



# Argentina: a crisis of confidence

Forced austerity measures and political instability have sapped the strength of the Argentine federal system while feeding hopes for “global federalism.”

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**The** crisis in Argentina has profoundly shaken the confidence of the Argentine people in their political institutions and in international financial institutions such as the IMF. It has weakened the central government's capacity to act independently and nearly crippled the capacity of many of the provincial governments.

Today, 18 of the close to 40 million people in Argentina live below the poverty line. There are some three million unemployed and another three million underemployed, and there is unequal distribution of wealth that affects 80% of the population. The country's productive apparatus has been dismantled, businesses have closed, and bankruptcies are at a record level. Tax revenues have fallen precipitously, and the foreign debt now stands at over \$150 billion US. To top it off, over the last eleven years a completely open market in foreign goods and services has stimulated the substitution of local production by foreign production.

Five years of recession and deflation, the destruction of the social security system, and a general state of social upheaval are all products of the application of an economic policy that generated a “crisis of representation” in public management and policy decisions.

## **Heeding international prescriptions**

A succession of democratic governments since 1983 pursued policies that resulted in an unsustainable debt load. They then imposed corrective measures proposed by international financial institutions with the apparent aim of re-integrating Argentina into the global economy.

President Alfonsín, albeit with great reluctance, adopted this course at the end of the 80s. He and his government had at first pursued a different policy. But

the economy became unmanageable and he lost popular support for not having made good on promised results. He was pressured by groups both inside and outside the country who wanted to privatize significant segments of the economy (in some cases passing it into foreign hands) as a way of remedying all Argentina's economic problems.

Alfonsín's successor President Menem continued on this course with greater enthusiasm, following it through to its ultimate consequences – even though it completely contradicted everything that he had promised in his electoral campaign. The 90s saw a consolidation of this process, which resulted in the greatest concentration of economic power in Argentina's history.

The main features of this economic policy were:

- the sale of the country's national assets through the privatization of public services and social security
- restructuring the banking system, so that it became increasingly “offshore”
- sharp increases in the foreign debt
- exchange parity with the United States dollar.

All this was enough to get Menem re-elected for 10 years, while the International Monetary Fund, the World Bank, and the United States Secretary of the Treasury hailed Domingo Cavallo, his Minister of Finance.

## **Dashed hopes for a “third way”**

The end of the Menem regime found a large proportion of Argentines impoverished and disenchanted with current policy. The victory of De La Rúa and the Alliance party in the election in 1999, although headed by a man known as a traditional conservative, appeared in

the then promising dress of a so-called “Third Way” which engendered hopes within the country of an honest and progressive government after the difficulties of Menem's rule.

What happened then is well known. The bubble created during Menem's regime burst. There was the infighting among those economic sectors that had benefited from the concentration of economic power in the 90s. The government tried the same economic remedies as before, once again without any prior taking of inventory. Even the so-called progressive elements supported this course as the “only course possible.”

This was followed by the breakdown of the governing coalition and the departure of the Vice-President. Other government officials of the President's own party soon followed.

The public completely lost confidence in the government. Economic and financial matters spun out of control and the country became almost ungovernable. There was a popular uprising and many political and economic groups sought to bring down the government. There was repression, then deaths and the resignation of the President.

The impossibility of any consensus within the ruling bloc resulted in various shifts and changes in the Executive power until, finally, President Duhalde was elected by the Legislative Assembly to complete the presidency term of office. The very person who had lost the 1999 election to De La Rúa now replaced him.

When Duhalde was elected by Parliament, his first speech created positive expectations of change, but those hopes lasted barely one week. Under pressure, he gave ground to the various powerful economic groups now

engaged in their own infighting to the detriment of most Argentines.

Still, he continued to have majority support in Parliament, which approved his draft legislation almost without debate. This support comes from his own party members (the *Justicialist Party*) and, with some reservations, from the majority of *Radical Party* members and many of the members of the left leaning *Frepasso Party*.

To a national picture of poverty, unemployment, lack of confidence in the banking system and the national currency, we must now add indiscriminate increases in the prices of goods and services, frozen or reduced salaries, and a lack of basic medicines.

### **Stringent conditions, especially on provinces**

In response to the request for fresh funds, the International Monetary Fund is imposing a series of legislative and economic policy reforms. It is demanding as *sine qua non* conditions:

- repeal of the bankruptcy act and the law on "economic subversion"
- adjustment of the National Budget plus similar adjustments in the provinces
- removal from circulation of provincial bonds which have come to constitute 50% of the country's legal tender since the majority of provinces began issuing them

It is true that the majority of provincial governments in the 1990s increased public spending, even as tax revenues were falling. The rise in public expenditures was due to the drop in productive activities as some provinces were left with deserted factories and wanted to replace the lost jobs with increases in public employment. The provinces also suffered a great decline in local tax revenues causing large deficits, rising expectations and increasing dependence on remittances from the federal government – which, in any case, accounts for 70% of the nation's tax burden.

The federal government is the sole party authorized to deal with the international lending agencies. It is, in effect, coercing governors of the provinces into agreeing with the political reforms and adjustments required by the IMF.

The governor of San Luis is the only provincial head who has refused to sign the federal agreement on political reform that would change the electoral systems and reduce "political" costs. Meanwhile, only 6 of the 24 governors have signed bilateral, national–provincial agreements on fiscal adjustments: 4 from the *Justicialist Party* and 2 belonging to the *Radical Party*.

Apart from the leftist opposition, only a few national legislators of two or three provinces belonging to the government coalition are turning up the heat – without noticeable effect on the current administration's position.

### **Public confidence and "global federalism"**

The main task for all governments now in Argentina is to re-establish public confidence in the ability of governments to resolve economic crises. That will take years and will not be achieved by simply holding new elections, overhauling the electoral system, creating new rules of the game for financing political activity, or by guaranteeing an independent judiciary. These are necessary conditions, but they are not sufficient.

Confidence in the political process will only be re-established through concrete results; namely, those that change people's daily lives, that reactivate the economy, create employment, and provide once again the basic services of education, public health and social security.

Many argue that this will only be possible through a redistribution of wealth. According to this view, the fight against poverty should be a primary objective. Guaranteeing job security and training subsidies for all those who now find themselves shut out and a guaranteed minimum income for every child or senior would, beyond satisfying social justice, stimulate demand, thus kick starting the economy.

But many are posing more complicated questions – questions about a sovereign and independent nation and its relations with the wider world.

The market directs the global economy. And while that market is subject to few rules on a global scale, successful countries have never failed to impose rules of the game on their own marketplaces.

Other countries have experienced situations similar to Argentina's before, even though the solutions have been different. Now, as they look to the world around them, many Argentines are calling for an international coalition that would work to balance the overwhelming influence of "the economy" on the international order.

The establishment of rules of the game for the global economy presupposes more democratic methods of global decision-making. Argentines look to such bodies as the United Nations to play a more assertive role. What if the United Nations were structured on something that more closely resembles a federal model? A "federal" UN would have some form of "majority governance" while maintaining respect for minorities. It would no longer reserve a veto for the great powers. Nor would it allow a few members of a permanent elite to control most decisions.

Perhaps the current crisis might motivate Argentina and other Latin American countries to initiate a movement for global institutional reform. The bitter experience of globalization has led a good many Argentines to look for institutions that emphasize equilibrium and harmony between local, national and international interests.

The anti-globalization movements are important in this regard. They are a sign of the need for change – as are the citizens' movements, the "potbangers" and the neighbourhood assemblies in Argentina. These may be forms of social protest but they are sometimes capable of proposing viable alternatives.

But neither in Argentina nor in the world are these enough. Argentina lacks an emergent new leadership which, responding to and interpreting such protest, combines honesty and imagination to set a course towards political and economic solutions.

On the international scene, many Latin Americans hope for new leadership capable of articulating these reforms. A significant proportion of Argentines hope that their pain will contribute to the global search for a new, more just social order and a new leadership with vision, all aimed at creating a more democratic and *federalist* form of globalization. 