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Institute of Current World Affairs
The Crane-Rogers Foundation
Four West Wheelock Street
Hanover, New Hampshire 03755 U.S.A.

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THE AMERICAS

Martha Farmelo is the Institute's Suzanne Ecke McColl Fellow studying gender issues in Argentina.

"Because We Believe Another Argentina is Necessary and Possible" **Solutions to the Economic Crisis**

By Martha Farmelo

FEBRUARY 20, 2003

BUENOS AIRES, Argentina – While browsing the toys at a supermarket the other day, I saw a version of Monopoly called *Deuda Eterna* or Eternal Debt, a play on Argentina's colossal and currently un-payable "external" (i.e. foreign) debt. At 49 pesos (or a little over US\$15) few families I know can afford this game.

After four years of severe recession—now a depression—unemployment today is at a shocking 24 percent. More than half the people live in poverty, a quarter are indigent and the economy shrank by approximately 11 percent in 2002. It is no wonder my four-year-old son is accustomed to seeing relatively well-dressed families with kids his age picking out recyclable paper goods and food that we had tossed into our kitchen garbage can.

Imagine a transformed Argentina a mere 12 months from now with single-digit unemployment, only two-percent indigence and six-percent economic growth. Is this just a silly scenario from *Eternal Debt*? Pass "Go" and collect \$200?

A team of more than 30 well-known Argentine economists called the *Grupo Fénix* (Phoenix Group) says it is not. They have presented Economy Minister Roberto Lavagna with a comprehensive five-year economic proposal that would



A fisherman in Mar del Plata. A sweating port-side restaurant employee unhappily responsible for attracting passers-by to stop for a meal grabbed my son's cheeks and said, "The things you have to do to earn a peso in this country! The port is dead," he added.

yield jobs and food for multitudes of people like those who live off our garbage in the first year alone. Nor is theirs the only comprehensive reactivation proposal out there.

The Phoenix Group is based at the University of Buenos Aires. According to Carlos Degrossi, Dean of the School of Economics, "The *Plan Fénix* is a solution based on ethical principles, such as solidarity and common good." These values are echoed in proposals by a leading presidential candidate, Elisa Carrió, and her *Alternativa para una República de Iguales* (Alternative for a Republic of Equals, ARI). ARI is one of the few parties to outline a detailed program for pulling Argentina out of this crisis.

Eradicate hunger with a cash redistribution. During a public presentation of the Phoenix Plan, project director Abraham Leonardo Gak told a standing-room-only audience, "The basic principle of this plan is 'No poor household' in Argentina." Its goals are to immediately redistribute income and eradicate hunger via a subsidy for unemployed workers and their children.

"No poor household in Argentina" is borrowed from the non-partisan *Frente Nacional Contra la Pobreza* (National Front Against Poverty, FRENAPO), an alliance promoted by *Central de los Trabajadores Argentinos* (CTA), the Argentine Agrarian Federation, a small-business association (*Asamblea de Pequeños y Medianos Empresarios*), and

human rights groups. In the days just before President Fernando de la Rúa's resignation in December, 2001, FRENAPO mobilized more than three million Argentines who voted "Yes" in a nonbinding "*consulta popular*" to a monthly subsidy of 380 pesos for unemployed heads of household, 60 for each of their children and 150 for senior citizens with no pension. ARI supports a similar proposal. Those proposed amounts have been increased due to inflation (which was 40 percent in 2002), while the government pays families a flat workfare subsidy of 150 pesos per month.

According to Claudio Lozano, the CTA's chief economist, in addition to alleviating poverty, this measure would jump-start the economy by channeling resources to those who spend 100 percent of their disposable income. This would immediately boost internal demand for local products, which, in turn, would generate jobs in small businesses.

Create public-works jobs. Organizations like ARI, the Phoenix Group and various Peronist labor unions are calling for a program of labor-intensive public works designed to create jobs and put money in people's pockets—classic economy-stimulating projects such as massive construction of low-income housing, or service projects such as day-care centers and community-health programs.

Reindustrialize via efficient import substitution. In contrast to IMF-sponsored trade liberalization, the Phoe-





Neighborhood assembly member Carlos Bloise (right) is active in a citizen's campaign to force the government to reduce the rapidly rising cost of electricity. His sign calls for participation in a voluntary blackout and cacero lazo (pot-banging protest) and says, "To hell with the mega-rate-hike."

nix Plan calls for a return to the import-substitution industrialization (ISI) of Juan Perón's mid-20th-century Argentina. This means using protectionist policies such as stiff tariffs and quotas to limit imports that compete with local goods until Argentina's industry is up, running and competitive. The goal is also to boost export revenue by increasing the production of value-added Argentine products (*i.e.* shoes rather than leather, or sweaters rather than wool).

Many analysts point to the inefficiencies of the 1950s' ISI experience to argue that ISI is *inherently* inefficient. Others argue that if it is correctly implemented, ISI is both efficient and essential for capitalist economic development in Argentina. According to the daily *La Nación*, in 2002 *de-facto* import substitution reached 12 billion pesos when imports fell by more than half and exports rose as a result of the mega-devaluation of the peso early in the year.

Boost tax collection. Virtually all economists agree that Argentina must raise its pathetic levels of tax collection, mostly through control of evasion. Tax reform is more controversial. To both increase tax revenue and redistribute income, ARI and the Phoenix Group would reduce the regressive value-added (sales) tax (currently 21 percent), lower taxes on essential goods and increase those on luxury items. They would make income taxes more progres-

sive and introduce currently non-existent taxes on capital gains and earned-interest income. Furthermore, they would implement hefty taxes on exports, since they believe these dollar-denominated profits "belong to the people" and should be used for the public good.

Rebuild the peso as the national currency. A currency has three functions: to be the "unit of account" by which people measure how much goods and services cost; to be the "means of exchange" in which people conduct their transactions; and to be a "store of value," the medium by which people save money. After more than ten years of peso-dollar convertibility, the dollar still somewhat overshadows the peso in each function. CTA's Claudio Lozano said it is impossible to think about a real redistribution of income without "de-dollarizing" the economy—a profound cultural change.

To spur this transformation, he argues for eliminating the use of dollars except for imports, exports, payment of foreign obligations or foreign travel. ARI's proposal is less radical, allowing for a domestic foreign-exchange market with strict controls.

Reconstitute the financial system. Rebuilding the peso is one step toward recovering confidence in the country's feeble financial institutions, a pre-condition for economic re-activation. Because Argentines have a profound distrust

of their banking system, due in some part to the December 2001 freezing of bank of accounts, this will require a significant cultural change. The Phoenix Group believes new banking laws are necessary to increase domestic-investment rates through internal savings and loans (to people and to businesses), and that foreign banks should be limited to providing credit for exports rather than acting as the motor of the economy.

Reorient international trade. Both ARI and the Phoenix Group argue that MERCOSUR (Southern Cone trading bloc) should be the centerpiece of Argentina's international-trade policy—and should extend beyond a trade pact to emulate the European Union. They are highly wary of the Bush administration's proposals for a Free Trade Area of the Americas (FTAA) that would integrate the economies of the Western Hemisphere into a single free-trade agreement. They insist that any such pact must prohibit protectionism by the US in the form of agricultural subsidies, or "dumping."

Revamp the role of the state. Using Keynesian models, the Phoenix Group argues that the government must again assume an active role in the economy through four mechanisms: strong fiscal policies (using public spending to reactivate the economy, as George W. Bush is doing in the US by shifting from a budget surplus of two percent to a deficit of 1.5 percent); monetary policies (relinquished entirely during 11 years of peso-dollar parity); exchange-rate policies (as opposed to letting the peso float freely); and regulation of financial activity, includ-

ing controls on the in- and out-flows of foreign capital.

Furthermore, they advocate renegotiating controversial contracts with formerly state-run utility companies privatized in the 1990s, and re-nationalizing the social-security system. They acknowledge the need to modernize the state with new technologies and an even more daunting challenge: creation of a more efficient bureaucratic culture.

Renegotiate the debt. Echoing Argentina's declaration of debt default in late 2001, the Phoenix Group and ARI argue that the debt is currently un-payable. Indeed, Argentina has experienced a debt spiral that resulted in a crushing debt burden. Higher interest rates increased the debt and the country's "risk premium," leading to ever-higher interest rates and debt service.

The Phoenix Group and ARI argue for a global restructuring of the debt through loan forgiveness, lower interest rates and a grace period of several years. Such proposals are controversial among creditors, but the Phoenix Group argues their feasibility, since creditors will have increased chances to be paid in the medium run, while now they receive nothing. This view was recently reflected in the local press by Guillermo Nielsen, Argentina's Finance Minister.

The Phoenix Group insists on suspending payments during debt negotiations to protect scarce Central Bank reserves and putting the commercial surplus to use for economic reactivation. Echoing the Phoe-



The massive flower market in Buenos Aires is run by a cooperative.

nix Group, labor sociologist Julio Godio says, "Argentina needs a debt moratorium and access to developed countries' markets, not foreign resources."

Furthermore, says the Phoenix Group, debt should be internal, based on domestic savings, and if international debt is incurred it should be denominated in local currency rather than dollars. Finally, private debt is the private sector's problem—the state should neither intervene nor repeat the massive transfers of private to public debt that took place in 1982 and 2001.

In contrast to these proposals, conservative Argentines and the International Monetary Fund insist that the current crisis is essentially one of government overspending. Anoop Singh is the IMF's point person for Argentina. In an April, 2002 news briefing, he reiterated the long-standing IMF position that, "In our view, failures in fiscal policy constitute the root cause of the current crisis."

The IMF argues that reduced government spending is the first step to recovery, since it will restore investor confidence and, in turn, lead to greater capital flows into Argentina. Singh says the other "planks" of economic recovery include a tight monetary policy to avoid inflation, restored confidence in the banking system, measures to reassure foreign investors, and an internationally recognized framework for the insolvency process (to determine which creditors are first in line when Argentina resumes foreign debt payments).

Furthermore, Singh emphasizes paying the debt and reaching an agreement with the IMF as preconditions for economic recovery. "I should add that such an agreement with the Fund is key to unlocking the wider international support that will be needed for the program," he said.

This analysis is seconded by two presidential candidates. One is Ricardo Lopez Murphy, economy minister for two weeks in 2001 under Radical Fernando de la Rúa. The other is former Peronist President Carlos Menem—though Menem argues for dollarizing the economy by eliminating the peso altogether.

Other Peronist candidates take mixed positions. Adolfo Rodríguez Saá, President from December 23-30, 2001, has argued for austerity and reduced public spending—but also promises 150,000 new homes in the first six months of his government, and 1,000,000 temporary jobs planting trees along the country's highways. He also advocates a Congressional investigation of the origin and legitimacy of the foreign debt as a basis for its renegotiation.

(Because Radical candidates are unable to garner more than two percent of intended votes, they are grouped in that embarrassing polling category called "others.")

The Phoenix Plan and ARI's program imply breaking with 26 years of free-market economic policies that were first implemented in Argentina during the brutal

dictatorship of 1976 to 1983. The military government reversed decades of protectionist development policies aimed at industrialization and developing the internal market. Free-market measures were intensified by President Carlos Menem, who governed from 1989 to 1999.

Support for these proposals also implies a break with the posture of current President Eduardo Duhalde. Since assuming office in January 2002, he has made negotiations for a new agreement with the IMF his first and only economic priority. Unlike the Phoenix Group, Duhalde has emphasized minimal levels of workfare as a palliative measure rather than a reactivation strategy.

According to Plan Phoenix Director Leonardo Gak, "To comply with the social contract today means concentrating the state's power and resources in the reactivation of the economy and in the eradication of hunger in Argentine homes and spurring a strategy of growth with equity. There is no future without reaching these conditions, which should guide all economic policy. Before considering the external debt," he concludes, "we must first pay the internal debt."

On one hand, "growth with equity" is not a new idea. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) began calling for this goal in the 1960s. On the other hand, insisting on "No poor household" is revolutionary, in Argentina and elsewhere.

However, the depth and duration of Argentina's economic crisis has led to apparent consensus among all but the more right-wing sectors of Argentine society that the current economic model has failed. The fact that three-million Argentines voted overwhelmingly in favor of the FRENAPPO proposal is another indication of political space for new initiatives, such as the re-distributive shock of the Phoenix Group, and CTA or ARI proposals.

Despite a prevailing lack of hope about Argentina's future—understandable after more than four straight years of economic catastrophe—there are quite a few reasons to be optimistic about the future. Argentina has enormous productive capacity, significant commercial- and current-accounts surpluses, and formidable human potential and natural resources. In addition, the risk of post-devaluation hyperinflation has passed, and most restrictions on banking withdrawals (known as *el corralito*) were recently lifted with no run on the banks or on dollars.

Furthermore, it would appear that the economic freefall is slowing—without the agreement desperately sought from the International Monetary Fund (IMF). Third-quarter 2002 growth was estimated at 1.5 percent (compared to *negative* first quarter growth of 16.3 percent) and exports have increased. It is still too early to say that the economy is in recovery, but these are encouraging signs.

Countless Argentines shake their heads and have very little to say when I ask how Argentina might emerge

from its economic crisis. Home from work with an upset stomach and back problems, one woman told me, "I know myself. I think this illness is stress. Damn them! Is there any solution to all this?"

These proposals may be debatable and flawed, yet the very existence of comprehensive, detailed, ideas about how to lift Argentina out of the economic crisis is a source of some optimism. It was with enormous pride that Dr. Gak announced in a jammed auditorium, "Because we believe that another country is not only necessary but also possible, the men and women of the Phoenix Group present today... a series of proposals that will permit Argentina to recuperate [on] a path of sustained growth with an equal distribution of wealth among all of its inhabitants."

The Phoenix Group recognizes that growth with equity will require a democratic state plus sufficient institutional and judicial solidity to ensure contractual stability in the financial and business sectors of the economy—no more freezing of bank accounts or "pesification" of debts and contracts. The Phoenix Group also recognizes the need for broad support for a common plan and calls upon political parties to build such consensus.

However, existing political parties are so profoundly

de-legitimized that it is impossible to imagine them playing this role. The Phoenix Group does call for profound political reform that links "representatives and represented" and establishes strict control of society by its elected representatives to ensure far more efficient public administration. As if those challenges weren't daunting enough—in fact, probably out of reach for Argentina in the short-run—they also recognize the need for a new social contract and a new national identity. Similarly, ARI also calls for establishing new moral and social contracts.

Echoing MJF-15 (*Six Reasons To Believe: "In this Country Anything Can Happen"*), no one knows when Argentines will vote next. Presidential elections are supposed to take place on April 27, 2003, yet power struggles inside the Peronist party threaten to postpone the voting until October or even later. Will Argentines elect ARI's Elisa Carrió and, in doing so, choose a road marked by growth with equity? Will they choose populist Peronist Adolfo Rodríguez Saá with his mixed bag of economic proposals? Or even dollarization-proponent Carlos Menem? Although at least one-third of Argentines claim they will annul their ballots or simply abstain from voting, the outcome may help indicate where Argentines want to go from here. □



With donated machinery from a nearby shuttered factory, unemployed workers in La Matanza in the province of Buenos Aires formed a cooperative to make espadrilles, traditional Argentine footwear, especially in the countryside. Photo by Carmen Espinoza.

INSTITUTE OF CURRENT WORLD AFFAIRS

Fellows and their Activities

Alexander Brenner (June 2002 - 2004) • **EAST ASIA**

A linguist who has worked as a French-language instructor with the Rassias Foundation at Dartmouth College and also has proficient Mandarin and Spanish, upper-intermediate Italian, conversational German and Portuguese, and beginning Cantonese, Alex received a B.A. in History from Yale in 1998 and has just completed a Master's degree in China Studies and International Economics at the Johns Hopkins School of Advanced International Studies. He is preparing for his two-year ICWA fellowship in China with four months of intensive Mandarin-language study in Beijing. His fellowship will focus on the impact of a new government and a new membership in the World Trade Organization on Chinese citizens, institutions and regions both inside and far from the capital.

Martha Farmelo (April 2001- 2003) • **ARGENTINA**

A Georgetown graduate (major: psychology; minor, Spanish) with a Master's in Public Affairs from the Woodrow Wilson School at Princeton, Martha is the Institute's Suzanne Ecke McColl Fellow in Argentina. Married to an Argentine economist and mother of a small son, she is focusing on economic and societal issues. Martha has been involved with Latin America all her professional life, having worked with Catholic Relief Services and the Inter-American Development Bank in Costa Rica, with Human Rights Watch in Ecuador and the Inter-American Foundation in El Salvador, Uruguay and at the UN World Conference on Women in Beijing.

Andrew Rice (May 2002 - 2004) • **UGANDA**

A former staff writer for the *New York Observer* and a reporter for the *Philadelphia Inquirer* and the Washington Bureau of *Newsday*, Andrew will be spending two years in Uganda, watching, waiting and reporting the possibility that the much-anticipated "African Renaissance" might begin with the administration of President Yoweri Museveni. Andrew won a B.A. in Government from Georgetown (minor: Theology) in 1997 after having spent a semester at Charles University in Prague, where he served as an intern for *Velvet* magazine and later traveled, experienced and wrote about the conflict in the Balkans.

Matthew Z. Wheeler (October 2002-2004) • **SOUTHEAST ASIA**

A former research assistant for the Rand Corporation specializing in South and Southeast Asia, Matt will spend two years looking into proposals, plans and realities of regional integration (and disintegration) along the Mekong River, from China to the sea at Vietnam. With a B.A. in liberal arts from Sarah Lawrence and an M.A. from Harvard in East Asian studies (as well as a year-long Blakemore Fellowship in Thai language studies) Matt will have to take long- and short-term conflicts in Burma, Thailand, Laos and Cambodia into account as he lives, writes and learns about the region.

James G. Workman (January 2002 - 2004) • **Southern Africa**

A policy strategist on national restoration initiatives for Interior Secretary Bruce Babbitt from 1998 to 2000, Jamie is an ICWA Donors' Fellow looking at southern African nations (South Africa, Botswana, Mozambique, Zambia and, maybe, Zimbabwe) through their utilization and conservation of fresh-water supplies. A Yale graduate (History; 1990) who spent his junior year at Oxford, Jamie won a journalism fellowship at the Poynter Institute for Media Studies and wrote for the *New Republic* and *Washington Business Journal* before his years with Babbitt. Since then he has served as a Senior Advisor for the World Commission on Dams in Cape Town, South Africa.

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Phone: (603) 643-5548
E-Mail: ICWA@valley.net
Fax: (603) 643-9599
Web Site: www.icwa.org

Executive Director: Peter Bird Martin
Program Assistant: Brent Jacobson
Publications Manager: Ellen Kozak

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