ANOTHER DEBTS-CRISIS IN THE HORIZONT?

Alejandro Einstoss, Licentiate in Economics (UBA), Investigator (FCE-UBA)

Martin Andrés Szybisz, Lawyer specialized in economics and business (UBA), Public Accountant (UBA), Licentiate in Economics (UBA, diploma in procedure)

To the lost decade

The countries from the third world had been the destiny of a international flow of funds without antecedents in the 70´s, principally derived by the international banking, which had received in deposit the atractive earnings of the petroleum countries after the crises of the oil (petrodollars) in 1973 and in 1980 when the prices of commodities had been increasing.

This immense flow of funds were destined partly, to finance policies of indebtedness in developing countries, in the above mentioned process the Argentina was not at the margin, especially from middle of the decade of the 70´s. Using the abundance of international resources for the financing a policy of overvalued exchange rate, of irrestricted opening of the economy, which had negative consequences in the national productive structure, and also social consequences of consideration, across a movement of employments of the real sector to the service sector.

It was established in the Argentina the culture of the "sweet money" based on a fictitious strength of the national currency, sustained in external indebtedness with low rates of interest, far from a policy based on increases of the productivity of the factors.

This process ends abruptly, with the **increase of the interest rate** on the part of the Federal Reserve of The United States, which corresponds to a change of policies (antiinflationary fight), with the new administration Reagan. Those countries that were sustaining his economic system in indebtedness, founded themselves without funds on the international market that now instead of searching differential of rates of interest in developing countries, sheltered in the safety of the Federal Reserve (USA) bonds.

It was untied what was called the "crisis of the debt"; specifically the Argentina met an enormous stock of national and private debt, nominated in dollars which resources were not destined for the accomplishment of productive investments, which generate capacity of repayment, but instead was destined for a policy of assurances of the exchanges rate.

From this moment the Argentine economy enters in an inevitable sequence of adjustments devaluations/ inflation/ plan of stabilization, destined to the creation of surpluses to face to the obligations, which ended in a hyperinflationary process that result in what was known as the "lost decade".

Differences and Similarities

This brief historical recount serves us to try to glimpse if; given the current circumstances "international crisis", exist the conditions for the development of a new crisis of the debt, for countries of the third world with debt stocks raised with regard to his capacity of payment.

In this respect we face an economic world crisis generated, this time, in the centers and spreading out to the periphery (what makes fall down the theories of disconnection). The sequence of events took as a initial point the crisis of the sub-prime (mortgage in USA), what affected first of all the investment banks, then move to the entire bank system (investment and commercial) and now has an important impact in the real economy with consequences in the levels of employment, with the social difficulties that this carry out.

As response to this the Federal Reserve (FED) realized successive rescue plans, destined, first, to the financial system; to capitalize the banks and second to increase his capacity to lend, accompanied on successive falls of the interest rate (today near to zero). These attempts of circumscribing the crisis to the financial system with the utilization of monetary policies like the used in the previous crises as the "point.com", have not given the awaited result and the recessive process has moved to the real economy, forcing the governments of the central countries to the application of fiscal policies, consistent principally in extensions in the public expenditure.

The debt of emergent countries (between them one finds Argentina), whose capacity of decision are limited by his external indebtedness, in the first moment there would be favored by the fall of the international interest rate, which to the first sight would relieve the weight of the obligations to pay derivated of the interests of the debt. Though there must be take in account the lack of access to the international market of credit that concerns to the Argentina nowadays.

The deepening of the crisis with a) the consistent fall of the international trade (that happens in the evolution of the foreign trade - see report March, 2009), b) a fall of the prices of the commodities (principal item of exportation), c) the impact that this retraction of the international trade has to the interior of the economy, debilitating the national productive apparatus, with the consistent fall of the level of activity that will affect the tax collection; and therefore the capacity of repayment of the international commitments. As everyone can see, a complicated scenario.

Now remains to analyze, in view of this state of situation, what could be some of the possibles scenarios at the end of the current economic crisis (that as all the crises in the economic history will pass).

Let us suppose a scenario where the fiscal policies and the successive recovery plans of the governments of the central countries are successful and the economies begin to show signs of recovery, with the consistent change of expectations and the normal optimism of the markets in the economic rising cycles. Given the risk of inflationary problems, the governments will have to rescue the enormous volumes of monetary emission, result of the innumerable recovery plans, and then, it is to expect **increases in the international interest rates**.

This increase in the interest rate would have important effects in the flows of payment of the debt of the peripheral countries, provided that the aptitude to generate currencies for the debt payment are seriously affected during the crisis, be for the drop of prices of the exportable goods as for the fall in the commercialized quantities. On the other hand when more time lasts the crisis, the weakening of the productive device derived from a scenario of contraction will be greater, the public accounts will present constant negative results and probably bigger every time. In this way, more difficult it will be the recovery; due to the debt accumulation during the crisis and the increasing difficulty, as the time passes, in recovering the productive capacity.

With which in this scenario the capacity of repayment of external obligations would be seriously complicated as the decade of 80´s, being able this panorama be much more complicated if the governments were choosing for contractive policies destined the generation of surpluses.

This scenario can present modifications, in the first term if an increase takes place in the price of the comodities (principal article of exportation), this might relax the situation of the commercial balance (trade gap), allowing an alleviation of the public accounts and there would be generated surpluses of currencies that might be destined to the payment of services of the debt. (The food commodities are those items whose had less lowered his prices and already shows signs of recovery).

In the second term, we find, unlike as in the decade of the 80´s, the incursion of new actors of importance in relation to our international trade, namely the zone ASEAN, China and India, which they are important demanders of our products (principally food, in bulk or MOA (Manufacture with Agricultural origin), and depending on the speed with which these new commercial associates go out of the crisis and his level of demand, would be another factor of relief and of impulse to the exit of the crisis, which would generate capacity of repayment.

Thirdly as a important factor to keep in mind, that can affect in the raised situation, it is necessary to think over the form in which the central economies go out of this crisis, having present that in the latter months our principal destination of exports is the European community (see report March, 2009), if the central economies, in spite of public declarations, succumb to the temptation of applying protectionist policies, in order to guard his own employments, trying "to export the unemployment" to the neighbors, the situation can become complex.

In fourth place, as we consider longer intervals of time the technology takes a more important place. The influence can be given in many ways, some of which it can be the fall of the prices of the imported technological products, the positive impact on the productivity in primary goods, an external shock due to the fact that in view of a technological change there are needed commodites that exist in the country, as for example the demand of lithium for batteries of cars that are waited in the future.

Finally, exist financial-institutional questions, as the reform of the world financial system, the scanty financial depth (little use of the banks), owed partly to the crises of 2001 (in Argentina), the (questioned) robustness of the reserves, the emission of the obligations in local currency, all that can muffle the negative effect.

In conclusion, the report of this month tries to put the alert on a problem that already is presented in the economies of some countries of Eastern Europe (ex-USSR), but that clearly can spread to our region it, owed, among others, to the waterfall effect. Ours countries have a wide experience in this type of crisis. The elements exposed in the analysis try to serve to calibrate the existing risk.

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