

**Opening Statement
Argentina Hearing
March 5, 2002
The Honorable Doug Bereuter
Chairman
Subcommittee on International Monetary Policy and Trade**

The Subcommittee on International Monetary Policy and Trade meets today in open session to continue its examination into the financial crisis in Argentina, including the activities of the International Monetary Fund (IMF) within this country. The Subcommittee will hear from a distinguished panel of private sector witnesses. Previously on February 6th, the Subcommittee listened to testimony from the Undersecretary of the Department of Treasury for International Affairs, Dr. John Taylor, on the subject of Argentina.

Before introducing our distinguished witnesses at this second hearing on Argentina, I would like to remark upon the current fiscal situation in Argentina. At each Subcommittee member's desk, the following two updated products from the Congressional Research Service (CRS) are again provided, which I find very instructive: a chronology of relevant events in Argentina and a CRS Report on the Argentine Financial Crisis. When looking at these CRS reports, it is important to note that events are changing in Argentina on an almost daily basis.

Today, I would like to focus on a few remarks on the following subjects:

1. recent changes in the Argentina fiscal situation;
2. the role of the IMF in Argentina;
3. the IMF preconditionality reform proposal as it relates to Argentina; and
4. my general views on the IMF.

1. Recent changes in the Argentina fiscal situation

As we discussed at our first hearing, in 1991, the Argentine Government established a currency board to set the peso's value on a one-to-one peg with the U.S. dollar in order to curb hyperinflation. However, because the value of the U.S. dollar appreciated over the past ten years, it became increasingly difficult for Argentina to export its products. In fact, by the end of 2001, Argentina defaulted on its total foreign debt of approximately \$141 billion which resulted in an economic crisis that spiraled into deadly protests.

On February 3, 2002, the Argentine Government declared that the local peso would free float and all dollar debts would be converted into pesos at a rate of one-to-one. Creditors and banks have suffered as a result of this pesofication of debt. Furthermore, this economic plan also turned all dollar deposits into the local peso at a rate of 1.4 to the dollar. This devaluation of deposits has angered middle class demonstrators because of their loss in savings.

Since this Subcommittee's last hearing on February 6th, the following main events in Argentina have occurred. On February 11th, the Argentine peso was free floated on the foreign exchange markets. As of March 2nd, the local peso was trading at 2.15 to the U.S. dollar.

Furthermore, on February 18th, unemployment in Argentina reached a high of 22%. In addition, petroleum workers began to protest a 20% energy export tax. Other protests continued as a result of the strict bank restrictions on withdrawals.

On March 1st, the lower House of the Argentine Congress passed President Eduardo Duhalde's budget bill for 2002 which included a proposed reduction of spending by over 14%. This measure importantly eliminated the monthly minimum of \$650 million in Federal grants to the provinces which has been draining the Federal budget. According to the most recent press reports, the upper House of the Argentine Congress has yet to act on President Duhalde's budget for 2002.

2. The role of the IMF in Argentina

In March 2000, the IMF agreed to a three-year \$7.2 billion arrangement with Argentina. Moreover, in January 2001, the IMF augmented its earlier agreement by pledging another \$7 billion to Argentina. However, the IMF withheld its \$1.24 billion loan installment on December 5, 2001.

With regard to the recent budget for 2002, which passed the lower House of the Argentine Congress, the IMF publicly welcomed this austerity measure that reduced the Federal deficit and addressed the Federal/Province relationship. The IMF has said that it may send a negotiating team to Argentina as early as this week. In fact, the IMF negotiating team will be directed by a person accepting a newly created position, of Director of Special Operations, who will lead an effort to focus on countries facing crisis situations.

3. The IMF preconditionality reform proposal as it relates to Argentina

I am very interested in the thoughts of the witnesses on the concept of preconditionality for IMF assistance as it relates to Argentina. This recommendation was endorsed by the majority report of the Meltzer Commission, whose chairman, Dr. Alan Meltzer, is testifying today. I take particular interest in the Meltzer Commission as I am the original author of the legislative language, which created this 11-person bipartisan Commission through the FY99 Omnibus Appropriations Act. This Commission, which completed its report in March of 2000, was charged with studying the future of the IMF, the World Bank, and the regional multilateral development institutions.

When Undersecretary Taylor testified before this Subcommittee last month, he seemed to endorse the concept of preconditionality for IMF assistance as it relates to Argentina. Of course there is merit in insisting a country have a sound economic structure in place before it receives IMF assistance. Yet, macroeconomic circumstances

such as the political and economic repercussions on global stability also need to be taken into account on a case-by case basis by the IMF. A dissenting view of the Meltzer Commission, which was signed by Dr. Fred Bergsten, among others, makes this same point. Dr. Bergsten is also testifying today.

4. My general views on the IMF

Lastly, with respect to the IMF, it is important to acknowledge that there has been substantial criticism of the IMF's past performance. I have a strong concern about the advice that the IMF initially gave to Thailand and Korea at the beginning of the Asian financial crisis. The fact is that IMF demands of Thailand and Korea were counterproductive. It treated these countries like their "usual fiscal basket-cases" -- which initially they were not. Whether that treatment was the demand or recommendation of the Department of the Treasury in the Clinton Administration is not clear.

At the same time, we, in Congress, need to candidly admit that if we didn't have the IMF or an institution like it, we would have to create one. But we also need to recognize that U.S. Treasury has a very large role in influencing IMF policy and actions - - some would say an inordinate amount of influence. (The U.S. is, of course, the largest shareholder in the IMF with its 17.16% voting share.)

To assist the Subcommittee in examining these issues, I am pleased that we have the opportunity to hear from our distinguished panel of witnesses with their diverse views on Argentina. First, we will receive testimony from Dr. Allan Meltzer. Dr. Meltzer is a professor of political economy and public policy at Carnegie Mellon University and a former member of the President's Council of Economic Advisors. He currently is also a consultant to the World Bank. Again as I mentioned earlier, he was the Chairman of the Meltzer Commission.

Second, Dr. Fred Bergsten, the Director of the Institute for International Economics (IIE), will testify. Dr. Bergsten has been the Director of the IIE since its inception in 1981. Furthermore, he was the Assistant Secretary of the Treasury for International Affairs from 1977-1981. Dr. Bergsten received his Masters and Ph.D. degrees from the Fletcher School of Law and Diplomacy. As stated earlier, Dr. Bergsten was also a member of the Meltzer Commission.

Third, we will hear from Dr. Mark Weisbrot, the Co-Director of the Center for Economic and Policy Research in Washington, DC. Dr. Weisbrot, who received his Ph.D in Economics from the University of Michigan, specializes in international economics with a particular emphasis on the role of the IMF. Dr. Weisbrot is the author of a weekly column on economic and policy issues that is distributed to newspapers by the Knight-Ridder/Tribune Media Services.

Finally, Dr. Steve Hanke, a Professor of Applied Economics at The Johns Hopkins University in Baltimore, will testify.

Dr. Hanke has advised many different foreign governments on currency reform and privatization. With respect to Argentina, he served as the Adviser to the Minister of Economy at the Republic of Argentina in 1995 and 1996. It is also important to note that Dr. Hanke is the President of Toronto Trust Argentina, which is an emerging market mutual fund in Buenos Aires.

Before the testimony of the witnesses, I turn to the distinguished Ranking Member of this Subcommittee from Vermont (Mr. Sanders) for any comments that he may have.