

Carlos Menem yanked Argentina out of the 1930s and into the 1990s. He assures Forbes he has no intention of backing away from his free market reforms.

The great modernizer

An interview by Steve H. Hanke and Liliane Hanke

FORBES COLUMNIST Steve H. Hanke is an unpaid adviser to the Argentinean government of President Carlos Menem. Here Hanke and his wife, Liliane, talk with the Argentinean president about his country's dramatic economic turnaround.

When Carlos Menem was elected president in 1989, annual inflation was 4,924%. Think about that: An item that cost 100 units of the currency on Jan. 1 would cost 5,024 units on Dec. 31. Argentina's gross domestic product contracted by 6.2% that year.

Politically, economically and socially, Argentina was living in the 1930s. The population was as depressed as the economy. Argentina was an international joke.

Menem promised to change all this by adopting sound money and free market reforms. Argentinean voters were utterly cynical. They knew what a politician's promises were worth. Menem surprised virtually everyone. He kept his promises. In April 1991 his government installed a currency board, which keeps the politicians' hands off the money supply levers. He



Gay Parezo/Gamma Liaison

Argentina's President Carlos Menem
"What really counts is neither intuition nor pragmatism alone but rather a knowledge of the true state of things."

has privatized most of the money-sucking state companies and opened the economy to competition, both foreign and domestic.

Argentina's annual inflation rate is now the lowest in Latin America—3.9% in 1994. The economy grew at 7.1% in 1994, and though it will slow substantially this year, nobody laughs at Argentina any longer.

This spring the voters resoundingly elected President Menem for a second term—showing that they were willing to accept far-reaching reforms to be rid of the old corrupt and inefficient economic system.

FORBES: How were you able to introduce such drastic reforms, you whom a lot of people considered just another Argentinean politician?

Menem: We have to start by defining politics. The definition I like best is Aristotle's: the science which is concerned with the common good. To make this concept operational, one must take into account experience, have the ability to act appropriately at the opportune time and not be afraid of the truth.

In other words, to face reality and to act on it.

The reality was that the only oil com-

pany in the world that operated at a loss was Argentina's Yacimientos Petroliferos Fiscales (YPF). I read about YPF's distinction in the *Guinness Book of Records*. What to do in the face of that reality? Well, change it through privatization. And it was not only YPF, but all state-owned companies that were in a similar condition. At the same time they were monuments to corruption.

To recapitulate, what really counts is neither intuition nor pragmatism alone, but rather a knowledge of the true state of things.

Well, it's a fact that previous Argentinean governments were living in an unreal world and paying the price for it. Even where they made stabs at reform, they ended by backing away.

I didn't back away. Not for a moment did I waver. For example, reality dictated that we slash government spending and temporarily raise taxes in the weeks prior to the elections [for Menem's second term]. All the members of the government team went out to explain by every means available the reasons behind the measures. Everything that could be considered negative from the viewpoint of an election, but needed to be done, we did. No false promises, only the truth.

Charges of government corruption still appear in the Argentinean press with great regularity.

The press, not all, but some, has raised all kinds of false accusations against this government. But public opinion in Argentina is totally different. Of the two, I take the latter into account because the former does not vote.

Your unemployment rate is very high.

Argentina has been, during the last four years, one of the fastest-growing countries, at an annual growth rate of 8%. This has resulted from the restructuring of our economy and the increase in the use of modern, labor-saving capital equipment. These developments have aggravated our problem, transforming some disguised unemployment into real unemployment. In addition, our rapid growth and relatively high wages have caused an impressive amount of immigration from Bolivia, Paraguay and Brazil. These immigrants, many of whom are illegal, have added at least

4% to 5% to our unemployment rate. **Argentina's restrictive labor laws have made employers reluctant to take on workers with whom they might be stuck with for life.**

The old labor laws imposed many restrictions on the efficient use of labor, hiked the costs of production and hampered the creation of new employment. We have already changed the labor laws affecting small and medium enterprises, and we have other projects in the pipeline that will increase the labor market's flexibility.

You have had a confrontation with some members of your congress over your defense of intellectual property rights, particularly as they affect pharmaceutical patents. Some in congress don't want to respect international patents.

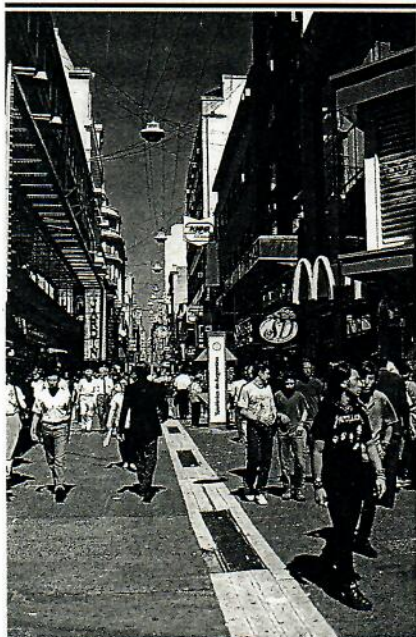
To make Aristotle's definition of politics work, one must take into account experience, act appropriately at the opportune time and not be afraid of the truth.

In very bad faith, this intellectual property issue was brought to the fore precisely the week before the elections, anticipating that we were going to backpedal for fear of losing votes. And just the opposite happened. Obviously, we haven't suffered any political fallout, if we look at the electoral results.

One persistent rumor that continues to destabilize the markets is that you plan to dismiss Finance Minister Domingo Cavallo, who is widely respected abroad.

Today I had an audience with the people of the Rural Society. It is the first time I have seen them beaming with joy. One can see that things are going well there. But they didn't know to whom to address the invitations to the rural fair in August because they weren't yet sure about the composition of the cabinet.

I told them to send them to the present members, because there will be no changes. And at the end of my second term as president, Cavallo will still be there.



Bustling Buenos Aires, 1995

At the heart of Latin America's most dynamic country.

David Pollock/The Stock Market