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Argentina Has Seen the Past—and It Works (For Now)

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Probably more than any other Latin American country, the Argentine Republic is susceptible to abrupt changes of spirit and mood. Ten years ago it was apparently hurling itself, pell-mell, into the twenty-first century as South America's great example of economic liberalization and diplomatic alignment with the United States. Today both notions are distinctly out of fashion there, and no wonder—the advantages of both were drastically oversold to the public by the administration of President Carlos Menem (1989–1999). At the end of 2000 the economy virtually collapsed; for a time it appeared as if the country might actually dissolve as a coherent political community. Thanks to the strong hand of Senator Eduardo Duhalde, who took over at the end of 2000 from Fernando de la Rúa, Menem's successor, civic order was restored, though the last three years have been the worst in Argentina's modern history, more dismal even than the Great Depression of the 1930s.

Whatever one may think of Duhalde's economic diplomacy (which, by assuming an intransigent negotiating posture, postponed indefinitely an agreement with the international financial institutions), he did salvage the country's democratic political system and bring it to free and open elections right on schedule (when they would normally have been held at the end of de la Rúa's term). This was no small achievement when one considers that three years ago the most common cry in the streets was that all politicians should be cashiered. (Literally, "Show them all to the door!") In selecting Néstor Kirchner, governor of a small, remote, and sparsely populated province to be his successor, Duhalde also displayed a sure hand. Kirchner has proven—so far at least—to have a firm grasp on power and a definite vision of where he wants to take his country.

Meanwhile, the economic situation has begun to improve; the GDP will grow 7 percent this year. The figure is extremely impressive by current Latin American standards, but far less so when one considers where the country has been recently: it hit bottom two years ago and had nowhere to go but up. It would have to continue at this level for another ten years for the country to reach the prosperity it enjoyed in 1998.

The current economic recovery rests on three pillars. The first is a drastic devaluation in the wake of de la Rúa's departure from power (the Argentine peso lost roughly two-thirds of its value as against the dollar). This has made Argentine exports, particularly soy, crude oil, and certain industrial raw materials, strongly competitive in the world market. Also, for the very first time, an extremely cheap peso has transformed Buenos Aires (and to some extent, the provinces) into popular international tourist destinations, encouraging a rapid growth of hotels and other facilities for hard-currency visitors. Second, the recovery depends on the intensive use of capital stocks accumulated during the go-go '90s, when Argentina was the beneficiary of $120 billion in direct foreign investment. And finally, it derives much of its strength from the revival of certain import-substitution industries producing basic necessities, financed in many

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cases by dollars that Argentines had kept outside the banking system (where deposits were frozen for more than two years). To some extent it is also driven by the growth of the informal economy (about which more below). Even so, some estimates put as many as 60 percent of all Argentines below the poverty line and unemployment (officially) at 20 percent. As a matter of fact, this deplorable social statistic may also partly explain the revival of Argentine exports, since those who sell to hard-currency customers are paying their employees in depreciated pesos.

Anti-Globalization

None of this is taking place in an ideological vacuum. Buenos Aires has become a kind of international capital of anti-globalization, with postcards of Che Guevara for sale at every newsstand and the bookstores full of Spanish translations of Noam Chomsky.

After an unusually long period of hibernation, anti-Americanism—a hardy perennial in Argentina—has burst through the soil once again, sending out its most luxuriant blossoms in the form of hatred of George W. Bush and his supposed plot to "globalize" the country by somehow forcing it to join the Free Trade Area of the Americas (known locally by its Spanish initials ALCA). The general consensus is that the problem with the 1990s was that the country experienced an excess of "neo-liberalism" (the nasty name critics give to economic liberalization and privatization), and that it is high time to shift into reverse gears.

In many ways this is a return to business as usual. For most of the last century, Argentina was a Latin American leader in both state-led or state-guided economic development (as well as anti-Americanism). The Menem years can therefore be seen not as a change of course but a momentary break in a long and continuous strand. The only difference—a crucial one, admittedly—is that today there is no Cold War and Argentina is too remote from the scene of Washington's current geopolitical concerns to occupy much of its attention. Even so, as noted in the October *Outlook*, without the political support of the Bush administration it is doubtful that Kirchner would have reached this year's ground-breaking agreement with the IMF—ground-breaking in the sense that for the very first time that agency no longer conditioned its support on specific economic reforms. Quite naturally this has led Kirchner's team to overestimate the country's importance in world affairs, and specifically its value to the United States, and also to encourage it to assume a particularly tough stance toward foreign bondholders and foreign-owned utility companies who bought into privatized facilities in the 1990s, both of which groups have been deeply wounded by the devaluation of Argentina's currency. For its part, the Bush administration seems not to care a whit what happens to those who risked their capital in Argentina and perhaps rightly so. This is very far, though, from making a firm and deep commitment to Kirchner's success.

Blame Game Won't Create Wealth

As of today, however, Kirchner is the most popular president in Argentine history—more popular even than the founder of his party, General Juan Perón, could claim to be in his heyday. Apart from his obvious (and unexpected) political skills, President Kirchner has found a guiding theme that resonates with the huge majority of Argentines—the country's problems are the fault of others. His list includes the military men who ruled the country in the 1970s (some of whom, though given amnesty by President Menem, are to be tried once again), a corrupt Supreme Court (which has been summarily purged), foreign businessmen and dishonest politicians, and the international lending agencies (particularly the International Monetary Fund), not to mention Argentine "economic groups that generated an unjust distribution and concentration of wealth" (quoted in *La Nación*, December 17, 2003).

One can hardly blame Argentines for buying into this kind of talk. After all, so far Kirchner has delivered, and many of his accusations of corruption and malfeasance are far from imaginary. On the other hand, the search for scapegoats will not produce wealth over the longer term, or even, in fact, the middle term.

In all modern capitalist systems, roughly 14 percent of the GDP must be reinvested each year to renew capital stocks. During the 1990s Argentina did exceptionally well in this regard, averaging 20 percent a year, but then again, it was having to make up for literally decades of neglect. Most of this was made possible by high levels of direct foreign investment; today, however, Kirchner and his finance minister, Roberto Lavagna, seem to think that the country can grow at about 4 percent a year without the infusion of significant foreign savings. Whether they are correct in that assumption remains to be seen; among other things, it depends upon commodity futures of products like soy and wheat,

export crops on which the country's present economic growth so strongly depends.

Meanwhile by breaking contracts with public utility companies from Spain, France, and the United States, Argentina has sent a strong message to the international investment community; only about $1 billion was invested from abroad in 2002 and again in 2003. If this continues, before the end of the decade the country will be suffering from a serious decline in its capital stocks.

Fending for Themselves

Some years ago, when Argentina was undergoing another one of its periodic financial crises, economist Aldo Ferrer published a best-selling book whose title is translated as *Let's Live on Our Own Resources*. To a great degree this is exactly what the country is doing today; unfortunately, it is not producing the prosperity to which Argentines have been historically accustomed. This new quasi-autarchy has both socio-economic and political dimensions.

On one hand, in order to survive many Argentines have been forced into semi-legal or outright illegal behavior. There has been a dramatic increase in delinquency and organized crime, including illegal traffic in arms and drugs, as well as a rise in kidnappings for ransom. Meanwhile, an informal economy is now producing clothes with false labels and or copying European designs without permission (although in fact Argentines are excellent designers and hardly require outside inspiration). There is also a burgeoning industry of unauthorized reproduction of software, music, and videos.

On the other, Duhalde and now Kirchner have created a new structure of welfare dependency upon which much of their own political power depends. The system has evolved in response to—even in tandem with—the protest movement that first brought down President de la Rúa. In their earliest days demonstrators blocked roads or clustered around government buildings demanding jobs or money; whether the protests ere entirely spontaneous is a matter of debate, but today such manifestations are clearly connected to the political system. Indeed, they have become part of it in the sense that they continue periodically, with the blessing of the present administration.

At present roughly 2.5 million heads of households receive a monthly family subsidy. But to continue this flow of resources, modest as the subsidies are (roughly U.S. $50, on average), recipients are required by the Peronist political apparatus to show up at political demonstrations or at periodic efforts to block main arteries. The curious relationship between government and protestors both allows the latter to blow off steam and also earn a few pesos, while it assures the government (presumably) that these demonstrations will remain within certain limits.[1] But even so, the arrangement is expensive. $50 times 2.5 million comes to $1.25 billion a month. This is not small change, particularly for a government as hard-pressed for ready money as this one. As for the protestors themselves, although many are connected to the government's clientelistic network, and therefore unlikely to get out of control, others are driven by left-wing groups that have never had much chance to win political power at the ballot box but have considerable skill at street organizing. To retain control of these groups the government will have to continue to finance them, but if the economic situation does not improve, even family subsidies may not be sufficient to keep them within acceptable limits.

Back to the Future

Kirchner's vision is an updated version of the Argentina of the late 1940s—which is to say, the original model of Peronism. The salient features of this model were heavy investment in public works, the creation of government funds to finance public services and infrastructure, and a deliberate policy of import substitution through the support of strategically designated industries. Kirchner apparently also contemplates a return to a wholly government-funded pension system, a task that will be made easier for him by the collapse in 2001 of the private funds created in the Menem years. Above all, it means the return of the government and the Argentine state as major actors in the economic and social life of Argentines.

To be sure, we are not living in the 1940s, when Argentina could indulge in expansive public spending thanks to a huge gold surplus acquired from its sales of food to hungry Europeans in the wake of the Second World War, nor can Argentina expect to leverage much its rediscovery of "non-alignment." (Fears that the country must guard against incorporation into the Free Trade Area of the Americas are frankly bizarre and entirely gratuitous; that is a party to which Argentina is not likely to be invited.) More to the point, unless the quality of public administration and justice improve dramatically, assigning so central a role to the government in the economy will open up new opportunities for corruption and

payoffs—and this at a time when the one issue that most unites Argentines is the need for an end to dishonest government. The fact that Kirchner and his people have so far projected an image of honesty has been a huge factor in their favor. But if they revert to a system where the government rather than the market determines the profitability of certain enterprises, it taxes the imagination to think that corruption will not become once again a major factor in Argentine politics.

Kirchner's great achievement—if that is the right word—is to have produced a change of paradigm in Argentina, liberating the country from the market-oriented corset of economic orthodoxy and banishing the notion that the country must buckle under the demands of the International Monetary Fund. So far the results are positive. But having mortgaged his future to this vision, he must be prepared to accept the longer-term consequences.

Notes

1. Former president Duhalde recently caused a sensation by wondering aloud whether in fact the protestors and the government were not presently working at cross-purposes and also whether it was such a good idea to have structured protests that seriously interrupt traffic. The press immediately jumped upon this as an indication that relations between Duhalde and his successor might be deteriorating.