

Argentina 2003: there is some room for optimism

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March 12th, 2003.

In order to find solutions for its dramatic economic and social problems, Argentina needs a very profound change in its political system, particularly in connection with the role and power of the provincial leaders and bureaucracies.

Argentina's political system since the 1930's suffered from excessive power of the corporations, particularly the big private and public monopolies and the trade unions. Also, during many years, the Armed Forces acted like corporations and had strong political influence. The economic crisis of the early eighties and the Malvinas War diluted the political power of the militaries and Argentina's democratic institutions revived in 1983.

President Alfonsín was elected to rebuild democracy after he denounced a complot of the big corporations, trade unions and the Armed Forces to use Peronism as a way to continue controlling political power. But he succumbed when he decided to reach an agreement with the main trade union leaders to create the so-called "Third Historical Movement" prior to the 1987 provincial and congressional elections. He wanted to reproduce Irigoyen's and Peron's political mass organizations, but he lost the next election.

Menem won the Peronist primaries in 1988 due to its charisma and grassroots outreach at a time when most of the provincial governors, the big corporations and the trade union leaders supported Antonio Cafiero. When he was elected President for the first time, most people expected that he would eliminate hyper-inflation and renew growth. During his first term he delivered stability and growth because he used his power to lower the power of the big private and public corporations and of trade unions. He was also able to impose discipline to most of the provinces.

But when Menem decided that he wanted a second term that was not permitted by the Constitution, he engaged in a negotiation with Alfonsín for a constitutional reform. He succeeded in getting the authorization to run for a second term in 1995, but in exchange he had to accept Alfonsín's proposal to reduce the power of the Presidency and to give more power to the Provincial Governments and to the Senate.

When in the middle of his second term Menem decided that he wanted to be the Peronist candidate for a third term, he encountered two big difficulties: on one hand, his former Vice-President and Governor of Province of Buenos Aires, Eduardo Duhalde, wanted to

¹ Speech delivered at the School of Law, Columbia University, March 12th, 2003.

be the presidential nominee for the 1999 election and, on the other hand, he faced the restrictions imposed once again by the Constitution.

While Duhalde was trying to gain popular support by spending a lot of money in and the province of Buenos Aires, and borrowing from its provincial bank, Ménem was helping the other governors to do the same in exchange for their support to his candidacy. At the same time, both Menem and Duhalde in trying to get the support of the trade unions competed with each other to see who would pay them back with more economic and political power.

The end result was that neither Menem nor Duhalde were elected President, but the traditional trade union leaders and provincial bureaucracies and leaders had significantly increased their power.

De la Rúa was elected President in 1999 because he was seen by his constituents as a truly democratic and honest leader that could cure the political system from the vices that had become so evident during Ménem's second term, but he failed to gain enough presidential power as to impose discipline on the provinces and trade unions.

Trade Unions in turn, succeeded in transforming the discussion of a labor reform law into an institutional scandal based on the suspicion of bribes paid to some senators by members of De La Rúa's government.

The main provincial governors, including those of the President's Party continued to borrow from the banks at higher and higher interest rates, up to the point where all of them lost credit. Unfortunately by July 2001 also the National Government had lost its credit and Argentina was forced to commit to Zero Deficit and seek Debt Restructuring.

In the second semester of 2001, the big private corporations, the provinces and trade unions worked together to achieve an automatic large cut on the provincial and private sector debt. They were encouraged by the proposal of default induced "debt haircuts" made by very conservative US economists, like Alan Meltzer and its colleagues of the Meltzer Commission. Duhalde, Alfonsín and the big multimedia of Argentina thought that pesification, devaluation and default would achieve this goal. Seeking for an opportunity to carry on their intentions, all of them contributed to the Institutional coup of December 19th and 20th of 2001.

The provinces and the big private corporations succeeded in diluting their debt problems along the economic chaos, but the Argentinean People suffered a 30% cut in real income and the debt of the National State has increased by 20 billion dollars as a consequence of the compensations paid to the banks for the unbalanced pesification.

The future looks dim unless the next elections are able to generate a strong national leadership, a significant change in the quality and political style of provincial leaders and a completely new fiscal relationship between the Federal Government and the Provincial Governments.

Until this morning I was not optimistic. The scandals of the primaries in the Radical Party and the non-primaries of the Peronist Party suggested that rather than improving Argentine politics was becoming increasingly backward. I got the same impression from the scandals and subsequent suspension of elections in Catamarca Province.

But this morning I read in the Argentinean newspapers that the Senate may decide next week to expel Senator Barrionuevo, because the senators linked to all three Peronist presidential candidates may accompany the vote of the senators representing the opposition parties to declare that Mr. Barrionuevo is “morally unable” to continue being a member of the Argentinean Congress. This is great news!!

To explain why I attach such an importance to this piece of information, I must explain what does Barrionuevo represents in Argentinean politics and how he has recently behaved. He is one of the most conspicuous members of a hidden political network that played in Argentina the same role that Vladimiro Montesinos played in Peru.

Barrionuevo is a trade union leader that for the last half quarter of a century has managed very large amounts of workers contributions to the health care system and very often has had access to the secret funds managed by the Intelligence Agency of the Federal Government. He built his power using this money and participating as a main middleman in all the political agreements I described earlier.

In 1987 he was the main architect of the agreement between Alfonsín and the trade unions that destroyed Alfonsín’s Government. He was again one of the key negotiators of the agreement between Menem and Alfonsín to reform the Constitution in 1994, that gave Menem the reelection but at the cost of weakening the power of the President and increasing that of the provinces.

He was very active in supporting Menem in his fight against Duhalde during the period in which they competed for the presidential candidacy of the Peronist Party in 1999.

He was also very active in the negotiations that generated the scandal in the Senate in connection with the Labor Law during De la Rúa’s Government in year 2000. In the Institutional Cup of December 2001 he was one of the key persons to make it possible the dialogue between Duhalde, Alfonsín, the big corporations and the trade unions that ended in the resignation of De la Rúa.

And more recently he has been a big supporter of Duhalde in his fight against Ménem to prevent the realization of primaries in the Peronist Party that, according to the polls, Menem would have won.

His wife is the Labor Minister in Duhalde’s Government and this year he decided to run as a candidate for the Government of the Province of Catamarca. He does not meet the residence requirements set by the Constitution of the Province and, therefore, the Supreme Court of Catamarca declared that he could not run. Instead of letting somebody

else from his party be the candidate, he decided to boycott the elections by organizing riots and burning the vote-boxes. The elections had to be suspended a few hours after the opening.

A great majority of Argentines interpreted this event as the most recent and clearest example of bad-politics, that is, the politics that need to change if Argentina wants to succeed in having good and honest governments. But the President, the Interior Minister and most of the Duhalde's Government choose to blame the local authorities rather than Mr. Barrionuevo for the scandal in Catamarca.

Fortunately, the news from this morning's press, indicate that none of the presidential candidates, including Mr. Kirchner, who is supported by Duhalde's Government, will have the same attitude as the President and his ministers. Instead, it seems, they will condemn Mr. Barrionuevo's misbehavior and expel him from the Senate. If this happens, we should start to be more optimistic on the future of Argentina.

Only if the President elected in the April elections uses his initial weeks to promote an immediate political reform that permits a widespread renovation of the local governments and the members of the National Congress, it is possible to foresee a solution to Argentina's economic and social tragedy.

That type of reform should bring into power politicians willing to work together to rebuild the power of the Federal Government, to reform the provinces and to establish renewed fiscal relations between the two levels of Government.

The Federal Government will have to rebuild monetary and fiscal institutions in order to recreate confidence among Argentines that the economic and legal system is able to ensure human and property rights. This will require a tax reform that reinforces the income tax and removes taxes on exports and on wages. Argentines will have to regain the freedom of choice of the currency that in the past helped them to feel confident that monetary policy would not be used to impose a capital levy on their financial wealth.

The Provincial Governments will have to better manage their resources and to concentrate their efforts in providing education, healthcare and personal safety to their population, but particularly to the poorest families. To make local government accountable for their spending and reassure that they do not engage in irresponsible borrowing a tax reform should give them the possibility of collecting their own taxes while sharply reducing the size of the Federal Tax Sharing System.

Halving the Value Added Tax (VAT) rate and eliminating its proceeds from the Federal Tax System and, at the same time, giving back to the provinces the authority to impose a sales tax on finished consumer goods would help increase the competitiveness of exports and at the same time improve the fiscal responsibility of local governments.

But none of these and other economic reforms will be credible and recreate confidence unless the new leadership implements them with conviction and determination to prevent the political and economic corruption that in the last decades generated the current Argentinean Tragedy.