The Sacking of Argentina

THE IMF DESERVES TO BE BLAMED, BUT SO DOES THE COUNTRY’S WILLING POLITICAL CLASS.

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It is sobering to witness one of the greatest cities in the world slip, despite its deceptively placid surface, into a state of premodernity. Traffic lights in this metropolis of 12 million people still turn from red to green, newspapers in the kiosks report the latest bad news and Argentines occupy cafe tables, smoke a lot and shake their heads in disgust as they have for centuries. But money has ceased to exist. Oh, there are coins and bills, and cash still manages to facilitate exchange—except when the peso’s value oscillates by 40 percent in three days, as it did in March. But money as the basis of a modern, capitalist economy, money that can be lent and borrowed, created or liquidated by central banks, money as the lubricating oil of investment and production—that has disappeared.

In normal times, María Esperanza Alvarez, 63, could be fairly considered a bit eccentric, if not a nut case. Standing outside the Spanish consulate where her niece is trying to get papers in order to abandon the country, she confides that for the past thirty years she has kept her savings in a box—thousands of dollars (which were always available) accumulated from her clothing business, which once employed twenty-three seamstresses. Having defied all common and expert sense for three decades, María Esperanza now deserves an Einstein award: She never for a moment believed the banks’ basic pledge that they would give her back her money when they promised to do so. And she was right.

Lisandro Orlov, by contrast, was more trusting, perhaps in keeping with his professional outlook as a Lutheran pastor. Engaged for years in projects aimed at reintegrating social outcasts—street dwellers, drug users, people facing AIDS-related discrimination—the 59-year-old Orlov lost his pension fund in the December bank freeze-up. Like many Argentines, Orlov assumed that the austere entities in cavernous downtown palaces like HSBC, Citibank and BankBoston would honor their commitments. Now he’s fighting in court to regain access to his dollars, already forcibly converted to 1.4 pesos each, or less than half the 3-to-1 rate the greenback now commands on the street.

In December of last year, Argentina’s decade-long and highly celebrated experiment as the poster child of monetarist orthodoxy came to a crashing halt. While the International Monetary Fund is not the only responsible party, its spokespeople have now conveniently forgotten their laudatory worship of the main architect of the project, former President Carlos Saúl Menem, and the fund’s gleeful funding of it throughout the 1990s. The IMF is now forcing Argentines to pay the price of its decadelong collusion with what it now says was a flawed performance all along.

So a once-wealthy country is suddenly seeing its sophisticated middle class driven into the streets, both to protest and to put food on the table. However, this extraordinary descent cannot simply be blamed on the opportunism of the free-trade globalizers. The sacking of Argentina could not have occurred had not a willing political class put out the FOR SALE signs long ago. Peronism, Argentina’s peculiar form of nationalist populism from the 1940s and ’50s, capitalized on the country’s postwar largesse and lulled the populace into accepting political rot in exchange for fairly broad access to a share of the loot. After Menem came to power in 1989, he took a major detour from the Peronist vision. While preserving the rhetoric, the party structures and the patronage, he engineered huge privatizations, dismantled trade barriers and freed financial flows into and especially out of the country. The cornerstone of his monetarist policy, adopted at a time of hyperinflation, was the guarantee that a peso was a dollar was a peso, now and forever.

As a result of Menem’s policies, what was once just old-fashioned corruption gave way to bargain-basement sales of the family silver. Now, with nothing left, citizens have awakened to the calamity. Although they may not be staging an active revolt for the moment, their unprecedented rejection of a whole generation of leaders has profoundly changed the political landscape.

Argentina’s current plight is a lesson for those countries and their citizens that have toed the free-trade line and assume they will be rewarded accordingly. Now that things have fallen apart, the foreign beneficiaries of the fat years quickly wash their
hands of responsibility and blame local elites, while turning their sights elsewhere for the next opportunities.

The Implosion

Last December the IMF, realizing that Argentina was a bottomless pit, turned off the cash spigots. Facing bankruptcy, President Fernando de la Rúa of the Radical Civic Union and his financial Rasputin, Economy Minister Domingo Cavallo, declared a **corralito** on bank deposits. This apt metaphor, suggesting cows liable to wander off and teams of neoliberal hornsmen reining them in, meant, in practice, seizure. Confiscation. Argentines suddenly could withdraw only 1,000 pesos a month of their own money; otherwise, old-fashioned bank runs would have collapsed the system.

Implicit in the **corralito** was acknowledgment not only of the country’s bankruptcy but also of the huge falsehood that had underpinned the entire economy for a decade: that the Argentine peso was worth one US dollar. Like the military dictatorship’s assurances to the public in 1982 that the Falklands/Malvinas war would conclude with a glorious triumph, the political leadership simply couldn’t give up its steady fix of convenient mendacity until it was far too late. The Argentine military still hasn’t recovered from that debacle and the subsequent airing of its horrendous crimes during the local version of the war on terrorism, and in fact no one suggests the generals are in any way itching to get back into the political game, much less stage a coup.

But neither does the country’s discredited political leadership, mostly Peronists and Radicals, seem to have much of a clue how to navigate the ship of state. “While the businessmen bankrupted the country,” says Santiago Kovadloff, a former de la Rúa official, “the political leadership was directly complicit.” Although not everyone would have subscribed to that radical indictment until recently, today Kovadloff’s views are probably on the moderate side. The implications of this repudiation for Argentina’s future are enormous. There is even a name for spontaneous outbursts of popular rage: the **esrache**, which in the local slang means, “in your face.”

When the impact of the nationwide grand larceny first set in, the dispossessed victims surged into the streets. In December, police killed twenty-seven demonstrators before the teetering Radical government realized it had lost all legitimacy. De la Rúa had to be hauled from the presidential palace in a helicopter. His first replacement, a delusional provincial governor who immediately promised to create a million new jobs, lasted a week. Finally, on January 1, Eduardo Duhalde, a Peronist warhorse from Buenos Aires’s suburban rust belt, took over. Duhalde, the loser in the 1999 presidential election, made immediate noises about breaking the deadly grip of the financiers and boosting the “productive” sector.

Virtually all progressive voices in Argentina today say a new strategy of this sort is urgently needed: pump-priming to generate internal demand, help for pulverized local industry and a break from the monetarist straitjacket. But even some of Duhalde’s direct collaborators, who have since resigned, say it’s all talk. Economist Héctor Valle, who worked for Duhalde for thirty-five days in the ministry of production, says his team’s emergency recovery plan assumed that no foreign investors would touch Argentina with a ten-foot Brady bond and that the regime would have to cast its lot with local industry to reactivate the economy. “This meant confronting powerful interests and generating political support for more sacrifices,” says Valle. “But Duhalde has no stomach for bold moves; he’s a ribbon-cutter, and he’s wasting crucial time.”

Patacones and Quebrachos

What do governments do when they have no money? Under the theory on which convertibility of the dollar and peso was based, the governors of Argentina’s twenty-three provinces should have slashed their payrolls and cut costs. But in some areas, over half the work force is state-employed, and salaries were often held up due to cash shortages even before the current disaster. With no jobs anywhere and no safety net, provincial bosses have been in no mood to commit political suicide for the IMF.

Instead, to avoid violent upheavals, the states have taken to issuing their own “bonds” or IOUs to pay their bills, including salaries. All over Buenos Aires, shop windows advise potential clients that they will accept one or more of the dozen quasi currencies that have sprung up to replace old-fashioned money: Chaco in the north issues **quebrachos**; Buenos Aires Province offers its employees **patacones**. At last count, there were fourteen of these funny moneys circulating. Desperate shopkeepers accept them, after knocking a percentage off their face value. The IMF wants them eliminated, as one of its many conditions for restarting the flow of emergency cash.

The retailers’ desperation arises from the other predictable result of the anti-inflationary miracle: a devastating recession, now in its fourth year. It doesn’t take an economics degree to see that the artificially expensive peso drove Argentine products off world markets and wrecked local industry through a flood of cheap imports. Argentina’s economy has shrunk some 20 percent since 1998, and the free fall is just beginning.

Unemployment, now officially 22 percent, can only go higher. Just in the first two weeks of March, 20,000 businesses failed, each employing an average of ten people. Retail shops all over the capital are liquidating merchandise at a loss before closing their shutters for good. The only buyers in town are foreigners, including hordes of Chileans crossing the Andes to scoop up bargains. Poverty now affects 16 million Argentines, 43 percent of the population. Twenty percent are officially destitute. When a livestock truck overturned near the city of Rosario just before Easter, residents rushed to the highway and slaughtered the stunned cattle on the spot.

Another dramatic example of Argentina’s accelerating creep toward prehistory are the barter clubs that have sprung up everywhere as a way around the fact that nobody can buy anything, while plenty of useful and needed products are in ample supply. While Spain sends charity food shipments—equivalent
to sending donations of corn to Iowa—all over the capital long lines of people form with packages and shopping carts waiting patiently for one of the prized stalls in a church basement where the weekly session of frenzied commodity exchange is about to begin. In one club in upscale Palermo Viejo, at least 1,000 people clamored for a chance to crowd in and use their paper “credits”—another money substitute—to pick up food or used clothing or offer their skills as hairdressers, fumigators or aromatherapists. There are now upward of 4,000 of these clubs, with their deceptive air of a 1960s food co-op, generating the annual equivalent of $300 million in “commerce.”

A recurrent slogan in the popular assemblies, pot-bangings and other demonstrations is “¡Que se vayan todos!”—the local equivalent of “Throw the bums out!” Some organizations actually promote dispensing with all leadership, a sign of the depth of revulsion for what has led them to this sorry pass. Others worry that the blanket rejection of “politicians” is a dangerously reactionary sentiment—readying Argentina for a Fujimori-type solution, a “nonpolitical” Bonaparte on a white horse.

There is certainly no shortage of motives for these sentiments. That the political class is corrupt to the bone, the civil service featherbedded beyond recognition and the union leadership complicit with every imaginable scam is no longer in question. Congressional deputies are so shameless that even during the current mass repugnance at their felonious antics, one Elsa Lofrano from Chubut Province could be appointed to a vacant Peronist seat, despite having received a pension for “physical and mental disability” for the past fifteen years. (The vote to seat her was 100 to 94.) But when a longtime Cassandra, congressional deputy Elisa Carrió from the center-left Movement for a Republic of Equals (ARI), and Otto Reich, George W. Bush’s deputy for Latin America at the State Department, both put the blame for Argentina’s problems on “corruption,” they’re not describing the same phenomenon.

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—Congressional deputy Elisa Carrió

Carrió, 43, was part of the alliance that brought de la Rúa into power in 1999. She broke with the ill-fated regime early on and is now one of the half-dozen recognizable politicians who can walk the streets without fear of an escrache. Carrió warned early on that corruption and incompetence were tearing the model apart. Wearing her signature mega-crucifix, Carrió says the ostentatious hand-washing by the IMF and Bush officials is just cynical amnesia. “Corruption in Argentina operates in complicity with foreigners. I had to go to Washington to denounce money-laundering because the US Embassy here was covering up for Citibank,” she says. “All the biggest corruption scandals here involved American companies,” she adds, noting that the laundering was enthusiastically carried out by top foreign banks. If so, today’s finger-pointers were happy to cash in while the corruption they denounce redounded to their allies’ benefit.

Political Response

More than the current government, the Argentine state faces a vast crisis of legitimacy. Any plan with a chance of success will require even more pain and therefore patience from a severely battered populace—patience that can only be won by leaders they can believe in and trust. Those are so scarce that one economist suggested in dead seriousness importing a team of Finns to run the central bank.

The escrache is the most graphic symbol of this prostrate leadership. There are several varieties: Crowds may suddenly recognize a hated figure from the political or business elite at an airport and confront him with curses and even physical threats. An escrache can also be an old-fashioned demonstration, focusing on personal shaming rather than political demands. One took place on March 23, organized by HIJOS, or Children for Identity and Justice and Against Silence and Forgetting, composed of surprisingly youthful relatives of those disappeared and assassinated in the 1970s. One of their two targets was the former archbishop of Buenos Aires, known for his sympathies with the dictatorship.

Impunity is indeed the problem, says Carrió, but she worries that the escrache hints of private revenge. “We have to know what happened in the genocide of the 1970s, plus who robbed us blind and all the deals that were made.” She blames the recent brigandage on the continuing impunity for human rights crimes. “Those who tortured were liberated! Those who disappeared people! That’s where the system of truth and justice broke down. When the torturers go free, then anyone who steals or makes crooked deals can go free as well.” Neither does it escape Argentines that the liberator of the generals and admirals convicted of some of the most vicious crimes in modern history was none other than Carlos Menem himself, who granted them an amnesty in 1990. The spin then was that Argentina needed “stability,” because, as a Swiss banker elegantly told me at the time, “You can only stir the shit so far.”

Given the total discredit of most political parties, people eager for action and participation have flocked to ad hoc neighborhood assemblies, now slowly institutionalizing themselves. These expressions of popular wrath have mushroomed, and their representatives appear with their increasingly worn banners at rallies and demonstrations of all sorts. It’s not clear what sort of long-term impact the assemblies can have on broader policy decisions, and the weekly pot-banging sessions have already turned slightly routine. But their appearance is clearly breaking down the hegemony of the traditional party structures, as the experience of Gladys Quinteros illustrates.

Quinteros, a 40-year-old housewife in what was once the heavily Peronist suburb of Merlo, decided to join the demonstrations in December but found her own community “asleep.”
After a few lonely vigils in the local plaza, she and some allies managed to drum up 300 people for a protest march against the situation. As they made their way through the streets, they were suddenly set upon by a well-organized band of thugs armed with homemade weapons. Twenty people were injured, and others were further abused in the local hospital where employees are beholden to the local bosses, clearly in no mood to tolerate spontaneous dissidence. “The idea was to intimidate us, and they succeeded,” says Quinteros. “People sympathize, but now they are afraid to join in.” Later, Quinteros’s home was set afire and one room badly damaged.

Meanwhile, Peronism, if not its current representatives, still exercises a mystical lock on many Argentines. Portraits of Evita pop up unexpectedly: in union halls of the left-wing Argentine Workers Federation (CTA) or on the mantels of disgusted dissidents and lapsed Peronist Youth. Gabriel Guga, 31, was a Peronist captain in the La Matanza suburb until he became disaffected with Menem’s neoliberal deviation. He recognizes that Peronism uses public coffers to buy political support and enrich the party elites, as well as its pronounced authoritarian streak, its vote-rigging, its links to the drug trade and organized crime. But Guga remains in his heart loyal to Peronist principles, “what our fathers and grandfathers stood for.”

What Next

IMF teams were in Buenos Aires in March and April to dictate the terms for new loans. These include measures that worked so well for Herbert Hoover in the early 1930s, like more spending cuts, which will further reduce internal demand. In addition to seeking abolition of the provincial quasi currencies, the IMF wants civil service ranks reduced and bankers let off the hook. While the tiny US downturn last year was promptly treated with oceans of cash, the Argentines are supposed to swallow more neoliberal medicine. This is likely to occur, given the dearth of creative alternatives from Argentina’s current leadership. With no popular support, they will probably turn to Washington to help prop themselves up, for now. The clear political quid pro quos involved in the next IMF loan, such as voting against Cuba at the UN or helping with Plan Colombia, are already done deals.

Some observers are convinced the United States wants to make an example of Argentina and undermine its MERCOSUR regional trade pact with Brazil, to clear the path for a US-dominated free-trade zone in the Americas. “We’re the economic Guernica,” says psychoanalyst Silvia Bleichman. “They have decided to punish us, to crush all resistance.” But some of the IMF demands are in themselves reasonable. Any new government will have to deal with corruption, padded civil service rosters, the unsustainable provincial deficits. The question is who will take charge of the major surgery and to what ends.

The sheer scale of the rapine committed by Argentina’s leaders over the past decades, sometimes in uniform, sometimes not, has left the nation ripe for a sharp break with the past. People who feel systematically tricked by their banks, their armies, their presidents and even their bishops will either despair or figure out how to put their trust in one another and construct something new. Carrió, one of the few who dare to predict anything, says radical change is now as unstoppable as a hurricane. “A whole class is disappearing, and after a brief period of anarchy, there will be new leaders, and not just political ones,” she assured me.

Although not everyone shares her optimism and fighting spirit, Argentines are now alert to bullshit like never before. People show up at street-corner assemblies to patiently consider the activists’ speeches or the comments of their neighbors, clearly inexperienced in such matters but of necessity eager to understand what’s taking place. But for the most part, says Bleichman, Argentines simply refuse to look ahead—what has already happened is so unlikely, so implausible, that predictions or indeed logical faculties seem useless. Only one, usually unspoken, sentiment garners universal agreement in Buenos Aires today: The worst is yet to come.

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