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Argentina's Troubled Transition

HECTOR E. SCHAMIS

A transfer of power from one elected president to another is at the core of a constitutional system, marking the renewal of democratic commitment. In the case of Argentina in December 2007, the commitment vows were not just political but matrimonial as well: The outgoing president, Néstor Kirchner, transferred power to his wife, Cristina Kirchner. Nepotism, of course, is a rather common fact of political life, and not only in Latin America. Democratic renewal, however, is always good news—especially in a country like Argentina. The political transition of 2007 serves as an indicator that Argentina has, to a large extent, recovered from its twin crises of 2001 and 2002: the worst economic collapse in the nation's history, and a political crisis that left democracy on the verge of a breakdown.

Yet many of the tensions of democratic governance that contributed to that crisis persist in Argentina today, and the country continues to face multiple difficulties in trying to build durable and robust democratic institutions. In particular, Argentina suffers from a deeply rooted tendency to concentrate inordinate power in the executive branch, a phenomenon some observers have called “superpresidentialism.” This tendency, and the perverse political incentives it generates, predated the great crisis of 2001; actually, they help to explain it. Thus, it is important to consider how this form of politics became the norm in Argentina.

While superpresidentialism in Argentina may partly be a legacy of old-fashioned personality-oriented populism, it is mainly a product of the “Menem decade”—the period in the 1990s that saw a deterioration in the procedural aspects of democracy. During this era, it became prevalent to view the institutions of democracy as mere tools to

gain power, and to exercise that power in zero-sum fashion. Today, as the “Kirchner decade” unfolds, examining the earlier period can offer important insights into the nature of democracy under Presidents Néstor and Cristina Kirchner.

Indeed, despite observable economic growth and the popularity of the first couple, Argentina continues to face a number of significant challenges that were evident a decade ago. It has an ill-defined foreign policy. It continues to postpone much-needed correctives to the management of macroeconomic policy. And the country has a democratic system whose health and stability depend largely on the economic cycle. As recent history has shown, rapid economic growth, fueled by high prices for Argentine exports, can hide such political woes for a while. But once international commodity prices change—and prices always change, sooner or later—familiar problems may haunt the country again.

THE SHADOW OF THE 1990S

As Argentina entered the twenty-first century, the Menem decade cast a long shadow. Peronist Carlos Menem had been elected in 1989 amid hyperinflation, which had forced the early departure of President Raúl Alfonsín. Menem's greatest success was to defeat the economic instability that had afflicted the country for decades. This success resulted largely from the “convertibility law,” a program that Menem's economy minister, Domingo Cavallo, submitted to the Congress in early 1991, whereby the Argentine peso was pegged to the US dollar and a currency board set monetary and exchange rate policy. As a result, the government could increase the money supply only by expanding foreign exchange reserves. The strategy quickly paid off: Inflation dropped to single digits after just three months.

Stability in prices and exchange rates in turn made possible a comprehensive program of economic transformation, which included trade lib-

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eralization, deregulation, and privatization. A commitment to monetary policy based on rules, rather than discretion, was deemed necessary to boost credibility. This would allow the private sector to borrow in both domestic and international capital markets and would expedite economic reforms. After the debt crisis of the 1980s, which had virtually eliminated most sources of credit, foreign investment in Argentina began to rise again. In 1992, the country obtained debt relief under a plan sponsored by US Treasury Secretary Nicholas Brady, and the terms of trade (the relative prices of exports and imports), which had collapsed in the late 1980s, became favorable again.

By 1992, the government had managed to achieve growth and stability—on which Menem capitalized to accumulate unprecedented levels of discretionary power in the executive branch. First the president obtained a broad delegation of authority from the Congress. Then he packed the nation's supreme court. Soon Menem was exercising what has been termed “rule by decree.” He also advanced a constitutional reform project that would allow him to run for reelection in 1995.

But just as his reelection drive was reaching full speed, a number of economic problems with potentially serious repercussions became apparent. One was the central government's weak fiscal position. Although one-time receipts from the sale of nationalized assets had helped the government nearly erase its deficit by 1993, no lasting means of controlling deficits were put in place. This omission was at least partly deliberate, in keeping with Menem's strategy for achieving constitutional reform and winning reelection. While exchange rate stability was meant to appeal to the urban middle classes, federal spending was kept high in order to win votes from the provinces for the president's constitutional reform process. Sooner or later Menem's maneuvering was bound to run up against macroeconomic fundamentals—as indeed it did when world economic conditions became less supportive in the second half of the 1990s.

The first signs of trouble appeared in the banking sector. The convertibility law had mandated that Argentina's monetary base be backed with international reserves, but it provided only a narrow definition of the money supply. This loophole allowed authorities to expand “bank money” by cutting reserve requirements—the equivalent of a monetary stimulus. This stimulus, in combination with continued strong capital inflows, produced

a credit boom that increased the exposure of the banking system. When Mexico devalued its peso in December 1994, Argentina experienced its first major episode of financial turbulence since the inception of the currency board.

Menem, however, was unwilling to implement much-needed financial restructuring during the run-up to the May 1995 presidential election. This compounded the fragility of the banking sector later on. Matters were not helped by additional financial volatility in emerging markets toward the end of the 1990s, the appreciation of the US dollar, the continuous devaluation of Brazil's currency, and drops in commodity prices. As a result, Argentina approached the end of the 1990s in recession, with a weak fiscal base and serious debt exposure.

CRISIS AND COLLAPSE

In 1999, after Menem's second term in office ended, Fernando de la Rúa of the Radical Civic Union party became president. De la Rúa had campaigned in favor of extending the life of the currency board, despite clear signs of its exhaustion as a viable economic strategy. De la Rúa's ideas about economic policy may have been wrong, but they were not wrong in the political sense, at least at the time. Argentine voters, after decades of enduring high inflation that at times went out of control, were demanding stability and rewarding at the ballot box politicians perceived as capable of delivering it. Moreover, the electorate had begun to value low inflation over full employment, and thus displayed a higher tolerance for recession.

By 2000, as a result, the currency board appeared to be in place to stay—just as there began to emerge the kinds of problems that generally accompany stabilization policy based on a nominal exchange rate as an anchor. Typically, such programs lead to a falling real interest rate and to appreciation of the real exchange rate in favor of the local currency. Initially, this sparks a burst in investment, a boom in imports—and a gradual deterioration of the current account. With an open capital account, inflows of capital can finance the trade deficit in the short term. Still, an excessive current account deficit often induces inconsistent fiscal policies that affect the credibility of the currency peg. At this point the sustainability of the monetary regime itself comes into question. Runs on the currency become widespread, and significant losses in foreign exchange reserves usually result as the government tries to defend the par-

ity. Inevitably, the fixed exchange rate arrangement collapses, and devaluation follows.

In Argentina the boom phase of the economic cycle had begun to end by the turn of the decade, and the bust was already taking shape. Because of currency board restrictions, the government could not intervene with stimulative policies as a recession gathered momentum. This weakened the government's fiscal position even further as revenues shrank. Throughout 2001, this dynamic steadily increased Argentina's country risk index, which translated into exorbitant interest rate increases and worsening debt repayment problems.

By December of that year the government, determined to continue making debt payments, did so by using central bank reserves, an action that undercut the very foundation of the currency board. It also rolled over obligations with private pension funds, which constituted a de facto expropriation. The rules that had governed the economy since 1991 were thereby broken. Making matters worse still, the government froze bank deposits to prevent a massive run to the dollar—imposing yet another loss of wealth on millions of citizens.

At that point the Argentine economy became ungovernable—but it was a long-simmering political crisis that served as the death knell for both the currency board and the De la Rúa administration. The first symptom of that crisis had come earlier, in October 2000, when the vice president resigned. At that point the coalition in power broke down and the president turned his back on his own party and surrounded himself with a clique of unelected, nonpartisan advisers. Among them was Cavallo, once Menem's economic czar and the architect of the currency board. On his return to government, he demanded broad autonomy over the conduct of economic policy, just as he had done in the 1990s.

Cavallo's autocratic style reinforced a policy making approach that was already based on executive decrees. It further marginalized the Congress. And it harmed the overall process of democratic representation. By the time unrest broke out in the streets toward the end of 2001, the government had alienated itself from political society and the party system, and the ensuing power vacuum forced the president's resignation. Menem-style

politics based on unilateral decision making and discretionary rule had backfired.

After the collapse of the De la Rúa government, Argentina devalued its currency and defaulted on its foreign debt. The country plunged into the worst recession in its history. After a series of interim presidents served, a joint session of Congress appointed Peronist Senator Eduardo Duhalde as president in hopes that he could stabilize the country during the crisis. Accordingly, he defined his priorities in terms of trying to regain stability and address widespread poverty through across-the-aisle collaboration. He pictured himself as a transitional leader whose goal was to complete De la Rúa's term in office and transfer power to a popularly elected president.

In a country that had been governed by presidential decrees for over a decade, Duhalde's aims—to overhaul the institutional procedures of democracy—were valuable. Yet he faced too many obstacles

to fully accomplish his goals. The most notable of the obstacles was the erosion of the party system. The De la Rúa debacle widely discred-

ited the Radical party. Yet Duhalde's own Peronist party, now suddenly in power, was deeply fragmented along territorial lines, thanks to incentives that gave the upper hand to regional bosses in control of subnational political systems. As a result, three Peronist candidates competed for the presidency in the April 2003 election. Duhalde's preferred candidate, the left-of-center governor of Santa Cruz province, Néstor Kirchner, emerged victorious. Democracy, though bruised, had survived.

THE POWER GRAB

A considerable degree of continuity marked the transition from the Duhalde to the Kirchner administrations. Duhalde stepped down as he had promised, giving himself credibility. But several of his people stayed in key parliamentary seats and in the cabinet, most notably Roberto Lavagna, the economy minister. The transition as a result was characterized by significant coherence in programs—in policies to reinvigorate the economy on the basis of a competitive exchange rate, to negotiate with the privatized public utility sector on rates and fresh investment, and to restructure the defaulted national debt under conditions that did not affect

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long-term growth and poverty alleviation. This was an unusual political scenario. There was not only continuity of names and ideas—there was a tacit political pact between a sitting president and a former president who retained significant influence. To an extent, it seemed more like French cohabitation than anything Argentina had seen before.

The new arrangement reinforced stability, and Kirchner found more auspicious domestic and international economic conditions than his predecessors had. Argentina restructured its foreign debt, obtaining an unprecedented reduction of 70 percent, and improved its fiscal condition. At the same time, prices for its major exports began to rise again. With a competitive exchange rate, the country developed a large trade surplus that, beginning in 2003, fostered rapid growth and mounting foreign exchange reserves.

Yet at exactly this moment the political situation began to change, and not necessarily for the better. Riding the economic boom, Kirchner sought to cut ties with Duhalde. An opportunity to do so arrived with the October 2005 midterm election. As his “Front for Victory” emerged triumphant from this contest, Kirchner sacked all independent-minded members of his cabinet—including Lavagna, the person most responsible for the economic recovery. Kirchner exploited a weakened opposition by co-opting leaders from other parties and playing on regional and factional divisions. He blatantly employed the government’s fiscal resources to grease the wheels of Peronist party politics. Moreover, he began to flirt with unconstitutionality by continuously extracting from the Congress extraordinary powers to make unilateral decisions regarding critical matters such as foreign debt negotiations and the budgetary process.

After the 2005 election, it was clear that a Kirchner would run for the presidency in 2007—it just remained to be seen whether it would be Néstor or his wife, Senator Cristina Kirchner. To that end the Kirchners sought, first, to take over the Peronist party in Buenos Aires province, so as to disassemble the once-powerful Duhalde machine. Second, they sought to further divide the Peronist party so that weaker, smaller factions would be subordinated to the presidency. Third, they worked to co-opt the opposition parties so they could gain support in districts where they had little or no organization

of their own. With this strategy fully deployed, the nomination of the candidate would take place in due time, once the public opinion polls revealed which of the two Kirchners was more likable. This was not the first case of nepotistic advancement in Argentina’s political history, but never before had it been so easy to carry it out at such a high level.

KIRCHNER TO KIRCHNER

As it turned out, Cristina Kirchner got the nomination and won the election in October 2007 with 45 percent of the vote. Meanwhile, Argentina has regained stability and its economy has recovered from the deep crisis of 2001. Yet the issues that were at stake in 2002 have not been fully and satisfactorily addressed.

The first of these outstanding issues is Argentina’s continued lack of a foreign policy in the strict sense of the term—that is, a purpose-driven strategy and a set of permanent goals that outlive an incumbent government. Because of this failing, Argentina’s place in the international arena has been poorly defined, leading to erratic positions that have undermined the country’s credibility.

In the 1990s, for example, the Menem government adopted what amounted to automatic alignment with the United States, a policy that pursued little else than to replay the old illusion of being a first world country. Since 2002, however, Argentina’s approach to foreign affairs has been rather the opposite, characterized by a “Latinamericanism” that has rhetorical but no substantive value. This has been expressed in a foreign policy style similar to that of Venezuela’s Hugo Chávez: always loud and provocative, with occasional public displays of disrespect for the administration of George W. Bush.

Thus, Argentina continues to formulate foreign policy on the basis of sheer ideology rather than a system of values grounded in an international normative order. This approach ignores numerous historical lessons that ideology alone is not a good compass for orienting a coherent foreign policy. In fact, a government can be quite right-wing and still confront the United States, as the Argentine dictator Leopoldo Galtieri did when he embarked on a war against the United Kingdom over the Falklands in 1982; and a government can be quite left-wing and still cooperate with the United States, as

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the Chilean and Peruvian socialist governments have done by signing trade agreements.

To be credible in the world, Argentina needs to add a normative dimension to its foreign policy, so that permanent values—such as democracy, international law, human rights, and the rejection of protectionism in the industrialized world, to name a few—can be prioritized. With this sort of normative blueprint, the country's identity could be defined and projected regardless of who occupies the Casa Rosada (the seat of the executive in Argentina) or, for that matter, who lives in the White House.

Seasoned observers hoped that a Cristina Kirchner presidency would make a difference in this arena. At least during the campaign, she expressed empathy with other women in positions of leadership (Angela Merkel, Michelle Bachelet, and even Hillary Clinton) who eschewed bellicosity and appeared to incline toward moderation. Cristina Kirchner seemed more likely to cultivate Brasilia than Caracas as an alliance partner. Unfortunately, such early readings of her intentions proved too optimistic, if not downright naïve. With the discovery only three days after the inauguration of the new president that Venezuelan soft money had interfered with the Argentine political process, any hopes for improvement in Argentina-US relations vanished.

According to a US prosecutor in Florida, the Venezuelan government sent an envoy to Buenos Aires last August with \$800,000 for Mrs. Kirchner's election campaign. Arrested in Florida, the alleged envoy testified that the Venezuelan and Argentine governments had also offered him \$2 million for his silence. At this moment, revealing their ignorance about the American legal system, both the new president and the ex-president of Argentina leveled a barrage of wild accusations at the US government, saying the arrest had been staged as part of a conspiracy to dominate Argentina. As a result, the country's capacity to project credibility and predictability in the international scene is back to square one.

LIMITED RECOVERY

A second outstanding issue, along with foreign policy, is the economy. Without a doubt Argentina has recovered from the crisis of 2001, but the recovery is not based on an investment-attracting program. Thus, it is not an upturn that can sustain growth over time. On the contrary, Argentina's strong economic performance since 2002 has been

driven by a deliberately high exchange rate and favorable international commodity prices. With both of these variables beginning to show signs of exhaustion, the recovery's longevity is clearly in question. Indeed, the ongoing appreciation of the currency is evident in a real estate bubble that continues to swell and a trade surplus that is gradually shrinking. And global commodity prices will be hitting their ceiling soon, as can be seen in China's declining demand for Argentine commodities and the first signs of a recession in the United States.

The future, consequently, may not be as spectacular as the Kirchners would hope. Less favorable international conditions will slow growth, probably putting pressure on the government's fiscal position and complicating overall macroeconomic policy. In the meantime, the new government faces pressing decisions. Argentina's debt to the Paris Club (the forum of mostly European creditors), technically in default since 2001, has to be renegotiated and restructured. Only after this is done will Argentina be able to attract fresh investment, especially in the privatized energy sector (mostly owned by European consortia), which is poorly maintained and generally unable to satisfy demand.

In addition, the overheated economy has to be cooled off, something Néstor Kirchner refused to do. And macroeconomic information has to be made reliable. In international financial circles, it is by now a truism that Argentina's official economic information is fictitious. It is not only that the government misreports the inflation rate—a scandal that repeats itself over and over—but doubts also exist about the government's actual fiscal position, the country's money supply, the unemployment rate, and the rate of growth itself. Every 30 days the government issues dubious economic data with grand pomp; the effect is a credibility deficit among foreign investors.

IN MENEM'S MIRROR

With coming changes in exogenous economic conditions, including a weakening of international prices for the nation's exports, there will be changes not just in Argentina's economic performance but also, in all likelihood, in the country's political stability. This points to the third and most serious of the outstanding issues in the current transition: the fact that the political system has virtually no autonomy vis-à-vis the economy. In Argentina there is only one type of cycle, the economic one, which the political process follows

and reinforces. When the economy grows, whoever is in power stays on—first Menem and now the Kirchners. When the economy slows down and becomes unmanageable, whoever is in power has to leave early—Alfonsín, De la Rúa, and to some extent Duhalde.

This is Argentina's Achilles heel. Democracy is supposed to be an autonomous sphere that functions on the basis of institutional arrangements that allow the government to, among other things, moderate the effects of economic cycles. In other words, democracy is suitable for the design and implementation of countercyclical economic policy, but to accomplish this requires a dense institutional fabric—including organized political parties that are embedded in civil society, an independent legislature that is committed to performing its oversight role, and an executive branch that is willing to live up not only to the text of the constitution but also its spirit.

The problem is that Néstor Kirchner as president eroded these necessary functions of a democratic state. Political parties, including the party in government, are weaker today than in 2003. The opposition has been further co-opted and fragmented on the basis of electoral deals among individuals, not on the basis of ideas or programs. The Congress, as a result, has become a mere appendage of the executive. Even approval of the budget—the most important type of bill for every legislature—has been reduced to a simple administrative procedure that can be resolved in a few hours. That all this has happened over five years during which the economy was growing rapidly and the government was running surpluses—propitious conditions for institution building—

makes the lack of institutional progress all the more troubling.

With Cristina Kirchner now in power, there is not much hope for change. The Kirchners have been partners in a manner of governing that has contributed to an institutional decay that served their goal of staying in power. In a clear display of continuity, Cristina Kirchner has already asked the Congress to renew emergency presidential powers to legislate. Thus, Argentina's democracy is alive, and perhaps even well, but it is a democracy that has no true political parties, that exhibits a sparse institutional configuration, and that is based on the discretion of the superpresident. In fat years and with public opinion favoring the president, this system can be sustainable. But, if history since the return of democracy in 1983 is any guide, in lean years and with societal dissatisfaction, this system only contributes to instability. The main challenge for Argentine democracy is to change this form of politics, so the political cycle is not always reduced to mimicry of the economic cycle.

To a great extent, the Kirchners' political approach is a reflection of what may be called Menem's mirror. What was once right is now left, and vice versa, but otherwise the picture has not changed. Whether democratic procedures are circumvented, twisted, and violated to quickly achieve market efficiency and enter the first world, as in Menem's narrative, or in pursuit of social justice and independence from the United States and the IMF, as the Kirchners put it, makes little difference. In terms of the quality of the democratic process, and prospects for democratic stability, Argentina remains in the long shadow of the 1990s. ■