

LETTER FROM BUENOS AIRES

By George Arfield

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Argentina is s-l-o-w-l-y rebounding from its worst-ever economic debacle and the breadth, depth and sustainability of the recovery hinges on new and uncertain leadership that needs to reengineer the substance and form of this embittered country of 38 million. For those who remember Argentina from its moments of plenty it is a sad landscape, defined by many wrecked dreams and valiant efforts to rebuild. Facts and impressions gathered during a two-week visit in September were mostly heartbreaking. Here and there we caught glimmers of optimism that, hopefully, portend brighter times ahead.

While most of the well-heeled hold on to their comforts, thousands in the educated middle class keep joining the growing Argentine diaspora and the working class struggles to arrest slipping further towards neediness. The old and the newly poor remain wedged between a soft economy and the improbable campaign promises of political candidates; their resentment accumulates into the peculiarly emotional state framed by anger and gloominess that Argentines call "bronca." In concrete terms, the official unemployment rate, which in May stood at 15.6%, was down from 21.5% a year earlier, but underemployment rose to 13.5% from 12.7% in May 2002. The figures are INDEC's, the government's National Institute of Statistics and Census. More dramatically, in May, the last month for which figures are available, roughly 54.7% of the country's urban population was below the poverty line. *Buenos Aires may have the most well-educated and polite taxi drivers in the world. We rode with, among others, former accountants, advertising executives and machine tool operators, made idle by the crisis.*

On the other hand, the drastic uncoupling of the peso from the dollar in January 2002 has been a boon to Argentines holding substantial hard-currency savings abroad; their purchasing power multiplied, as an oft-predicted tsunami of hyperinflation failed to materialize. Also, foreign and local high risk investors have been attracted by opportunities in hard assets such as real estate and mining. Even in an economy that has proved to be as resilient as Argentina's, the conventional wisdom is that it will take some time before badly needed foreign investment returns to a market that is battered in both substance and image. Tourism is booming, too, as Chileans and Brazilians flock to shop in the elegant boutiques of Buenos Aires at what for them are bargain-basement prices. *While new construction is at a near standstill due to a lack of credit, there's noticeable activity in the store and office redecoration market among businesses that are still going. "I redid my store for one-fourth of what it'd have cost me two years ago," said the owner of a jewelry boutique.*

All in all, few indicators at this stage - statistical or anecdotal - point to a lasting reversal of the long political and economic decline of Argentina. This deterioration, interrupted now and then by brief periods of expansion, has plagued for more than 50 years what was once the richest and most robust country in Latin America. The nadir was reached in late 2001, when the government failed to pay interest due on \$128 billion of debt. It was the largest sovereign debt default in history, a largely self-inflicted calamity that weakened the already feeble credibility of the country's rulers, regardless of party.

Hints of change from the new government have been noticed, as well as “more of the same” practices that have had such disastrous effect in the past. Argentina needs a “plan to establish a political system that is responsive, transparent, honest and capable of solving economic and social problems,” wrote Allan Meltzer, the Carnegie-Mellon University professor of political economy in January.

Nine months later, Transparency International told the world that honesty remains elusive in the land of the gauchos. In its Corruption Perceptions Index 2003, released in early October, Argentina sank to the 92d place in the world, down from 70th a year earlier. “Political and administrative corruption, public corruption, as well as private [corruption] are true cancers that, with mounting aggressiveness, are destroying the foundations of our democratic system,” said *La Nación*, Argentina’s leading newspaper. *There have been so many anti-politician protest marches in front of the Congress building in downtown Buenos Aires, that “Confitería del Molino,” once an elegant café and tearoom directly across the street and a landmark gathering spot for the elite, remains shuttered. Patronage dwindled and insurance rates soared as almost every day demonstrators raucously protested in front of the pastry-laden picture windows.*

The intellectual and material corruption of past federal and local administrations has contributed to the weakening of Argentina’s large middle class, once Latin America’s largest. “The impoverishment of the extensive middle class and high unemployment are the features that characterize today’s society in Argentina,” said *Clarín*, the country’s largest circulating newspaper, in a recent article. The latest INDEC figures show that the richest 20% in Argentina get 54.5% of the national income pie, compared to 41% in 1975. What was left went to the remaining 80% of the country. The lowest paid, those with a monthly take-home pay of less than 300 pesos (US\$ 103.00) which aggregates to 12% of national income, made up 40% of the surveyed population. The middle class, 40% of the total, accounted for 33.5% of the income. *A friend remarked a short time ago, upon returning from a business trip to Buenos Aires (unrelated to this report): “How is Argentina doing? Well, I’ve seen happier faces on the streets of Moscow in winter.”*

Spreading poverty drives emigration.

Even as the economy bounces off the bottom, a perceived lack of both opportunity and confidence in government is driving thousands of Argentines abroad. Especially harmful is the substantial emigration of graduates and postgraduates from the country’s well-regarded universities. Recently published surveys among graduate students in six state-funded schools found that eight out of every ten are considering a career abroad; 23% have already decided to leave. “Although Argentina has recovered the impression that there is a political future, everything points to the fact that the country lacks the conditions to offer an attractive horizon in the intermediate term. Thus, emigration will continue,” says Roy Hora, a historian and researcher at the National Council of Scientific and Technical Research (CONICET). The driver, says Hora, is the poor employment picture. INDEC figures show that among the more than 2.2 million unemployed, there are 130,000 college graduates looking for work. *A frequent sight in downtown Buenos Aires are advertisements for agencies promising to expedite Italian and Spanish citizenship - available to Argentines with parents or grandparents born in Italy or Spain. It is unofficially estimated that one million Argentines have already left.*

There are some relatively bright spots. These include, among others, a US\$ 8.7 billion balance of trade surplus for the first half of 2003, up 16.1% over the same period in 2002. Exports to the U.S. grew by 18%, according to economist Pablo Tigani, head of the privately-funded *Fundación Hacer*. He says these numbers are “a considerable accomplishment for a country in default, lacking both credit and a financial system, and in the midst of phenomenal change in the economic paradigm.” As previously mentioned, an oft-predicted post-default wave of hyperinflation did not materialize. Prices remained stable - or even dropped - as the economy imploded and in September annual inflation was estimated at 3.5%. Shares on the *Bolsa de Comercio*, the Buenos Aires stock exchange, have rebounded strongly.

Félix Luna, Argentina’s most widely read historian, perceives in Argentines “an astonishing capacity to recover.” He thinks official policies are helping rebuild the country, although “the future will be arduous and will demand much intelligence and creativity, the cancellation of some dreams, a large dose of realism and the always-postponed definition of our place in the world.”

Remaining question marks include a new president known as somewhat unpredictable, an erratic congress dominated by politicians addicted to hard-core cronyism, the inconsistent application of the rule of law, a frequent reluctance to embrace change and assume responsibility and the previously mentioned brain drain.

“What we are asking for now is to live in peace and liberty, with personal security and predictability in public matters,” says Luna.

A new president from the deep, deep south.

Luna and millions of Argentines place many expectations with a new president. Néstor Kirchner won office in May after collecting less than 25% of the popular vote in what amounted to a primary among him and two other candidates of the *Justicialista* party founded by the late Juan Perón. The unusual victory-by-forfeit came about when his runoff opponent, former president Carlos Menem, quit on the eve of election day as opinion polls predicted his defeat. Since taking office, Kirchner, formerly governor of remote Santa Cruz, a sparsely populated province in southern Patagonia, has gained popularity with a series of quick moves. Among these: a house cleaning among the top echelons of the Federal Police and a tough negotiating line vis-à-vis the International Monetary Fund (IMF). The latter is providing bridge loans that are the foundation of a plan to restore a semblance of normalcy to Argentina’s official finances. *Santa Cruz province, which covers 94,000 square miles from the Andes to the South Atlantic Ocean, is home to an estimated 2,000,000 million of sheep. The population totals less than 200,000.*

A person who knows Kirchner from Santa Cruz says he was “erratic” as a governor. Another, Jean-Yves Calvez, a French historian who regularly visits and studies Argentina and its rulers, told reporters that the president “appears to have no definite profile. He conveys a certain uncertainty and unpredictability.” Kirchner, who has yet to submit a national economic blueprint, has taken a hard line with the IMF and with creditors whose investment in Argentine businesses and bonds tanked as a consequence of the default. He has tolerated vociferous and unruly mass demonstrations led by club-wielding masked hooligans who say they represent the unemployed.

They have disrupted commerce and traffic in the financial district that abuts the presidential palace in downtown Buenos Aires (which is now encircled by metal barriers) and on highways and bridges leading to and from the city. Also sapping confidence are repeated comments from cabinet members justifying Argentina's default as being "the fault" of foreign and domestic lenders eager to collect high interest rates, without mention of the profligate and often venal provincial government borrowers.

Seldom mentioned is the fact that in September 2001, when the peso enjoyed parity with the dollar under the then existing Currency Board arrangement, Congress and the administration of then-president Fernando De La Rúa passed a bill into a law (Nr. 25,466) that unambiguously decreed the sanctity of bank deposits, in whatever form or currency. Three months later, the "Intangibility of Bank Deposits Act" was struck. Dollar deposits were frozen and converted to pesos, now worth around 33 cents on the greenback. Interest payments on government bonds were suspended.

Among the few who had the foresight to safeguard the dollar value of their funds: Néstor Kirchner, then still governor of Santa Cruz. The liquid assets of his oil-rich province had been prudently transferred to a hard currency account in Switzerland. As far as is publicly known, they remain there to this date, preserving for the people of Santa Cruz all of their original dollar value.

Politicians shun transparency.

The unpredictable performance of Argentine politicians (and courts) is a topic that for decades has baffled even the most astute observers. A free yet flawed election system has made it easy to elect what has become known as "*la clase política*." It is by now a class well versed in a game of tango chairs accessed through a revolving door. *La Nación* last month editorialized that come election time, "what seems least important is whether a candidate for a certain office has the necessary skills to hold it." Despite widespread popular discontent over the behavior of politicians, "one does not discern the least sign of renovation, of oxygenation of the fouled political environment of recent times." On October 5, the newspaper commented that there remained "an imperative need" to implement "a change that will give Argentine democracy the institutional quality and transparency that it notoriously lacks." When residents of Buenos Aires were recently polled on whom they perceived as "most often breaking the law," 95% of the respondents picked politicians." "Big business" and "the government" followed, at 92% and 95%, respectively. Those interviewed could check off more than one answer.

What seems predictable is that Argentina's economy will continue to oscillate beyond what would seem to be reasonable extremes. Juan José Llach, an economist who held high government posts in several governments, says that "almost mathematically, every five [decades] we have a great macroeconomic crisis. Internally, what prevails is our incapacity to handle finances and, in general, to manage public affairs."

From the private sector, one of Argentina's most successful entrepreneurs, Alfredo Coto, chairman of the giant supermarket chain that bears his family name, sees it this way: "We need a predictable nation."

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