

La Nueva Argentina

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On Aug. 1, 2014, Argentina defaulted to its creditors for the second time in the past 13 years. It was the rather predictable conclusion to a lawsuit that had spanned years and involved the hedge funds that held the original bonds, on which the country had defaulted in 2001. After the first default, Argentina unilaterally restructured these bonds in both 2005 and 2010, ultimately promising to pay back 35 cents per dollar. Many accepted this offer, but it failed to appease several hedge funds, which demanded that Argentina repay the full amount. Spearheading the fight was Elliott Management Corporation, led by Paul Singer.¹ Argentina argued that Elliott had purposely bought discounted bonds for \$48.7 million, though according to the government, the bonds were worth \$832 million.²

August's default is simply another chapter in a saga that stretches back over the past century. In the late 19th century and in the beginning of the 20th century, Argentina enjoyed great wealth, but faulty economic policy and constant political violence destroyed a once prosperous nation. A series of military coups led to the election of Juan Perón, the leader immortalized in the musical *Evita*, whose name still lends itself to the political ideology that influenced the presidents in office during the past two defaults. Although lauded as a populist movement and a vast departure

from the military regime that dominated Argentine politics, Perón's policies and ideas, as followed by current President Cristina Fernández de Kirchner and former President Carlos Menem, led to the two respective defaults of the past decade.

"Peronism" was an idea born in tumultuous times, but militaristic juntas didn't always dominate Argentina. The period of the late 19th to the early 20th century up until the First World War was a golden age in Argentina. President Julio Argentino Roca, who served from 1880 to 1886, advocated policies that made Argentina a player in the world economy. Its exports were largely agricultural goods, and its imports were consumer goods, technology and capital. Although this hurt the lower working class and the money that flowed in from international trade went directly to those in power, the argument for this economic model was that the country was simply pursuing its competitive advantage in the marketplace. It was cheaper to buy certain goods abroad than to produce them at home. Nevertheless, this created a nationalist anti-foreign sentiment against Great Britain in particular, which would last for years. Great Britain made up 20 percent of Argentina's exports in 1887, and nearly double that in imports. By the outbreak of World War I in 1914, agricultural goods accounted for 90 percent of the

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country's imports, and 85 percent of those were sent to Europe.³

During this golden age, GDP growth led the world at the time, an impressive six percent per year. Immigrants flooded in from Europe in search of work on the *pampas*, where the fertile fields and cattle ranches fueled the roaring and robust engine that was the Argentine economy. The influx of people from places such as Wales, Germany and France gave this economy a larger workforce and produced a unique culture reminiscent of that of a European nation.⁴ It was one of the 10 richest nations in the world, behind Australia, Britain and the United States, but before France, Germany and Italy. However, trade toppled after the First World War. As foreign investment returned to investors' respective home nations, local banks were too few and short on capital to make up for it. A second critical issue was that the economy centered on commodities, as Argentina wasn't an industrialized nation. The only technology that it had access to during *La Belle Époque* — the golden age — was railroads. The development of technology wasn't one of its specialties, partially because education was limited to the

oligarchy, and it was in the oligarchy's interests for Argentina to remain an agrarian power rather than an industrial one.⁵

Accompanying the creation of factories would be the creation of a new middle class that owned the factories, which would loosen the grip of the wealthy landowners in the *pampas* on the political and economic power they enjoyed. Not surprisingly, this concentration of wealth and power, instead of maintaining the status quo, may have led to its demise. Change of any sort would shake the foundations of this upper class' very comfortable position, which is why the oligarchy was so against an industrialized economy.

Perhaps the clearest forerunner to the Peronist Party was the *Unión Cívica Radical* (UCR), which came into power after World War I. Its founders were largely middle class, and its platform was fair, universal elections and revolutionary change. Like Peronism, there was no clear ideological framework: Its constituents were the collective people, and its goal was to transform the nation and create a "fairer" society. Party leader Hipólito Yrigoyen was the first president elected under universal male suffrage in 1916. However,

his administration did more to support the status quo than to alter it. One accomplishment was strengthening the idea of import substitution, which is something that Perón would establish as the country's main economic policy in the future. This strategy was designed to shift Argentina away from dependency on foreign goods and instead help to build industry of its own through tariffs or quotas to discourage foreign investment. In his second term, Yrigoyen tried to fully nationalize the oil industry under the state oil company, *Yacimientos Petrolíferos Fiscales* (YPF). In order to garner support for this motion, he ran anti-U.S. and, in particular, anti-Standard Oil propaganda, but he faced both political and economic difficulties. The lack of congressional backing and the unfeasibility of YPF being able to shoulder domestic demand led to imminent failure. Yrigoyen's unpopularity combined with the beginning of the Great Depression resulted in his removal from power in a *coup d'état* orchestrated by General José Félix Uriburu.

Uriburu began his presidency addressing Argentina's economic woes. He slashed spending and fashioned public works programs in an attempt to lower unemployment. He too, however, was as unpopular as his predecessor was, and attempted to mitigate this through oppression and the dissolution of Congress. After two years, Agustín Pedro Justo, another military general,

replaced him. Justo was a member of a political coalition known as the *Concordancia*, which was infamous for rising to power through electoral fraud.⁶

In 1943, the *Concordancia* was overthrown by another coup, this one instigated by *Grupo de Oficiales Unidos* (GOU), the United Officers' Group, a secret society of Argentine army officers. Among their ranks was Colonel Juan Perón, who was largely regarded as the head of the operation. As Secretary of Labor, he took a vested interest in the welfare of the working class counter to the attitude that many presidents took of maintaining the current order. As a result, it was the labor force that made up his largest base of support when he ran for president three years later.

It was from Perón's first term that most of the party's philosophy is drawn. He shaped a Five-Year Economic Plan with the intention of fully industrializing the nation and eliminating reliance upon foreign exports. There was a fundamental disconnect between the plan and the reality: Perón had risen to the office of president through anti-foreign rhetoric and nationalist sentiment, but some degree of foreign investment was still needed in order for the economy to flourish. A year before his election, Spruille Braden, the U.S. ambassador to Argentina, denounced Perón's "neurotic nationalism," which even into his presidency strained the

relationship between the two nations.⁷

It's from this history of advocating Argentine interests and nationalization of industry that many of de Kirchner's policies are derived. The most striking was the partial re-nationalization of YPF in 2012. Although the government only holds a controlling stake and not the entire company, the action still reaped criticism from the European Union. The 2001 default virtually shut Argentina off from credit markets, and the recent fight with Elliott Management and de Kirchner's characterization of foreign bondholders as "vultures" did no favors in repairing its international standing.⁸ Even now, Argentina has taken a firm nationalist stance in foreign policy, in an attempt to save its crumbling economy.

In order to improve its financial position, Argentina must be willing to relinquish its past views on economic dogma. Since Perón, and, to an extent even before him, Argentina has allowed anti-foreign sentiments to fester, which in effect has stifled its economic growth as a nation. In 2007, it was ruled against in a case concerning it and the British natural gas company BG Group. The U.S. Supreme Court had previously ruled in favor of BG Group, which claimed that the country was attempting to force it out of business, likely in an attempt to help the domestic natural gas business. Instead of

accepting the ruling, it returned to U.S. court to appeal the international court's decision.⁹ In the end, the Supreme Court upheld it, but this is a prime example of the economic friction that exists between Argentina and other countries. The only way forward is to thaw the ice that has frozen trade relations.

Argentina must attract foreign investment while at the same time preserving its own advantages in the world marketplace. Even today, one of its biggest exports is commodities, exports of which are almost 14 percent of the economy.¹⁰ However, technology is key to building any advanced economy, but to gain technology it must become an inviting place for tech companies. One of the ways in which it may do this is by incentivizing investment in industry. This was done in May 2014 with the biofuel industry. Export taxes were cut from 21 percent to 11 percent on alternative fuel. The biggest players in this industry are international grain companies Cargill, Bunge and Louis Dreyfus.¹¹ Such policies could

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increase output and keep foreign companies in Argentina, which benefits the economy as a whole.

The immigrants that flooded into Argentina during its golden age once built its then-robust economy and kept it going. This necessary today, though in a

different capacity. Although nationalism is a fixture in any country, and can be a motivation to improve, it must not become a barrier to moving toward the future. The support of the ordinary worker and the dedication to fighting social fainjustice which are hallmarks of Peronism are only

part of what the party represents. To ensure that default and economic recession don't continue to be the norm in Argentina, its leaders and its people alike must seriously reevaluate the myth of Juan Perón and its relevance in the 21st century world.

¹ O'Brien, M. (2014, August 3). Everything you need to know about Argentina's weird default. *The Washington Post*. Retrieved September 22, 2014.

² Fontevecchia, A. (2014, July 1). Argentina Vs. Billionaire Paul Singer's Elliott Management: Who Has The Upper Hand? *Forbes Magazine*. Retrieved September 23, 2014.

³ Hedges, J. (2011). *Argentina a modern history*. London: I.B. Tauris.

⁴ Irlbeck, E. (n.d.). Early Immigration to Argentina. Latin American Information Center. Retrieved October 6, 2014, from http://lanic.utexas.edu/project/etext/llil/as/outreach/argentina11/irlbeck/irlbeck_immigration.pdf.

⁵ *The Economist*. The tragedy of Argentina: A century of decline. (2014, February 15). Retrieved September 24, 2014.

⁶ Hedges, J.

⁷ *Columbia University*. Coming to terms with Juan Perón is necessary for two reasons. (n.d.). Retrieved September 24, 2014.

⁸ Romero, S. (2012, April 26). Move on Oil Company Draws Praise in Argentina, Where Growth Continues. *The New York Times*. Retrieved September 24, 2014.

⁹ Samp, N. (2014, September 4). Actions Speak Louder Than Words: Argentina Continues To Stiff Its Creditors. *Forbes*. Retrieved October 7, 2014, from

<http://www.forbes.com/sites/wlf/2014/09/04/actions-speak-louder-than-words-argentina-continues-to-stiff-its-creditors/>

¹⁰ Argentina Sector Strengths. (n.d.). LATIA -. Retrieved October 7, 2014, from <http://www.latia.org/index.php/argentina-a-sector-strengths>.

¹¹ Rizzi, M. (2014, May 30). Tax cuts seen spurring Argentine biodiesel exports this year. *Reuters*. Retrieved October 7, 2014, from <http://www.reuters.com/article/2014/05/30/argentina-biodiesel-idUSL1N0OF1S220140530>