

An important consequence of the wide variation in relative prices, of the leads and lags of the prices of various goods, was that arbitrage at times became extraordinarily profitable. A speculative climate developed, particularly in the stock exchange--not so much regarding the market for shares, which was extremely weak, but regarding government bonds, some adjusted by the wholesale index and some by the financial dollar rate. The policy was to allow this arbitrage, but to reduce its profitability, equalizing the nominal cost of money with the rate of inflation. The nominal rate for deposits was increased several times but still remained below the rate of inflation. But the part of the market where interest was freely fixed--i.e., bank acceptances--was enlarged, and by October and November their rates were practically in line with inflation. After December, inflation was ahead of the rates, again allowing big margins to arbitrageurs, recreating the speculative climate.

A tax reform was attempted, reducing some of the tax rates, which under the circumstances were thought to be unrealistically high, running the risk of further inducing the already high level of evasion. Firms were to be required to depart, in determining taxes, from the traditional accounting practices which ignored the inflationary process and report on a "real" basis--i.e., taking into account the effect of the price variation, particularly on debts and credits on inventories and on amortization allowances. This tax package was sent to Congress but was never approved, because it became part of the intense political bickering already going on even within the government party.

The external situation was really desperate, although some basic measures had been taken by the previous administration--e.g., the very strong devaluation of the peso. The immediate problem was tackled by departing from the traditional anti-I.M.F. attitude of the Peronista party. Negotiations were started with the Fund to obtain "fall in exports" financing, which was automatic, and the "oil facilities" and the first "tranche," which required the presentation of a coherent plan, but less stringent than a "tranche II" agreement.

The Fund did not like the programme, because it included no drastic reduction of wages and no unemployment, while it contemplated a reduction of the deficit only to about six percent of GNP. After hectic negotiations, in which crucial U.S. State Department cooperation was sought,[40] an agreement was reached which opened the possibility of getting some short-term financing from other public and private institutions. From the Fund, $250 million was obtained. The private banks initially had quite a positive response. After two months, however, the increasing political difficulties and the lukewarm support of the Fund induced some of the lending groups to bend back.

This short-term "breathing space" was accompanied by the firm decision to maintain the devalued rate reached after the end of the previous shock. This was obtained through small and frequent devaluations of from three to five percent at intervals ranging from 10 to 20 days. At the same time, other indirect devices were used to increase the cost of imports. The small and indirect devaluations were supposed to diminish the adverse expectations and the immediate repricing that had followed the most spectacular ones.

One of the indirect and less obvious ways of devaluing was through significant increases in the cost of the forward exchange insurance given to importers, in exchange of cash deposit of equal value to imports.[41] The cost of forward coverage for financial loans was increased moderately, as the policy was to maintain and increase the implicit subsidy to these transactions in view of the external situation. At the same time, a scheme of several exchanges was maintained as a transitional set-up, as it allowed the pace of devaluations to accelerate in a less obvious way through the movement of goods from the lower to the higher exchanges.[42]

The idea was to end with just one exchange for most goods, officially fixed and frequently adjusted, and a freely fluctuating exchange for a proportion of exports and imports and for financial transactions. By November the lower exchange was eliminated and by January a free exchange was opened where foreign currency could be bought for tourism, freight, and some minor remittances, and where a proportion of exports, initially three percent, could be sold.

The real weighted rate of exchange of this mixture was maintained at the very devalued level reached after the mid-year outburst, in fact about 50 percent below the real rate prevailing during the six previous months. The policy was to maintain a relatively devalued currency as a basis for the external balance and also as the basis for a rational protection to industry. In the case of the export exchange, the spread between the "best" and the "worst" exchange--which in some cases was more than 3:1--was reduced (e.g., the exchange rate for automobile products to the exchange rate for wheat). It was thought that some differentials were justifiable but that they were excessive and should be toned down.

At the same time, the differential between the average export exchange (minus export taxes) and the average import exchange (plus tariff) was reduced because it was considered an anti-export bias.

These policies with regard to the external sector did not bear fruit immediately, although they helped to maintain a precarious balance, and by the first quarter of 1976 brought a surplus in the current account for the first time in five quarters.

The other fundamental problem which the economy was experiencing was the abrupt reduction in the level of activity and the imminence of what seemed nothing short of an industrial breakdown amidst still extremely high price increases.

The amount of money remained practically at the same level, at 11.80 percent of GNP. It is not easy to appraise the evolution of expectations, since in the early stages of the outburst they had been lower than what actually happened, while later on they were well above the actual rate of inflation. Prices had changed so abruptly that the business sector and consumers were utterly confused as to what to expect next. At the same time a policy of increasing the interest rate was attempted, the avowed target was to move toward positive rates either through higher nominal rates or through indexation. Inflation, however, was too high, so that the rates continued to be negative while indexation could not be implemented.

The increase of money in circulation was the consequence of an extremely high treasury deficit (16.4 percent of GNP) in the last quarter of the year, a combination of a high level of expenditures[43] and a further reduced income due to the fiscal lag. The foreign sector, that had been absorbing, became neutral by the end of the year, while the government and the private sectors contributed equally to money creation.

Industrial production continued to slide, from minus 5.6 percent in the third quarter to minus 8.9 percent in the last. GNP, which had gone down by 3.2 percent in the third quarter, fell by 6.3 percent in the last quarter of the year. All of these figures, including those for construction and investment, reached extremely low levels in the last quarter (minus 26.3 percent and minus 20.2 percent). The first signs of a reduction in the intensity of the crisis began to show up rather modestly in the first quarter of 1976, when most of these series moved upwards, though still below the levels of the previous year. While the policies avoided a major disaster in the level of activity, by January an increase in the inflationary pressures could be detected, compounded by the very serious destabilizing effects of the political crisis with which the new year was started.

In fact, the political situation had begun to deteriorate again after the end of October, when the president staged a partial comeback. Isabel Perón had been licensed for a month and a half, during which the government was run by an interim president, I. Luder, but then a second license was rejected and some changes were made in the cabinet, without touching the heads of the middle-of-the-road coalition who were in charge of the ministries of the Interior and Economics. A stalemate between this group and the right wing emerged, creating a difficult political situation and a complete loss of authority for the government. In this situation the trade unions jockeyed for an increase in their positions in a rather anarchic way, making normal management of the economy very difficult. The two lockouts carried out by the cattle sector, the several producers' strikes, and the creation of a new business organization, the A.P.E.G.E., with the avowed purpose of creating a pre-revolutionary climate, contributed to a feeling of social chaos.

An aborted rebellion in one of the air force garrisons in December gave the impression that the end of the regime was at hand. In January, the president attempted a complete comeback, trying to reverse the situation on her own terms, opening the last act of this story.

January-March 1976: The End

The full comeback of the right wing was attempted this time in a moderate vein. The president dismissed all middle-of-the-road Ministers and made new appointments further to the right, including E. Mondelli, until then head of the Central Bank, as Minister of Economics. The trade unions were shocked by the abrupt political change which had taken place without their prior knowledge. Initially they reacted violently, and for a while were undecided whether to opt again, as in mid-1975, for an open confrontation, or instead for some kind of accommodation. This time, the latter attitude prevailed, since the end of the regime was in sight no matter what was done and an open fight did not seem worthwhile.

The military had reached the point where their strategy was to let the situation deteriorate until the need for a coup became evident to everybody. While this objective was being obtained, the pre-coup climate, coupled with the internal stalemate between the main factions within the government's coalition, the increased and unchecked power of the unions, and the by-now blatant opposition of the business sectors, created a very anarchic situation, making normal management of the economy impossible.

By the beginning of the new year, it was becoming clear that the dangers of a deep recession had been superseded. Still, the upturn at the time was not completely clear by reason of the co-existence of recessive conditions with strong inflationary pressures, coupled with the destabilizing expectations, influenced by the political climate. A new set of restrictive policies was necessary, since no improvements could be counted upon on the political side.

The expectation of a coup contributed greatly to the price explosion that again more than doubled prices from February to April. Wholesale prices increased more than consumer prices, implying a reduction of the retailer's margin. This relative movement was a repetition of the previous outburst, suggesting that in both cases the cost-push factor was more determinant than the demand pull. All sectors were frantically jockeying for an improvement in their relative positions, in view of the imminent change of government. Although the tremendous increase in prices apparently repeated the experience of the middle of the previous year, the causes were different, because this time the disintegration of the government and the pre-military-coup atmosphere were the crucial factors.

Wages were increased by 20 percent at the beginning of March, withdrawing the promise of any further automatic readjustment. The Minister did not hide the fact that real wages were expected to contract by approximately 20 percent, arguing that this was a necessary sacrifice to reduce the inflationary pressures.

The prices of agricultural products, which had been moving upwards, reached a high level by February, but did not keep pace with the general price increase of March. The frequent devaluations were soon ended, but a more significant one was made, through the opening of a new exchange for a list of products maintaining the highly devalued real rate inherited from the previous administration. The freely fluctuating rate moved sharply upwards, well beyond what any purchasing-power estimate might indicate, pushed by very strong destabilizing speculation.

The attitude regarding wages, the exchange rate, and the readjustments of medium- and long-term loans, which were not pushed ahead, was an indication of a change of attitude regarding indexation in general. It would seem that indexation was considered to be partly responsible for the increase in the inflationary pressures. Some once-and-for-all adjustments were probably seen as a better strategy, but the period was too short to appraise this point properly. The external situation, despite the improvement in the current account which produced a small surplus in the first quarter, continued to be extremely delicate. A new and more open policy with the IMF was attempted, this time going all the way in order to qualify for the third "tranche," which required the approval of a more comprehensive programme than the previous facilities.

The international-reserves situation continued to be extremely precarious, particularly owing to the policy of the private foreign banks to contract their lines of credit, a policy which was continued up to the day of the military coup[44] but reversed directly after.

Money in circulation dropped from 11.8 percent of GNP in the last quarter of 1975 to 8.4 percent in the first of 1976. This was partly caused by the drastic price increases, which, as in mid-1975, produced a new intensification of the flight from cash. The treasury deficit, at 12.9 percent of GNP, was again affected by the price jump and the erosion of receipts caused by the fiscal lag.

The level of activity remained low, minus 4.4 percent compared with the same quarter of the previous year, but not as bad as in the preceding quarter. Manufacturing activity showed a small improvement (from -8.9 percent to -6.7 percent), while construction and investment remained at extremely low levels (-26.3 percent and -20.2 percent respectively from the previous year).

The economic measures were basically right-of-centre, repeating in a more moderate way some of the mid-1975 policies. Despite these factors, the loss of authority of the government, the anarchic behavior of the members of the coalition, and the very high level of the price increases, created a sensation of chaos and doom. The economic and political opposition, which--excepting the Radical Party--counted on the support of the army, had succeeded in creating the right political climate for the military coup, which finally took place by the end of March.

Conclusions

The hectic experience of these years provides some interesting lessons regarding the economic problems created by rapid inflation. At the same time, it throws some light on the viability of reformist regimes in countries like Argentina. The stabilization programme was possible at all because of the initial conditions created by a political change and by the favourable effects of the international situation. In this respect, and in its typical two-stage development, the programme followed a similar pattern to the previous ones. The first stage was relatively successful at the expense of increasing the distortion of some relative prices. Profits, agricultural and industrial, were depressed, which in turn had a negative effect, first on investment and, later on, on the external situation. The second stage, when the inevitable redress of relative prices took place, was more violent than in the previous cases, showing very clearly the interplay of economic and political factors. What sets this stabilization programme apart from the previous ones was the extraordinary intensity of the problems of the second stage.

The stabilization programme was, in a way, the consequence of the imposition of a certain distribution of income by the middle-of-the-road government coalition, but the latter did not have the power, the cohesion, or the discipline to enforce it for long. While, at the beginning, the problem was between the government and the established sectors, at a later stage it became a fight between the middle-of-the-road groups of the alliance, mainly the trade unions, and its right wing, which tried to impose a very orthodox programme. This attempt alienated the rank and file, without winning the support of the established groups, whose policies they were trying to apply. In a way, it can be said that the inflationary process was, to a high degree, the consequence of the political fights between sectors and among sectors, feeding the process, significantly increasing each group's belligerence, and creating a very vicious circle. These fights can also be viewed as attempts to get--or to maintain--a share of the income by groups having strong oligopolistic power. Not only trade unions behaved in such a manner, but business firms did so as well. Prices were particularly affected by the relative bargaining power of the different sectors. Firms compounded their pricing behaviour with the lobbying power of their trade organizations. In the industrial sector they were even able to organize lockouts, and in the agricultural sector, traditionally considered the typical competitive sector, they were able to stage several producers' strikes. While this lobbying was not very successful at the beginning, it had a considerable destabilizing influence at the end, with very pernicious effects on the inflationary process.

But fights among different groups were not the only damaging conflicts. Intra-sectorial fights to improve a relative position within the same social or economic group were as damaging, or even more so, than the inter-sectorial ones.

The sectorial bickering varied in its intensity. At the beginning, it was made less violent by the social pact, which included both inter- and intra-sectorial agreements. Later, after the 1975 price outburst, it was toned down for a brief period by the short-lived deflationary process. A deflationary policy is a way of replacing a social pact, but it requires a capacity to stick to it and withstand pressures, which is as difficult as the capacity to attain a pact.

When changes in the set of relative prices were attempted as part of the government's policies, they proved difficult, particularly when they did not accord with the relative power of the groups affected. At the same time, the ways and means used to change relative prices, particularly the gradualness or abruptness of the change, proved to be crucial to the success. What was quite clear was that changes which might have been necessary to improve the efficiency of the economy increased the inflationary pressures in the short term, generally from the cost side. The obverse was also true--the cost push was checked at times, at the price of making the problem worse at a later stage. But buying time was tempting on economic and, particularly, political grounds.

Indexation was one of the few ways to allow some kind of efficient allocation of resources under these conditions. It is not clear to what extent it was a factor contributing to the inflationary process. It may be true that if a certain sector can be squashed, so to speak, income-wise, for a while, this may help to tone down the inflationary process. But if this squashing cannot continue for long, either because of the deleterious effect on production, or because of the political resistance that may arise, it may be better to preserve the sector from these wide fluctuations, allowing a more normal and continuous performance. In the long run and for efficiency considerations, the advantages of indexation are indeed clearer than in the short run and for the sole purpose of an anti-inflationary policy.

The inter- and intra-sectorial conflicts to which we have referred were to some extent the consequence and, in turn, the cause of wide oscillations in relative prices. If inflations can be classified according to the degree of price oscillations, Argentina's seem to be among the highly oscillatory ones, which are probably those more intractable to orthodox monetary and fiscal policies.

Monetary policy proved to be an important, though not a decisive, tool, its role being relatively passive. An active monetary policy is the result of the government being able to be strong and active in other areas, or being able to reduce accordingly the sources of monetary expansion, something which at least in Argentina was not always the case.

The amount of money in circulation, in real terms, was fundamentally determined by inflationary expectation and by the rate of interest.[45] The important policy in the hands of the monetary authorities, although it was not used as it should have been, was therefore the determination of the rate of interest and the consequent demand for cash balances.

The role of expectations, particularly their effect on the velocity of circulation, proved to be extremely significant, helping when expectations were brought down, but viciously compounding the inflationary process when they regained momentum.

The foreign-exchange policies played a very active role. But as inflation went on, most sectors became overly sensitive to price changes. Devaluations, among other price changes, were very soon counteracted by the repricing by the rest of the economy. In fact, it was not at all easy to devalue in real terms. What was clear was that a mere reliance on devaluations, if not accompanied by an explicit policy to reduce absorption, was insufficient, risking the possibility of never-ending--or ever-increasing--devaluations.

A concept of something like "velocity of adjustment" to relative-price changes may be necessary in order to understand the process. This velocity depends on the degree of awareness and sensibility of the various sectors, which in turn is related to past experience, the intensity of the departure from the previous equilibrium, and the level of effective demand. Obviously, the higher this velocity, the more difficult the inflationary process will be to control. Small changes from the equilibrium may, in these situations, have a disproportionate effect.

In the same way that a small reduction in the level of unemployment below a natural rate may have a very high inflationary effect, it may also be true that moderate increases in effective demand beyond a certain point, or moderate additional price distortions also beyond a certain range, may have disproportionate effects. There may also be a significant asymmetry to a reduction in the level of effective demand--i.e., after a monetary expansion, a return to the predisturbance level may not take us to the original situation. Similarly, after a distortion of relative prices, the system may tend not to go back monotonically to the previous predisturbance set, but rather to oscillate, convergently or not.

A reasoning along these lines may be necessary in order to understand how some distortions--an initial wage increase in real terms of 10 percent, an increase in the government's deficit from two percent to six percent of GNP, or an overvaluation of the currency of approximately 20 percent--could give rise to an inflation of more than 800 percent, even after taking politically conflictive factors into account.

The economic evolution of these years, despite some important local peculiarities which exacerbated the cycle, to some extent followed the evolution of the international situation. The rather propitious beginnings were closely related to the tail of the pre-1973 international prosperity. While the international situation was good, it made possible the initial stabilization programme and some of the distributionist policies. When it was reversed--a fact compounded by the closure of the European Common Market to meat imports--it precipitated the 1975 crisis. The way in which the deterioration of the terms of trade took place--i.e., by a larger increase of import prices relative to export prices and a reversal of the external balance, while creating on the other hand an immediate upward pressure on imported prices and consequently on prices in general--diminished the profitability of business, particularly those relying on imports, making the continuation of the price freeze impossible. Still, it can be seen that local policies not only did not dampen the effects of the changes in the international economy, but in fact made them more severe. More generally, the lesson from this experience is that, despite or because of the diminishing quantitative importance of international trade, the Argentine economy has become more vulnerable to further reductions in imports. In other words, indiscriminate import substitution can lead, paradoxically, to an increased "dependency" on the smaller quantum of trade.

Our last comment, inevitably, has to do with the viability of reformist regimes in the Argentine context. Reform, despite its intrinsically moderate character, cannot be associated with weak policies of weak governments. On the contrary, it requires a great degree of firmness, not only in dealing with opposition groups, but particularly in dealing with its own base of support. And this strength is not easy to muster in a country where the government has traditionally been weak and where the reformist group is a rather loose and undisciplined alliance. Some of the mild initial attempts to make some small transfers of income encountered extraordinarily bitter opposition. But it is also true that the flamboyant rhetoric in which these mild measures were shrouded hindered the possibility of carrying them out. Also, the lack of discipline of the various groups making up the government's alliance, and the difficulty of imposing any sort of authority acceptable to all of them, made the functioning of the government most difficult.

The strongly left-leaning initial twist hindered the acceptability of the new government and harmed its inner cohesion, even after it had corrected its course. The lack of self-restraint by the trade unions in the two brief periods in which they exercised control--particularly in the second--did not allow a consolidation of the middle-of-the-road groups and its right wing, headed by the presidency itself, which explains much of the intensity of the conflicts during the latter part of 1974, the whole of 1975, and up to the end. The difficulty that this right wing had in getting support from the traditional business sectors and the armed forces was partly the consequence of its failure to impose its policy on the bulk of the party--mainly the trade unions--and partly the consequence of the group's lack of reliability. As in many other cases, these political turnabouts risk the animosity of their own rank and file, without necessarily securing the support of the group towards which the move is made.

It must be pointed out, however, that the bulk of the alliance showed a rather strong tendency towards a middle course, and that this resistance--first to the left-leaning twist, and then to the right-wing one--gave a certain anchorage, so to speak, to the whole situation. The fact that the alliance was prone to this opportunistic attempt was in itself a serious structural weakness. The way it reacted, on the other hand, was very much the consequence of its strength being based on trade unions and middle-class sectors. Unfortunately, this strength was not accompanied by an ability to put out a disciplined effort, giving rise to unnecessarily violent opposition, finally endangering its success.

Reform, despite its mildness, is a most difficult affair, and requires a degree of determination and cohesion not so different from that required in more ambitious, but even less realistic, programmes. It is not a "free for all" programme as it was interpreted by some groups in Argentina. Attempts to put across an orderly reformist programme based on the trade unions and the populist alliance have not met with success. The author believes, however, that without such a base, success is even less possible, but that it may be a long and hard way before a viable reformist group can be made out of that base. Other easier alternatives do not seem to exist. Learning by doing, even if by doing the wrong things, may be the only painful way. No easy solution was, or for that matter is, at hand.

REFERENCES

[1]This essay is part of a larger work on Argentina's recent history. Although there are some marginal references to the political situation, necessary to understand some of the purely economic developments, a specific study of it will be the subject of a separate essay. The same has been done with the analysis of the nature and the workings of the inflationary process, and in particular with the role of oscillations of relative prices on the characterization of inflations and on the propagation mechanism.

This essay was written while the author was at the Center for Latin American studies at Saint Antony's College, Oxford, institutions which have given generous support to the projects.

The author also wants to thank A. Conte, H. Dieguez, A. Guadagni, A. Petrecolla, L. Reca, J. Villanueva, and E. Zalduendo, for their help in improving significantly some parts of this story. Also to C. Piccinini for his help in the compilation of the statistical appendix.

Finally the author does not intend to hide the fact that he has been associated with one of the periods into which this story is divided, the fifth. This has given him a better knowledge of the facts but unavoidably a greater bias, which he hopes, however, to have decently disguised.

[2]Over a period of 33 years (1943-1976) it has had ten appointed presidents and seven elected. Only one, however, finished his or her constitutional period.

[3]It has to be said that the 1943 coup, which brought Perón to power, was a significant exception, giving origin to the idea that military governments could be associated with "nasserist," "developmentalist," or even "populist" regimes. This was a view more typical of the 1950s and 1960s. The three-party description is obviously highly simplified and would warrant a special analysis.

[4]M. Brodersohn, *Conflictos entre los objetivos de la política económica de corto plazo de la economía Argentina*, Documento de Trabajo No. 77 (Instituto Torcuato Di Tella, C.I.E., 1977); A. Canitrot, "La experiencia populista de redistribución de ingresos," *Desarrollo Económico*, No. 59 (1976), pp. 331-351.

[5]This figure slightly overrates the performance of this particular ten-year period. It starts in a trough and ends in a peak year, but if we take the period from 1965 up to 1975, the average becomes 4.3 percent, not terribly different.

[6]During the 1964-65 revival, a periodically adjusted exchange rate was introduced, avoiding thereby the wide oscillations in relative prices that had affected previous policies. By 1966 it had created certain inflationary pressures and some balance-of-payment problems, which were however rather mild, compared with the previous and later

standards. R. Mallon and J. Sourrouille, La política económica en una sociedad conflictiva: El caso argentino (Buenos Aires: Amorrortu, 1977).

[7]J. C. de Pablo, "Relative Prices, Income Distribution, and Stabilization Plans: The Argentine Experience, 1967-1970," Journal of Development Economics, I (1974), pp. 167-189.

[8]O. Braun, "Desarrollo del capital monopolista en la Argentina," Tiempo Contemporáneo (Buenos Aires, 1970).

[9]V. Van Rijckeghem, "La velocidad del dinero y el diseño de la política económica," Revista Argentina de Finanzas (Buenos Aires), No. 1 (1972), pp. 97-116.

[10]J. C. de Pablo, Inflación en cuatro ensayos sobre la economía Argentina (Buenos Aires: Ediciones Macchi, 1978).

[11]The crisis has to be viewed in the context of the typical cattle cycles. While some of the measures probably exacerbated the cycle, the downward phase helped the stabilization policies of the Krieger Vasena period, while the upward phase made a significant contribution to the renewal of the inflationary pressures, particularly during the Ferrer period.

[12]It is still open to question whether the Krieger Vasena programme could have continued with small adjustments, if the political troubles had not appeared. A devaluation of the exchange, an increase in beef prices in particular, and a new inflationary round, were inevitable. Probably the 1971-72 developments would have taken place in any case but on a smaller scale. The argument that the political troubles were a direct consequence of Krieger Vasena's economic policies seems slightly unwarranted, as the wage figures and the distribution of income shares would indicate. The kind of political alliance behind these policies and the opposition that developed probably had a greater influence on the political outcome. This point, however, would justify a study in itself.

[13]The loose and imprecise policies of the Treasury, headed by Quillici, lacked coherence. The external situation was instead managed, rather independently and in a much more coherent line, with a strong orthodox flavour, by the Central Bank under the chairmanship of C. Brignone.

[14]Money in circulation had gone down from 21.6 percent of GNP in 1971 to 16.7 percent in 1972. Despite this reduction, money probably had a greater inflationary potential, as the demand for cash balances diminished, increasing its velocity.

REFERENCES

[15]In a certain sense it was a similar situation to that of 1912, when the conservative party passed the Sáenz Peña law providing free universal suffrage and the secret ballot, which was to bring into the political system the middle-class Radical Party. It was felt that to ban the Radicals--prone as they were to recurrent revolutionary attempts--would be a greater danger than to incorporate them as a "legal opposition." In fact the Radicals won the 1916 elections, creating a very tense situation which was "redressed" 14 years later in the 1930 coup. The first attempt by Lanusse was to allow the Peronista party to enter the elections, with an understanding that they would accept and support a government candidate. The situation, again as in 1916, got out of control. A Peronista-based coalition put up its own candidate, winning the elections. But this time the situation was "redressed" in three years. The emergence of labour was indeed more conflictive than the emergence of the middle classes.

[16]We are making a separate analysis of the longer term aims and nature of this reformist programme. Probably its image as an extremely left-wing programme is the consequence of its being launched at the same time as the government was in the hands of the left wing, and the inevitable suspicions about its "true" aims.

[17]These measures affected some banks which had become foreign-owned in the immediately preceding period. Two very large telecommunications contracts with the local subsidiaries of ITT and Siemens were cancelled, and a very messy negotiation was started, which included a variety of odd solutions that implied the elimination of the telecommunications side of both companies. Much later, a law was passed nationalizing the petrol stations of the Esso and Shell companies, which had about 40 percent of the petrol market, leaving them in the processing side. Even later, the concession of the Swiss-owned electrical utility company was abruptly cancelled, antagonizing many European banking groups with which the company was connected. These last three measures were taken during the Isabel Perón period and were clearly contradictory with her general right-wing political and economic lines.

[18]While we refer to these subversive organizations rather laterally, it should be emphasized that their existence, their strong connections with the Peronista left, and their purposely exacerbating feats, poisoned the political climate of these years. Some of the seemingly excessive reactions to, and distrust of, the specific measures of the left-wing programme must be attributed to the complicity or at least the leniency of Cámpora's backers with these groups.

[19]R. Ayres, "The Social Pact as Anti-Inflationary Policy: The Argentine Experience since 1973," <u>World Politics</u>, July 1976.

[20]Actually they were increased by a flat amount of $200 which went up to about 20 percent at the lower wage levels, and not so much in the higher ones.

[21]As mentioned, the emphasis on breaking inflationary expectations was also a characteristic of the 1967-70 programme. In both cases, the political change which preceded them helped for a while to give some credibility to the new policies.

[22]Despite the price controls, the statistical office (INDEC) used for its monthly inquiries prices effectively paid in the market rather than the official ones. A certain bias remained, but probably not a significant one, in any case difficult to estimate. For a different view and a debatable but interesting estimate, see de Pablo, "Estimadores de la inflación reprimida: Argentina 1973-1976," IDEA, Econ. 92, 1977.

[23]This again was a repetition of the 1967-69 experience, when the reduction in the rate of inflation from 22.7 percent to 7.2 percent allowed an increase in the liquidity coefficient from 0.20 to 0.26 without adverse effects.

[24]We are referring to industries which are labour-intensive either because of the type of product or the use of old technologies. Obviously we do not imply that labour-intensive _products_ are in any way less efficiently produced than capital-intensive ones. On the other hand, _given the same product_, there might be a correlation between higher labour intensity and lower efficiency, although this will depend on the particular set of relative prices of capital and labour.

[25]This should imply, however, that smaller firms had more access to credit--proportionally--than the larger ones, which was one of the arguments more highly contested by the C.G.E.

[26]The decision was taken by the president, pressed by the C.G.T., the workers' confederation. The C.G.T. leadership was being harassed by some radical elements within their rank and file who considered the "social pact" a sell-out, and thought that they could not withstand a price increase of any kind without asking for an immediate wage increase.

[27]J. C. de Pablo has pointed out to me that the reduction of unemployment was partly due to the increase in state employment, something which is not considered in the Philips curve. Although the unemployment rate may have been poorly correlated with the various inflationary outbursts, it may be a good indicator of the degree of heating of the economy, which, with varying and significant lags, and in a roundabout way, may have something to do with the level of expectations. For a very negative view on the role of unemployment as an explanatory variable of the price increases, see Brodersohn, _op cit_.

[28]The political side of the programme was based on the elimination of the left wing in the educational system, on the organization of semi-legal anti-subversive groups, and on the attempt to get the

REFERENCES

active support of the army, the so-called "profesionalismo integrado." The programme advanced quite a bit on the three fronts but was shattered when the economic side faltered because of the firm opposition of the unions.

[29]These funds were more prone to be invested in financial assets that did not require the legal identification of the investor, e.g., government dollar bonds, adjustable peso bonds (adjustable by the wholesale price index), and black-market dollars. The stock exchange did not play any significant role.

[30]These goods have, as an important element in their cost, a differential rent, over and above the normal Marshallian profit. This rent serves as a cushion, so to speak, allowing production even if prices are reduced. In these circumstances, price fluctuations will tend to produce quantity variations, while industrial goods, which rely more on normal profits, will tend more easily to wipe out all production, e.g., when their price goes below the average cost or, in the short run, the marginal cost. When we have a market with dual prices, e.g., a lower price for industrial goods for the export market and a higher one for the local market, an overvaluation of the currency may quite easily wipe out industrial exports, more so at least than agricultural exports.

[31]M. Corden, The Theory of Protection (Oxford: Clarendon Press, 1971); J. Berlinski, La protección de actividades seleccionadas de la industria manufacturera Argentina, mimeo (Buenos Aires, September 1977).

[32]This phenomenon was particularly noticeable in installment sales, which saw an early revival, probably because of this income effect. See Feldman, "Comportamiento de la demanda de bienes durables en un período de alta inflación: Argentina 1974-1975," paper presented at the XIIIth Meeting of the Central Bank Economists, Ottawa, Canada, 1976; E. Gaba, "Indexación y sistema financiero," Revista Argentina de Finanzas (Buenos Aires), No. 2 (1977), pp. 33-67.

[33]The Central Bank headed by E. Mondelli, who was to become the last Minister of Economy, had the merit for a tight monetary policy, which in this particular instance avoided an even more major disaster.

[34]Actually this practice of extending forward coverage had originated before 1973, during the Ferrer administration, and was the consequence of a nationalistic policy which treated locally-owned and foreign-owned firms differentially, as far as local credit was concerned. Foreign firms were forced to use foreign financing, for which exchange coverage was granted, equalizing the cost of money from both sources. This discriminatory treatment, however, was more apparent than real. During certain periods, the availability of credit was much greater for the foreign firms, because the Central Bank could not regulate the granting of forward coverage owing to the

tight external situation, while during others it even had to disequalize the cost, making foreign borrowing cheaper in order to boost even more the flow of funds. This is but another instance where piecemeal policies have the opposite results from those envisaged.

[35]J. Olivera, "Money Prices and Fiscal Lags: A Note on the Dynamics of Inflation," Banca Nazionale del Lavero Quarterly Review, September 1967.

[36]We refer to the dispersion of the rates of price increases for specific products, weighted by their importance in the wholesale price index, relative to the rate of change of the index itself.

[37]This could be seen, for example, in such cases as the metallurgical and automobile unions, which concentrated their efforts on the improvement of their relative position. The same was true of many other cases, including business groups. These sub-groups were not so much in favour of a general improvement of the broadly defined group to which they belonged, but were more sensitive to measures that improved the position of their particular sector. This attitude was to some extent the consequence of an awareness that the income of some of the broader categories--e.g., wage earners, capitalists--was to some extent fixed and could not be changed easily in real terms. Instead, a change in the relative position of a specific sector relative to the income of the broader sector of which it was a part was seen as possible. Of course, we are implying that these sectors behaved in an oligopolistic manner.

[38]The electrical workers union and the automotive workers union pressed more than others for a reconsideration of their special cases, as their wages had risen by 80 and 100 percent, respectively, while the metallurgical union, which had obtained a 160 percent increase, closing the traditional gap with the competing automotive workers union, led the group which was opposed to any change, trying to maintain the new relative position.

[39]The idea of international prices is ambiguous. It still meant some degree of penalization because some import tariffs were to remain, implying a certain overvaluation of the currency compared with a completely free-trade solution.

[40]The sympathetic attitude of Albert Fishlow, Under Secretary for Latin American Affairs, was indeed instrumental in the conclusion of the negotiations.

[41]Even at very high nominal charges, forward exchange insurance implied a subsidy to imports. On the other hand, the amount of money tied up in the pre-payment of the insurance was substantial, exceeding the equivalent of $500 million. A complete elimination of this practice would have meant a release of money with dangerous inflationary potential, while retaining advance payments without exchange coverage might have been considered a restraint of trade

REFERENCES

by the I.M.F. The typical solution was to halve the deposit requirements by the end of the year, reducing the forward coverage accordingly.

[42]This had already been done rather successfully in 1972 while C. Brignone was head of the Central Bank.

[43]Supplies and contracts with the government had adjustment clauses.

[44]In the first seven days of the new government, private banks renewed credits so that reserves were built up by more than $100 million.

[45]Salama, 1977.

APPENDICES

SOURCES

BCRA : Banco Central de la República Argentina.

Cemyb : Centro de Estudios Monetarios y Bancarios, of the BCRA.

IBRD : International Bank of Reconstruction and Development.

IFS : International Financial Statistics.

INDEC : Instituto Nacional de Estadísticas y Censos.

FIEL : Fundación de Investigaciones Económicas Latinoamericanas.

ME : Ministerio de Economía.

Techint : Boletín Informativo.

Appendix I (a)

RATE OF CHANGE OF GDP AND INVESTMENT

Years & Quarters	Y/AY	Agriculture	Industry	Construction	Investment
1966	0.6	- 3.7	0.7	6.2	- 7.2
1967	2.7	4.3	1.5	12.9	4.5
1968	4.3	- 5.4	6.5	18.1	10.6
1969	8.5	5.5	10.8	19.1	21.5
1970	5.4	5.6	6.3	9.4	7.4
1971	4.6	- 5.0	9.7	- 3.4	10.2
1972	3.1	- 7.9	6.0	4.9	5.2
I	4.7	- 4.3	8.9	12.9	- 0.4
II	1.3	-13.2	7.6	8.0	- 3.0
III	1.5	- 3.7	5.2	1.6	- 2.3
IV	3.3	4.0	2.9	- 2.4	37.3
1973	5.8	13.5	6.4	- 5.1	- 1.3
I	6.1	12.2	7.4	- 3.5	0.7
II	6.3	21.8	6.6	-12.7	0.5
III	4.1	12.1	4.6	-10.2	-14.8
IV	6.6	7.3	7.0	6.8	9.8
1974	6.5	6.2	6.1	12.2	3.9
I	4.3	8.8	3.2	6.9	- 4.6
II	7.5	8.6	7.3	11.0	2.8
III	7.3	6.9	6.5	15.3	7.5
IV	6.8	- 0.6	7.0	15.8	9.5
1975	-1.3	- 3.5	-2.8	- 9.6	- 7.2
I	3.3	- 5.7	2.9	8.2	4.3
II	1.4	- 5.9	1.4	- 6.7	- 2.2
III	-3.2	- 3.6	-5.6	-11.3	- 8.1
IV	-6.3	2.8	-8.9	-26.3	-20.2
1976	-2.9	3.5	-4.5	-14.1	- 6.2
I	-4.4	7.9	-6.7	-26.7	-16.9
II	-5.2	- 0.1	-6.3	-15.0	-12.6
III	-1.7	0.8	-2.9	-10.7	0.5
IV	-0.2	5.9	-2.0	- 0.3	5.4
1977	4.4	7.1	3.8	13.3	19.5
I	1.4	5.7	-0.4	6.3	19.4
II	4.5	11.0	2.2	10.5	22.9
III	7.9	8.8	9.3	14.1	25.0
IV	2.5	- 2.1	2.8	16.7	8.4

Source: BCRA, Departamento de Cuentas Nacionales.

Appendix I (b)

INVESTMENT AS A PERCENTAGE OF GDP

Years & Quarters	TOTAL		PRIVATE	PUBLIC
	Including Stock Variation	Not including s.n.	Not Including Stock Variation	
1966	17.9	17.8	11.7	6.1
1967	18.2	18.1	11.0	7.1
1968	19.3	19.5	11.6	7.9
1969	21.6	21.7	13.6	8.1
1970	22.0	21.5	13.3	8.2
1971	23.1	22.5	14.	8.5
1972	21.6	23.	14.2	8.8
I	21.8			
II	21.7			
III	22.6			
IV	20.8			
1973	22.0	21.8	14.1	7.7
I	22.6			
II	22.4			
III	20.2			
IV	22.8			
1974	21.4	21.2	11.3	9.9
I	20.6			
II	21.4			
III	20.2			
IV	23.4			
1975	20.2	20.	8.5	11.5
I	20.8			
II	20.6			
III	19.2			
IV	19.9			
1976	19.5	19.6	7.7	11.9
I	18.1			
II	19.0			
III	19.7			
IV	21.0			
1977	22.3			
I	21.3			
II	22.4			
III	22.8			
IV	22.3			

Source: BCRA, Departamento de Cuentas Nacionales.

Appendix II

RATES OF CHANGE OF CONSUMER AND WHOLESALE PRICE INDEXES

	1966	1967	1968	1969	1970	1971		1972	
								(1)	(2)
RATE OF CHANGE OF CONSUMER PRICE INDEX (1) (seasonally ad.) Dec. to Dec.	29.9	27.3	9.6	10.7	12.2	39.2		64.2	
RATE OF CHANGE OF WHOLESALE PRICE INDEX (2) Dec. to Dec.	22.7	20.6	3.9	7.2	26.9	48.2			75.9
							JAN	10.9	
							FEB	3.9	6.3
							MAR	4.5	3.8
							APRIL	5.4	5.2
							MAY	2.5	3.4
							JUNE	5.6	6.6
							JULY	5.1	4.0
							AUG	1	2.3
							SEPT	2.6	4.7
							OCT	3.8	3.2
							NOV	4	1.8
							DEC	1.6	3.3

(Cont.)

Appendix II (continued)

RATES OF CHANGE OF CONSUMER AND WHOLESALE PRICE INDEXES

	1973		1974		1975		1976		1977	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
RATE OF CHANGE OF CONSUMER PRICE INDEX (1) (seasonally ad.) Dec. to Dec.	43.7		40		335		364		160	
RATE OF CHANGE OF WHOLESALE PRICE INDEX (2) Dec. to Dec		30.8		36.1		348.7		386		147
JAN	10.3	4.9	-0.6	0.4	2.9	5.7	14.8	19.5	13.8	13.8
FEB	7.9	6.9	1.9	0.4	4.6	12.5	19.3	28.6	8.6	6.9
MAR	2.9	6.5	1.5	0.4	8.1	5.6	38.	54.1	7.9	3.8
APRIL	5	0.4	3.4	2.5	9.7	3.5	34.6	26.3	6.0	5.7
MAY	4.4	0.6	4.3	4.2	3.9	5.2	13.1	4.8	6.5	6.3
JUNE	-2.8	-1.4	3.9	3.7	21.3	42.5	28	4.7	7.6	6.6
JULY	0.1	-0.6	2.4	2.8	34.9	32.2	4.3	6.1	10.7	5.6
AUG	1.9	1.2	3	2.8	238	15.3	6.7	8	11.3	11.3
SEPT	0.6	0.4	3.4	3.5	10.9	13.1	10.7	8.8	10.8	7.1
OCT	0.5	0.1	2.7	3.6	12.6	9.2	7.4	4.4	12.5	13.6
NOV	-	1.1	3.3	4.3	8.1	9.7	7.1	6.9	9.0	7.8
DEC	0.9	1.3	5.2	2.9	11.5	9.5	6.7	6.4	7.3	4.2

Appendix III

RELATIVE PRICE MOVEMENT (1960 = 100)

	1972				1973				1974			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Cost of living / wholesale prices (1)	105				112				116			
Agricultural / industrial prices (2)		129				120				106		
Imported / national prices (3)			96				105				121	
Grain+linseed / cattle prices (4)				58				61				73
January	109	125	90	47	110	134	99	65	114	113	116	70
February	103	116	89	47	110	135	95	59	115	113	117	71
March	102	117	94	52	113	132	92	50	116	112	118	73
April	103	119	99	54	113	126	100	51	116	109	119	71
May	105	119	97	54	117	122	100	56	115	110	120	71
June	104	125	94	51	108	112	107	62	116	110	121	72
July	105	131	92	55	109	112	109	65	115	107	122	73
August	102	130	101	60	111	115	110	67	114	109	123	70
September	100	137	100	64	110	116	109	65	114	104	126	68
October	101	138	101	66	111	117	110	64	114	100	125	70
November	105	136	102	66	113	112	112	63	114	100	120	80
December	110	135	100	70	121	114	114	71	125	97	118	88

Appendix III (continued)

RELATIVE PRICE MOVEMENT (1960 = 100)

	1975				1976				1977			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Cost of living / wholesale prices (1)	112				125				112			
Agricultural / industrial prices (2)		85				93				101		
Imported / national prices (3)			149				200				185	
Grain+linseed / cattle prices (4)				91				86				92
January	121	103	112	81	116	89	167	112	106	102	175	80
February	112	95	108	77	102	97	202	86	107	100	173	90
March	121	89	114	83	91	82	247	59	111	101	198	100
April	121	90	114	84	97	79	236	63	111	100	218	105
May	119	95	118	82	96	102	234	68	111	104	215	107
June	101	77	145	67	95	102	207	76	112	105	202	97
July	103	69	150	69	93	86	203	129	114	104	204	97
August	109	78	158	81	92	93	195	102	113	103	179	86
September	107	83	156	75	94	103	184	85	114	99	178	88
October	112	90	159	64	96	102	182	96	113	98	161	80
November	111	91	159	135	96	97	172	77	114	95	158	90
December	121	85	174	150	97	99	178	85	117	90	158	92

Source: INDEC.

Appendix IV (a)

BALANCE OF PAYMENTS (Yearly figures)

(in million dollars)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
MERCHANDISE ACCOUNT	469	369	198	36	79	-128	37	1031	435	-985	852	1727
Exports	1593	1464	1367	1612	1773	1740	1941	3266	4005	2960	3762	5677
Imports	1124	1095	1169	1576	1694	1868	1904	2235	3570	3946	2909	3950
SERVICES	-275	-234	-243	-258	-225	-258	-255	-327	-190	-304	-287	-182
CURRENT TRANSACTIONS (I+II)	194	-135	- 45	-222	-156	-386	-218	704	245	-1289	565	1545
NON COMPENSA-TORY TRANSFERS	-171	234	214	117	414	-190	- 75	25	-172	502	380	934
INTERNATIONAL PAYMENTS (III+IV) *	24	416	160	-111	260	-560	-285	729	73	-787	945	2479
INTERNATIONAL RESERVES (Variation)	- 5	480	57	-260	185	-385	167	921	- 51	-791	945	2227
COMPENSATORY TRANSFERS	28	- 64	103	149	75	-175	-452	-192	124	4	-	252

* INCLUDES UNILATERAL TRANSFERS & ERRORS & OMMISSIONS.

Source: BCRA and INDEC.

Appendix IV (b)

BALANCE OF PAYMENTS (by semesters)

(in million dollars)

	1972		1973		1974		1975		1976		1977	
	1°	2°	1°	2°	1°	2°	1°	2°	1°	2°	1°	2°
MERCHANDISE ACCOUNT	- 4.3	41.3	565.5	417.0	467.2	-171.4	-663.1	-322.1	413.7	469.4	1045.8	681.2
Exports	913.2	1027.8	1436.0	1780.0	1956.2	1974.5	1440.5	1520.8	1719.7	2196.4	2951.8	2725.2
Imports	917.5	986.5	920.5	1309.0	1489.0	2145.9	2103.6	1842.9	1306.0	1727.0	1906.0	2044.0
SERVICES	-121.8	-133.2	-172.6	-153.9	- 72.3	- 96.6	-210.1	- 93.9	-129.1	-122.9	-144.3	- 80.7
CURRENT TRANSACTIONS (I+II)	-126.1	- 91.9	393.0	317.0	395.0	-268.0	-874	-426	289.0	361.0	901	601.0
NON-COMPENSATORY TRANSFERS	-124.1	49.1	-145.3	160.3	196.8	-250.5	184.3	6.8	-109.4	-406.5	-108.6	1042.6
INTERNATIONAL PAYMENTS (III+IV) *	-254.4	- 30.6	249.0	482.2	596.2	-501.5	-711.7	-382.8	177.5	- 52.8	813.1	1665.9
INTERNATIONAL RESERVES (Variation)	- 17.8	184.8	409.1	511.9	564.1	-615.4	-694.8	- 96.3	543.8	648.6	731.7	1495.3
COMPENSATORY TRANSFERS	-236.6	-215.4	-160.1	- 29.7	32.1	113.9	- 16.9	-286.5	-366.3	-701.4	81.4	170.6

* INCLUDES UNILATERAL TRANSFERS & ERRORS & OMMISSIONS.

Source: BCRA and INDEC.

Appendix V

EXTERNAL DEBT

(in million dollars)

	1972	1973	1974	1975	1976
TOTAL DEBT	5788	6233	7968	9149	9738
PUBLIC SECTOR	3089	3426	4558	5295	6648
less than 180 days	162	243	379	717	675
more than 180 days	2922	3183	4179	4578	5973
PRIVATE SECTOR	2699	2807	3410	3854	3090
less than 180 days	930	1230	1759	2124	1066
more than 180 days	1769	1577	1651	1730	2024

Source: "La deuda externa argentina entre 1972 y 1976," J. Sommer (1977).

Appendix VI

INTERNATIONAL RESERVES

Year & Quarter	(in million U$S)
1966	251.1
1967	763.4
1968	792.4
1969	560.2
1970	724.7
1971	316.7
1972	
I	300.3
II	321.5
III	300.7
IV	529.0
1973	
I	694.8
II	892.7
III	1285.1
IV	1412.4
1974	
I	1582.9
II	1972.3
III	1629.6
IV	1446.4
1975	
I	1057.6
II	732.7
III	529.5
IV	678.0
1976	
I	725.7
II	1114.2
III	1266.2
IV	1943.9
1977	
I	2051.9
II	2436.1
III	3146.2
IV	3862.0

Source: BCRA.

Appendix VII

TERMS OF TRADE

Year and Quarter	Export Prices		Import Prices		Terms of Trade	
1966		95.8		94.9		118.1
1967		90.7		93.0		114.1
1968		88.0		93.8		109.8
1969		139.0		99.5		104.3
1970		100.0		100.0		100.0
1971		101.0		96.4		104.9
1972		121.5		103.5		117.4
I	106		104		105	
II	117		102		114	
III	126		105		120	
IV	138		107		129	
1973		180.3		165.5		108.9
I	151		121		112	
II	168		140		120	
III	205		181		114	
IV	197		220		89	
1974		195.7		272.3		71.9
I	214		258		83	
II	113		283		65	
III	196		239		69	
IV	188		265		71	
1975		170.2		239.0		71.2
I	166		265		66	
II	171		240		71	
III	175		230		76	
IV	168		235		72	
1976		179.0		256.0		69.3
I	179		248		72	
II	187		260		73	
III	177		264		69	
IV	164		257		64	
1977						
I						
II						
III						
IV						

Sources: 1966-1969, BCRA, based on the 1958 trade mix.
1970 onwards, FIEL and IFS based on the 1970 trade mix.

Appendix VIII

Nominal Rates of Exchange (pesos per US dollar)
Real Rate of Exchange, July 1973 = 100

Year		Year's average	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
1966	N_0	2.08												
	N_4	2.44												
	N_5	96.90												
1967	N_0	3.31												
	N_4	2.42												
	N_5	123.6												
1968	N_0	3.50												
	N_4	3.50												
	N_5	122.50												
1969	N_0	3.50												
	N_4	3.51												
	N_5	119.20												
1970	N_0	3.82												
	N_4	3.86												
	N_5	117.80												
1971	N_0	4.19												
	N_1	5.00												
	N_2	7.51												
	N_4	6.14												
	N_5	104.70												
1972	N_1	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	N_2	9.85	9.32	9.67	9.74	9.77	9.88	9.94	9.95	9.96	9.98	9.98	9.98	9.98
	N_4	11.50	10.15	10.00	10.00	10.15	11.95	11.75	11.20	13.00	13.70	12.90	11.88	11.25
	N_5	100.50	100.40	100.40	100.70	99.50	100.80	98.90	99.2	104.2	99.40	99.60	100.90	102.40
1973	N_1	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	N_2	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98
	N_4	11.30	12.13	11.45	11.43	12.50	12.50	10.88	10.10	10.95	11.10	10.60	10.58	11.20
	N_5	99.90	10.15	99.50	98.00	97.50	96.80	100.50	100.00	98.30	100.80	100.50	101.90	103.40

Appendix VIII (continued)

Nominal Rates of Exchange (pesos per US dollar)
Real Rate of Exchange, July 1973 = 100.

Year		Year's average	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
1974	N_1	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	N_2	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98	9.98
	N_4	16.25	11.90	12.30	12.40	13.30	14.40	14.90	16.60	17.55	18.70	20.05	20.90	22.00
	N_5	100.30	111.40	107.50	106.70	104.70	101.10	97.9	100.50	100.20	96.30	95.50	93.70	88.00
1975	N_1	21.36	5.00	5.00	10.00	10.00	10.00	23.33	27.13	31.99	35.21	37.23	38.45	-
	N_2	30.67	9.98	9.98	15.10	15.10	15.10	27.59	33.04	40.74	45.32	47.87	51.18	57.00
	N_3	699.4	-	-	-	-	-	-	-	63.18	64.56	68.15	72.82	81.01
	N_4	72.15	22.65	23.45	28.35	36.45	47.00	53.00	66.50	76.00	110.00	142.50	132.50	127.50
	N_5	122.60	85.90	81.80	43.60	104.30	101.10	156.00	122.40	135.30	135.50	138.00	148.40	149.40
1976	N_2	69.63	63.30	69.90	75.70	-	-	-	-	-	-	-	-	-
	N_3	99.00	89.95	99.39	107.67	-	-	-	-	-	-	-	-	-
	N_1	140.33	-	-	140.33	140.33	140.33	140.33	140.33	140.33	140.33	140.33	140.33	140.33
	N_0	246.58	156.00	247.00	274.87	247.50	249.75	252.00	252.00	250.10	251.00	252.00	254.00	270.57
	N_4	257.80	196.00	270.00	325.00	255.00	245.00	247.50	250.00	263.00	247.00	245.50	273.00	276.50
	N_5	146.10	160.10	153.60	156.50	152.50	144.70	154.10	148.10	149.00	137.20	129.10	130.60	137.60
1977	N_0	409.90	286.62	304.75	327.78	347.32	365.14	383.71	405.00	427.73	457.27	495.38	538.00	580.00
	N_4	423.1	297.50	332.50	342.50	364.50	372.50	390.00	411.50	437.50	468.50	510.50	550.50	599.50
	N_5	132.3	126.80	129.60	136.70	139.90	139.0	135.50	135.80	128.60	130.20	126.40	126.90	132.20

(a) N_0 : Free exchange rate.

(b) N_1 : Commercial exchange rate.

(c) N_2 : Financial exchange rate.

(d) N_3 : Financial Special rate.

(e) N_4 : Black Market rate.

(f) N_5 : Estimate of the real rate for imports: weighted average of import rates, divided by wholesale prices and accounting for the American inflation.

Source: (a), (b), (c), (d): BCRA; (e) Boletín Informativo Techint N° 207; (f) estimate derived from BCRA.

Appendix IX

LIQUIDITY COEFFICIENT

Year & Quarter	$\frac{M_1}{Y}$	$\frac{M_2}{Y}$	$\frac{M_3}{Y}$	$\frac{M_4}{Y}$
1966	0.1269	0.1932		
1967	0.1306	0.2002		
1968	0.1486	0.2343		
1969	0.1564	0.2580		
1970	0.1467	0.2503		
1971	0.1245	0.2158		
1972	0.0948	0.1661	0.1751	
I			0.1752	
II			0.1636	
III			0.1599	
IV			0.1667	
1973	0.1025	0.1779	0.1982	0.2000
I	0.0933	0.1635	0.1822	0.1829
II	0.0910	0.1567	0.1749	0.1758
III	0.1078	0.1863	0.2076	0.2084
IV	0.1219	0.2128	0.2364	0.2371
1974	0.1377	0.2451	0.2725	0.2738
I	0.1440	0.2550	0.2826	0.2834
II	0.1339	0.2432	0.2686	0.2694
III	0.1416	0.2526	0.2787	0.2801
IV	0.1377	0.2420	0.2680	0.2706
1975	0.0902	0.1371	0.1520	0.1614
I	0.1416	0.2400	0.2653	0.2724
II	0.1119	0.1828	0.2028	0.2119
III	0.0791	0.1170	0.1305	0.1419
IV	0.0875	0.1181	0.1310	0.1490
1976	0.0621	0.0842	0.0944	0.1244
I	0.0793	0.1025	0.1129	0.1339
II	0.0551	0.0709	0.0790	0.0117
III	0.0666	0.0941	0.1073	0.1380
IV	0.0674	0.1050	0.1207	0.1555
1977			0.1436	0.1679
I	0.0702	0.1161	0.1349	0.1695
II	0.0699	0.1272	0.1425	0.1670
III	0.0684	0.1455	0.1479	0.1668
IV	0.0600	0.1450	0.1482	0.1687

M_1 = Currency and demand deposits. M_2 = M_1 + interest yielding deposits.
M_3 = M_2 + Bank acceptantes. M_4 = M_3 + VNA (indexed government bonds) + treasury bonds.

Source: Cemyb.

Appendix X

SHARES OF M_1 , M_2 , M_3 AND M_4

Year & Quarter	M_1	$M_2 - M_1$	$M_3 - M_2$	$M_4 - M_3$	Total
1966	0.6569	0.3431	.	.	1.0000
1967	0.6525	0.3475	.	.	1.0000
1968	0.6344	0.3656	.	.	1.0000
1969	0.6060	0.3940	.	.	1.0000
1970	0.5859	0.4141	.	.	1.0000
1971	0.5770	0.4230	.	.	1.0000
1972	0.5222	0.3925	0.0853	.	1.0000
1973	0.5151	0.3791	0.1018	0.0040	1.0000
I	0.5105	0.3836	0.1024	0.0036	1.0000
II	0.5177	0.3735	0.1032	0.0056	1.0000
III	0.5174	0.3767	0.1023	0.0036	1.0000
IV	0.5143	0.3834	0.0991	0.0031	1.0000
1974	0.5055	0.3946	0.0954	0.0045	1.0000
I	0.5082	0.3916	0.0973	0.0029	1.0000
II	0.4973	0.4054	0.0943	0.0030	1.0000
III	0.5058	0.3958	0.0934	0.0050	1.0000
IV	0.5090	0.3850	0.0961	0.0099	1.0000
1975	0.5576	0.2902	0.0939	0.0583	1.0000
I	0.5199	0.3611	0.0929	0.0261	1.0000
II	0.5285	0.3343	0.0944	0.0428	1.0000
III	0.5576	0.2670	0.0951	0.0803	1.0000
IV	0.5876	0.2053	0.0867	0.1204	1.0000
1976	0.4965	0.1765	0.0859	0.2411	1.0000
I	0.5921	0.1732	0.0779	0.1568	1.0000
II	0.4978	0.1426	0.0732	0.2864	1.0000
III	0.4829	0.1988	0.0956	0.2227	1.0000
IV	0.4337	0.2420	0.1007	0.2236	1.0000
1977					
I	0.4168	0.2725	0.1079	0.2028	1.0000
II	0.4167	0.3416	0.0954	0.1462	1.0000
III	0.3990	0.4506	0.0387	0.1117	1.0000
IV	0.3530	0.5070	0.0170	0.1210	1.0000

Source: Cemyb.

Appendix XI

SOURCES OF MONEY CREATION

Changes, in million \$ & as a % of the total increase in M_2

During	Foreign Sector mill. \$	%	Government Sector mill. \$	%	Private Sector mill. \$	%	Banks Net Worth & Other Mill. \$	%	Total increase in M_2
1967	1153	35	230	7	2322	71	- 423	-13	3282
1968	323	8	249	6	4234	102	- 651	-16	4155
1969	- 609	-21	439	15	4014	130	- 945	-33	2899
1970	771	17	697	16	3770	84	- 768	-17	4470
1971	- 1080	-13	2232	26	9364	110	- 1976	-23	8540
1972	1004	6	4999	31	15399	95	- 5151	-32	16251
I	- 74	3	1142	41	3146	113	- 1428	-51	2786
II	- 20	- 1	632	24	3123	118	- 1092	-41	2643
III	254	8	1093	33	3453	104	- 1482	-45	3318
IV	844	11	2132	28	5677	76	- 1149	-15	7504
1973	5736	12	15398	33	26415	57	- 1448	- 3	46101
I	798	13	1705	27	4486	70	- 621	-10	6368
II	1154	11	4182	40	7223	69	- 2102	-20	10457
III	2851	24	2167	18	5004	42	- 1755	15	11777
IV	933	5	7344	42	9702	55	- 480	- 3	17499

Appendix XI (continued)

SOURCES OF MONEY CREATION

Changes, in million \$ & as a % of the total increase in M_2

During:	Foreign Sector mill. \$	%	Government Sector mill. \$	%	Private Sector mill. \$	%	Banks Net Worth & Other mill. \$	%	Total increase in M_2
1974	4317	8	20383	39	40793	77	- 12619	-24	52874
I	1581	19	4512	53	5121	60	- 2723	-32	8491
II	4499	28	3490	22	7946	50	- 119	- 1	15816
III	- 2354	-21	2403	22	13896	127	- 2967	-27	10978
IV	591	3	9978	57	13830	79	- 6810	-39	17589
1975	-14420	-8	118525	63	174154	92	- 88914	-47	189345
I	- 4946	-55	10404	115	9716	107	- 6119	-68	9055
II	- 5530	-30	8455	46	23074	127	- 7788	-43	18211
III	- 4706	- 9	30472	59	60942	118	- 35082	-68	51626
IV	762	1	69194	63	80422	73	- 39925	-36	110453
1976	387144	35	113782	10	922612	82	- 304405	-27	1119133
I	17315	15	77022	65	87861	74	- 64220	-54	117978
II	146078	54	23809	9	165153	61	- 62972	-23	272068
III	136250	49	-32922	-12	247686	90	- 74444	-27	276570
IV	87501	19	45873	10	421912	93	-102769	-23	452517
1977	886145	25	554444	16	24003521	91	-1137265	-32	3543359
I	145086	42	55924	16	320218	92	-173594	-50	347634
II	161856	16	240200	24	751562	75	-152351	-15	1001267
III	275230	32	-14418	- 2	1025772	119	-423462	-49	863122
IV	303973	23	272738	20	1142483	86	-387858	-29	1331336

Source: BCRA.

Appendix XII

SHARE OF THE NATIONAL INCOME
ACCRUING TO WAGE EARNERS

Year	
1950	49.7
1955	47.7
1960	38.
1965	40.6
1966	43.8
1967	45.5
1968	44.9
1969	44.6
1970	45.8
1971	46.6
1972	42.7
1973	46.9
1974	46.7
1975	44.8
1976	n.a.

Source: Ministerio de Economía.

Appendix XIII

TRANSFER OF INCOME FROM DEBTORS TO CREDITORS

Year	Real rate of interest on deposits (1)	Implicit tax on interest yielding deposits (2)	Interest yielding deposits (3)	Gross domestic products (4)	Implicit tax on interest yielding deposits as a percentage of GDP (5) = (2) . (3) ÷ (4)
	%	%	Million New Pesos		%
1966	-15.2	17.2	2.852	41.494,0	1.18
1967	-13.5	15.5	3.857	53.006,3	1.13
1968	0.3	1.7	5.433	60.614,3	0.15
1969	3.0	-1.0	7.421	71.831,3	-0.10
1970	- 9.8	11.8	9.096	84.623,9	1.27
1971	-18.8	20.8	11.710	120.163,7	2.03
1972	-27.1	29.1	16.693	200.767,0	2.42
1973	-17.1	19.1	28.123	334.147,6	1.61
1974	-16.7	18.7	51.479	448.000,0	2.15
1975	-72.4	74.4	64.427	1.294.000,0	3.70
1976	-65.1	67.1	175.557	7.100.000,0	1.66

(2) derived from (1) assuming a positive equilibrium rate of 2 %.

Source: Gaba, E. (1977).

Appendix XIV

% VARIATION IN THE NUMBER OF GOVERNMENT EMPLOYEES

Year	TOTAL (I + II)	NATIONAL SECTOR (I)					PROVINCES (II)
		Central Administration	Special Accounts	Decentralized Accounts	State Enterprises	Total of National Sector	
1967	-0.05	- 0.23	1.51	3.31	-3.53	-0.72	1.25
1968	-1.19	0.37	12.28	1.66	-5.61	-1.51	-0.60
1969	-0.57	- 0.10	20.72	-1.79	-2.83	-1.26	0.73
1970	-1.23	- 2.57	27.93	-3.96	-1.27	-1.94	0.07
1971	1.57	- 0.09	5.00	5.46	-0.37	1.25	2.14
1972	3.15	4.48	-17.33	5.16	2.32	3.47	2.48
1973	9.37	5.83	10.35	-3.11	10.89	5.45	16.49
1974	5.25	-13.35	12.34	1.22	20.33	3.25	8.54
1975	8.89	5.50	3.41	11.68	5.29	6.78	12.19
1976	0.67	- 1.36	18.65	-0.72	0.99	0.20	1.37

Source: Ministerio de Economía, Informe Estadístico N° 10.

Appendix XV

UNEMPLOYMENT (AS A % OF TOTAL EMPLOYED)

	1966		1967		1968		1969		1970		1971	
	APR.	OCT.	APR.	OCT.	APR.	OCT.	APR.	OCT.	APR.	OCT.	APR.	OCT.
TOTAL											6.1	
Gran Bs.As.	6.7	6.0	6.8	6.9	6.1	5.0	4.2	4.5	5.7	5.3	5.7	
Córdoba	7.3	6.6	8.9	7.3	7.3	4.3	6.1	3.2	4.2	4.7	5.0	4.4
Rosario	7.2	5.8	6.5	6.1	4.7	5.9	5.5	5.5	5.5	4.9	5.3	3.5
Tucumán	9.5	7.4	10.3	10.2	10.8	12.7	12.4	11.4	10.9	10.4	11.7	12.2
Gran Mendoza	3.8	2.7	2.4	2.6	2.5	2.4	2.5	2.7	3.8	3.3	4.3	3.6

	1972		1973		1974		1975		1976		1977	
	APR.	OCT.	APR.	OCT.	APR.	OCT.		OCT.	APR.	OCT.	APR.	OCT.
TOTAL	7.8	6.1	6.1	5.4	4.7	3.1	3.2	3.5	5.3	4.5		
Gran Bs.As.	7.4	5.8	6.1	4.5	4.2	2.5	2.3	2.7	4.8	4.2	3.4	2.2
Córdoba	7.2	5.2	5.3	6.1	7.0	5.4	7.2	7.5	6.5	5.6	5.9	
Rosario	6.2	5.8	5.3	5.5	4.7	3.8	5.5	5.6	5.3	4.1	3.5	
Tucumán	14.2	11.7	12.5	11.3	10.5	7.5	8.6	6.8	7.4	5.5	7.2	
Gran Mendoza	4.8	4.3	4.1	3.2	4.9	4.7	4.0	4.1	5.9	4.8	4.4	

Source: INDEC.

Appendix XVI

REAL WAGES
1973: 100

YEAR			JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
1966	(a)	107.1												
1967	(a)	100.2												
1968	(a)	99.7												
1969	(a)	103.7												
1970	(a)	103.7												
1971	(a)	108.0												
1972	(a)	97.0												
1973	(a)	100.0	105.7	97.8	110.7	86.3	89.9	90.6	109.2	108.0	107.7	106.7	105.7	97.8
	(b)	100.0	98.8	97.5	98.2	96.9	98.8	96.6	96.3	99.4	100.0	102.8	105.8	107.1
1974	(a)	109.2	103.8	102.1	101.1	120.2	116.6	112.3	110.0	105.4	102.1	98.5	125.5	111.3
	(b)		111.4	105.8	106.8	108.3	109.8	112.0	113.5	119.7	122.2	121.5	122.8	124.0
1975	(a)	104.6	118.6	103.4	111.0	101.7	97.2	155.9	114.3	102.1	92.2	91.6	99.1	86.6
	(a')						98.7	169.2	124.1	110.4	99.7	98.2	105.1	91.8
	(b)	117.5	139.7	133.2	133.8	132.6	129.5	124.0	104.3	110.2	106.5	102.8	110.3	95.7
1976	(a)	63.3	101.8	85.3	74.1	60.9	54.0	60.3	57.6	54.0	54.7	51.1	54.7	51.4
	(a')		107.9	90.4	78.5									
	(b)	88.3	107.5	95.4	93.1	99.7	99.4	97.8	83.1	83.1	81.8	72.0	68.6	70.8

(a) unskilled married workers
(a') " " " with wage drift(when in existence)
(b) all workers, of a specific case, in the metallurgical industry.

Appendix XVII

PUBLIC SECTOR OPERATIONS

Central Government's Treasury, Provinces
& State Enterprises, as a percentage of GDP

YEAR	REVENUE (a)			EXPENDITURES (b)				DEFICIT	BORROWING		DEFICIT
	TOTAL	TAXES	OTHER	TOTAL	CURRENT	INVESTMENT	(1)	(a - b)	EXTERNAL	INTERNAL	FINANCING
1966	26.7	15.9	10.8	31.3	25.3	6.0	0.1	- 4.6	0.3	-	- 4.3
1967	30.3	19.	11.3	32.3	25.2	7.1	-	- 1.9	-0.3	0.1	- 2.1
1968	30.2	18.4	11.8	32.3	24.6	7.7	0.2	- 2.1	-	0.4	- 1.7
1969	29.5	17.3	12.2	34.2	23.6	7.6	0.4	- 1.6	0.3	0.5	- 0.8
1970	29.4	18.	11.4	31.1	23.3	7.8	0.4	- 1.7	0.8	0.1	- 0.8
1971	26.7	16.1	10.6	31.	23.3	7.7	0.8	- 4.3	1.1	0.7	- 2.5
1972	25.	14.3	10.7	30.2	22.1	8.1	0.7	- 5.2	1.0	0.9	- 3.5
1973	26.5	16.2	10.3	33.8	26.5	7.3	0.4	- 7.3	0.1	0.9	- 6.3
1974	30.2	19.3	10.9	38.0	29.4	8.6	1.3	- 7.8	0.9	1.0	- 5.9
1975	25.7	14.3	11.4	41.7	32.4	9.3	2.2	-16.2	0.1	1.7	-14.4
1976	30.	17.5	12.5	41.1	28.2	12.9	-1.	-11.1	0.6	2.6	- 7.9
1977 *	35.4	20.9	14.5	40.5	27.6	13.4	n.a.	- 5.6	1.6	1.2	- 2.8

(1) Excess (+) of BCRA Public Investment Figures, relative to IBRD's.

* Estimate.

Source: IBRD (1977), Argentine, Reconstruction and Development.

Appendix XVIII

CENTRAL GOVERNMENT'S TREASURY OPERATIONS
AS A % OF GDP

YEAR & QUARTER	EXPENDITURES (a)	INCOME (b)	DEFICIT (a-b)
1972	8.64	6.21	2.43
I	7.79	5.69	2.10
II	8.65	7.00	1.65
III	8.84	6.28	2.56
IV	8.96	5.84	3.12
1973	10.95	5.54	5.43
I	8.75	4.89	3.86
II	9.41	4.39	5.01
III	11.93	6.35	5.58
IV	13.24	6.31	6.93
1974	13.12	6.58	6.54
I	11.37	5.94	5.43
II	13.22	7.87	5.34
III	13.32	6.77	6.35
IV	14.06	5.82	8.24
1975	15.98	4.27	11.71
I	12.15	5.03	7.12
II	12.22	4.40	6.92
III	13.81	4.06	9.75
IV	20.17	3.80	16.38
1976	13.66	5.65	8.01
I	16.97	4.03	12.94
II	11.34	4.32	7.02
III	13.91	6.13	7.79
IV	13.90	6.73	7.18
1977	10.41	6.74	3.67
I	12.62	6.80	5.18
II	10.50	7.25	3.73
III	10.59	7.33	3.26
IV	9.11	5.89	3.23

Source: BCRA.