Chapter 26

ARGENTINA: THE WAGES OF DEFYING THE IMF AND AGRO-ELITE

"Some pictures will be coming down from the bank's hall of fame, beginning with Milton Friedman."

-- Mercedes Marcó del Pont, appointed Argentine central bank president in 2010[482]

> Argentina dutifully followed the dictates of the IMF in the 1990s—and wound up with a severe banking crisis in 1995 and national bankruptcy in 2001-2002. The government finally walked away from its foreign debts and printed its own currency. The result was a remarkable flourishing of the economy, and a government that retained its popularity for many years. Yet in late 2012, that government was suddenly facing riots. Why? The answer is complicated, but pushback from a right-wing media monopoly is suspected as a major factor.

What Ecuador did in 2008-09, Argentina did six years earlier: it defied the bankers and walked away from its debts. The Argentine government did not have much choice. The country had been in full-scale depression since 1998 and was bankrupt. Banks had closed, depriving millions of depositors of their savings. Unemployment reached over 25 percent, and in many working-class neighborhoods it was over 50 percent. By the end of 2002, hundreds of bankrupt factories had been occupied by workers—literally taken over and run by them.

When Nestor Kirchner was elected president in early 2003, he rejected efforts to repress these popular movements or to force debt repayment on the people. Instead, he inaugurated a series of emergency public works programs and authorized payments to unemployed workers that were sufficient to meet the basic needs of nearly half the labor force. He used the economic catastrophe as an opportunity to curtail the power of the military and to channel state revenues toward employment programs, productive investments and nontraditional exports.[483]

In 2007, Cristina Fernandez de Kirchner became president, following her husband Nestor, who passed away in 2010. Argentina's second woman president after Eva Peron, she retained her husband's strong popular mandate, and in October 2012, she won a landslide re-election victory at the polls.

Yet in December 2012, only two months later, she faced riots in the streets. How could her popularity have fallen so far so fast? Professor James Petras asserts that the riots were an orchestrated coup intended to stamp out the politically-dangerous precedent set by the revolutionary and very popular Kirchner/Fernandez leadership.[484]

The Disasters Wrought by IMF Policy

How revolutionary the transformations brought about by this dynamic duo were is evident from a look at the long history of political ineptitude and brutality that preceded them. Petras writes:

> Between 1966 and 2002, Argentina suffered brutal military dictatorships culminating in the genocidal generals who murdered 30,000 Argentines from 1976 to 1982. From 1983 to 1989 Argentina suffered under a neo-liberal regime (Raul Alfonsin) which failed to deal with the dictatorial legacy and which presided over triple digit hyper-inflation. From 1989-1999 under President Carlos Menem Argentina witnessed the biggest sell-off of its most lucrative public firms, natural resources (petrol included), banks, highways, zoos and public toilets to foreign investors and kleptocratic cronies for bargain basement prices.
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> Last but not least, Fernando De la Rua (2000–2001) promised change and proceeded to deepen the recession that led to the final catastrophic crash of December 2001 and the closing of the banks, the bankruptcy of 10,000 firms and the collapse of the economy.

The neoliberal push from abroad to privatize public enterprises began in 1989. Between 1990 and 1999, privatization brought the nations of Latin America and the Caribbean a combined total of $177.8 billion in revenues; but little of this money filtered down to the public. Most of it was acquired by wealthy elites and sent to overseas banks.[485]

Worse for Argentina, it was targeted by international lenders for massive petrodollar loans. When the rocketing interest rates of the 1980s made the loans impossible to pay back, concessions were required that put it at the mercy of the IMF. Under a new government in the 1990s, Argentina dutifully tightened its belt and tried to follow the IMF's dictates.

The result was a series of crippling currency devaluations. To curb them, a "currency board" was imposed in 1991 that maintained a strict one-to-one peg between the Argentine peso and the U.S. dollar. The Argentine government and its central bank were prohibited by law from printing their own pesos unless fully backed by dollars held as foreign reserves.[486]

The maneuver worked to prevent currency devaluations, but the country lost the flexibility it needed to compete in international markets. The money supply was fixed, limited and inflexible. The result of obediently adopting all the policies mandated by the IMF was an overvalued peso, massive economic contraction, and collapse of the financial system.

Innovative Response: Community and Local Government Currencies

In 1995, in the wake of Mexico's devaluation of its currency, Argentina suffered a major banking crisis. International investors, fearing the same in Argentina, caused a sharp fall in debt prices, leading to lack of confidence in the peso, capital flight, and a full-scale run on the banks. People rushed to their banks to withdraw their life savings, since there was no deposit insurance. Deposits in the Argentine banking system fell 19 percent between December 1994 and May 1995. The banks' doors closed; and in the ensuing recession, money for commerce became unavailable.[487]

Lacking the national currency, the people responded by creating their own. At the local level, community currencies evolved. One environmental group held a massive yard sale, where people brought what they had to sell and received tickets representing money in exchange. The tickets were then used to barter the purchase of other goods. This system of paper receipts for goods and services developed into the Global Exchange Network (*Red Global de Trueque* or RGT), which went on to become the largest national community currency network in the world. The model spread throughout Central and South America, growing to seven million members and a circulation valued at millions of U.S. dollars per year.

At the local government level, provinces short of the national currency resorted to issuing their own. They paid their employees with paper receipts called "Debt-Cancelling Bonds" that were in currency units equivalent to the Argentine Peso. These notes were similar to "negotiable bonds" (bonds that are legally transferable and negotiable as currency) except that they did not pay interest. The bonds canceled the provinces' debts to their employees and could be spent in the community. The Argentine provinces had actually "monetized" their debts, turning their bonds, or promises to pay, into legal tender.[488]

Although these various measures increased the currency in circulation, prices did not inflate. To the contrary, studies found that in provinces in which the national money supply was supplemented with local currencies, prices actually declined compared to other Argentine provinces. Local exchange systems allowed goods and services to be traded that would not otherwise have been on the market. Supply and demand thus increased together. But the system had some flaws, including a lack of adequate controls against counterfeiting. Large amounts of inventory were stolen with counterfeit scrip, and by the summer of 2002, the RGT had shrunk to 70,000 members. It nevertheless remains a remarkable testament to what can be done at a grassroots level when neighbors get together to trade with their own locally-grown currency.

National Bankruptcy

The banking crisis of 2001-02, like that in 1995, was largely the result of "adjustment policies" (today called "austerity measures") prescribed by the IMF. Unemployment soared, and so did the poverty rate. In the face of dire predictions that the economy would collapse without foreign credit, in 2001 the government simply walked away from its debts, and used its scant resources to stimulate internal production and consumption. Creditors were told to get in line with everyone else.

As critics had warned, foreign capital flows to Argentina ceased almost completely. Yet by the fall of 2004, three years after a record default on a debt of more than $100 billion, the country was well on the road to recovery; and it achieved this feat without foreign help. President Kirchner re-nationalized several privatized firms and pension funds, intervened in the banks, doubled social spending, expanded public investment in production, and increased popular consumption. By the end of 2003, Argentina had turned from negative to 8 percent positive growth.[489] The economy grew by that amount the next year as well. Exports increased, the currency was stable, investors were returning, and unemployment had eased.

"This is a remarkable historical event, one that challenges 25 years of failed policies," said Mark Weisbrot in an interview quoted in *The New York Times*. "While other countries are just limping along, Argentina is experiencing very healthy growth with no sign that it is unsustainable, and they've done it without having to make any concessions to get foreign capital inflows."[490]

Most of Argentina's debt was later restructured at 35 to 60 percent of what was originally owed. But the IMF debt, totaling 9.81 billion U.S. dollars, was paid in full. To Kirchner, it was worth the price to get out from under the thumb of the IMF, which he said had been "a source of demands and more demands," forcing "policies which provoked poverty and pain among Argentine people."[491]

Where did he get the dollars to pay this debt? The Argentine central bank had been routinely "issuing" pesos to buy dollars in order to keep the dollar price of the peso from dropping. Apparently the bank was just printing them (or creating them on a computer screen). The bank accumulated over 27 billion U.S. dollars in this way before 2006.[492] Kirchner negotiated with the bank to get a third of these dollar reserves, which were then used in January 2006 to pay the IMF debt.[493]

As with the local issuance of currencies, this large government issue of pesos did not inflate prices as long as it was accompanied by new products and services. According to a December 2006 article in *The Economist*, the new pesos just stimulated the economy, providing the liquidity sorely needed by Argentina's money-starved businesses.[494] By 2004, however, spare production had been used up, and price inflation became a problem. President Kirchner then stepped in to control it by imposing price controls and export bans. Critics warned that these measures would halt investment, but according to *The Economist*:

> So far they have been wrong. Argentina does lack foreign investment. But its own smaller companies have moved quickly to expand capacity in response to demand. . . . Overall, investment has almost doubled as a percentage of GDP since 2002, from 11 percent to 21.4 percent, enough to sustain growth of 4 percent a year.

The Fastest Growth in the Western Hemisphere

The banking sector in Argentina is now dominated by state-owned banks, and the government has considerable control over financial activities. The country's largest bank, Banco de la Nación Argentina, is state-owned and may be the sole financial institution in some areas.

During the deep recession of 2008-09, the United States economy declined by 8% annually. Argentina's economy, meanwhile, expanded by about 1 percent in 2009 and by a healthy 8 percent in 2010-11. By the end of 2011, it had enjoyed eight straight years of economic growth, averaging nearly 8 percent annually.[495] For the years 2002-2011, according to the IMF, *Argentina had real GDP growth of about 94 percent*—over three times the growth of the U.S. economy, and the fastest in the Western hemisphere.

The benefits from this growth were not siphoned off by the wealthy but were shared with the populace. By 2011, poverty and

extreme poverty in Argentina had been reduced by about two-thirds from their peak in 2002, and employment had increased to record levels. Social spending by the government had nearly tripled, and inequality had been substantially reduced.[496] From 2001 to 2011, the percentage of poor Argentines declined from over 50 percent to less than 15 percent. In the United States, poverty *increased* by nearly 50 percent in the same period. During that decade, the incomes of wage and salaried workers in Argentina increased in real terms by over 50 percent, while declining by nearly 10 percent in the United States.[497] James Petras observes that income disparity is now greater in the United States than in any other member of the Organization for Economic Cooperation and Development (OECD). One percent of the U.S. population controls 40 percent of wealth, up from 30 percent in less than a decade. In Argentina, by contrast, inequality actually declined by about half during that period.

A Quiet Revolution in Monetary Policy

In 2010, the administration of President Cristina Fernandez took another bold step, when it subordinated the formerly independent central bank under its authority. Mercedes Marcó del Pont (another woman) was appointed to be central bank president.[498] (Note that neither the U.S. presidency nor the chairmanship of the U.S. central bank has *ever* gone to a woman.)

According to Rick Rowden, writing in *Foreign Policy* in July 2012, these two women have fired the first shot in a quiet revolution in monetary policy, adopting reforms that could threaten to overturn 25 years of conservative central bank policies long considered best practice by the IMF and central banks around the world.[499]

The Presidentas are no longer buying the neoliberal taboos against the government issuing its own money. They have seen in the last dozen years what government-issued pesos can do to turn a collapsed economy around. Nor are they issuing money just to fill bank reserve accounts with "sterilized" paper, as is being done with the "quantitative easing" of the U.S., U.K. and Japan. According to Rowden, they are aiming the nation's credit power at the physical productive economy, with the goal of promoting job creation and more equitable development.

Other reforms include giving the central bank an increased role in supervising the financial system by regulating domestic credit conditions, including loan maturities, interest rates, and commissions; preventing excessive risk-taking; and increasing central bank aid to the government for financing domestic banks and institutions involved in job creation and productive investments. Rowden writes:

> *The changes break a host of taboos in the dominant school of monetarism in neoclassical economics and conservative policy circles*—a bold effort to show that central banks can play more proactive roles by providing credit to promote productive investment and job creation, and doing so with an eye to ensuring greater socioeconomic equality.

Although the Argentine Presidentas are breaking with the dominant monetarism of the last 40 years, Rowden observes that in earlier eras, central banks in both industrialized and developing countries routinely worked with their governments to provide credit as needed to support government programs. A number of successful economic recoveries after World War II were based on this sort of collaboration, including those in South Korea, Taiwan, China, and India. Only in the Thatcher/Reagan era did central banks become "independent," working to maintain low inflation at all costs. Then, says Rowden:

> [L]ow inflation became the leading goal of monetary policy, regardless of what else might be happening in an economy, and any fiscal policy goals had to be constrained to accommodate it.

The Inflation Problem

It has been a bold experiment, but the monetarists maintain that it isn't working. They point to significant price inflation in Argentina—of 10 percent to 25 percent, depending on whose figures you believe.

As in India, however, it is not clear what has triggered the price rises. Mercedes Marcó del Pont blames supply-side shortages in a

fast-growing economy and international conditions, rather than too much money in the system.

The low-double-digit price rises in fast-growing economies are a quite different phenomenon from the hyperinflations that Argentina suffered historically. In July 1989, the country saw 200 percent inflation for the month, peaking at 5,000 percent for the year. It reached a breathtaking high of 20,262.8 percent in March of 1990.[500]

Cambridge economist Ha-Joon Chang, cited earlier, notes that in countries experiencing miracle growth, price inflation is a common phenomenon. Higher inflation rates in those cases can actually have a favorable effect on growth and jobs. He cites Korea and Brazil as examples.

Mark Weisbrot of the Center for Economic and Policy Research agrees, writing:

> Inflation may be high in Argentina, but it is real growth and income distribution that matter with regard to the well-being of the mass majority of the population.[501]

And that seems to have been the attitude of Argentines themselves until recently. An October 2011 article in *The Washington Post* observed:

> [P]ublic outrage over inflation numbers has given way to giddy optimism as Argentina's red-hot economy continues to grow. That has won the loyalty of Argentines such as Veronica Mariño, 38, a state worker who contends that the higher inflation figures offered by private economic consultants are cooked up to tarnish the government.
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> "The inflation issue, to be honest, does not worry many Argentines as long as there is work," Mariño said.[502]

Pushback and Protests

A year later, however, work was not so plentiful, and Argentines were not doing so well. The question was why. According to James Petras, the economy was being squeezed by the United States and the European Union. He wrote in a December 2012 article:

> The U.S. and E.U. increased pressure on Argentina by excluding it from international capital markets, questioning its credibility,

downgrading its ratings and promoting a virulently hostile anti-Fernandez mass media campaign in the financial press.[503]

Despite these foreign pressures, in October 2012 President Fernandez won a landslide re-election, receiving 54 percent of the vote – 37 percentage points higher than her nearest opponent. Her coalition also swept the congressional, senatorial, and gubernatorial elections, along with 135 of the 136 municipal councils of Greater Buenos Aires.

Only two months later, sentiment had suddenly changed to violent protests and riots in the streets. Why?

James Petras suggests that where the Fernandez government went too far was in moving to end the monopoly of the corporate media and the concessions given to the agro-export elite backing the earlier Argentine dictatorships. Legislation was passed restricting monopoly media ownership and promising to expand media licensing to local communities and diverse social groups. The right-wing mass media monopoly and powerful agrarian interests then struck back. According to Petras:

> The major media monopoly, Clarin, organized a virulent systematic propaganda campaign trumpeting the demands of the economic elite, fabricating stories of government corruption and refusing to comply with the new government legislation in hopes of staving off the dismantling of its huge media monopoly. . . .
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> The destabilization campaign has been orchestrated by the same economic elites who supported the brutal seven year military dictatorship during which an estimated 30,000 Argentines were murdered by the juntas. Elite opposition is rooted in reactionary social and economic demands, i.e. lower taxes on exports, deregulation of the dollar market, their monopoly of the mass media and a reversal of popular social legislation.

British commentator Dave Truman observes that the riots and looting are different from those of a decade earlier:

> Ten years ago, the supermarkets were certainly looted, but the perpetrators then were making off with basic foodstuffs. The recent looting has been of luxury goods, such as televisions and computers. The mainstream Argentinean press has been quick to identify the looters as young people, who are neither educated nor employed.[504]

Truman maintains that looting is a sign of the times, which is dominated by materialism, consumerism and greed:

> [L]arge sections of the population no longer have the wages to buy consumer goods; neither can they participate in the lifestyle images constantly dangled before their eyes by the corporate media. They are repeatedly being urged by today's not-so-hidden persuaders to buy, buy, buy, but they do not have the means to do so. Is it any wonder then that they take matters into their own hands?

Commenting on Petras' views of the Argentine situation, Truman writes:

> James Petras considers the current Argentine government of Cristina Fernandez de Kirchner as being caught somewhere between a rock and a hard place. His view is that she is a populist and largely progressive President, who is finding it difficult to finance her worthy program of social reforms, largely because Argentina is being squeezed in the international money markets by EU and U.S. banking interests.
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> Even so, Petras does recognise that the Kirchner presidency has been keen to embrace neo-liberalism. He points out that Kirchner has opened up the country to foreign speculators and has relaxed the laws governing the spraying of toxic chemicals near agricultural communities. Ms. Kirchner, it would seem, is a great friend of Monsanto and their ilk.
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> . . . Kirchner is doing the bidding of international bankers and corporations in her policy of developing international agri-businesses and mining at the expense of locally-based manufacturing.

Petras, too, recognizes the legitimacy of many of the looters' demands. But he fears the rioters are being used by an agro-export elite to destabilize what has until now been a largely successful social-liberal democracy. He writes:

> The "left opposition" includes a variety of movements including Marxist grouplets and trade unions who demand salary increases commensurate with "real inflation" as well as environmentalists demanding tighter controls over agro-chemical pollution, GM seeds and destructive mining operations. Many of these demands have legitimacy, however some of the Marxist and leftist groups have been participating in protests and strikes convoked by the rightwing parties and economic elites designed to destabilize and overthrow the government. . . .
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> This de-facto Right-Left alliance on the streets is led by the most rancid, authoritarian and neo-liberal elites who ultimately will be the prime beneficiary if the Fernandez regime is destabilized and toppled. . . . The left grouplets maintain that they are in favor of building a "worker state" as they march abreast with the rich and militarists. Objectively, their capacity to catalyze a revolution is nil and the real outcome of their "opportunism" will be a victory for the agro-export elite—mass media monopolies—US-EU alliance.

Staging a "leftist" workers' protest, says Petras, is mere window dressing for destabilizing a populist government that successfully overthrew an oppressive far-right regime. The protest will succeed only in helping to return that regime to power:

> By joining in opportunist alliances to score some small victories today, they foreclose any possible role in the near future of forming progressive democratic leftist governments [and] are creating the basis for the seizure of state power by the military.[505]

"Spontaneous" grassroots uprisings of this sort, triggered by big money and foreign interests, have frequently been seen of late. According to some critical observers, the scenario Petras fears for Argentina has already played out in Libya . . . .