

## ADAPTATION IN ARGENTINA: EFFECTS OF INFLATION AND DEMOCRATIZATION <sup>1</sup>

A.L. Rydant  
Keene State College

*ABSTRACT. Modern Argentina faces a host of development problems, often typical of 2nd world nations. As the state grapples with double-digit monthly inflation, its people adopt a series of unique coping mechanisms which strongly influence the prospects for growth and prosperity. Similarly, the state is emerging as, and attempting to entrench, a democratic society following a lengthy and torturous period of military rule. These twin issues, inflation and democracy, are all-consuming in Argentina today and will be addressed in this paper.*

Argentina is a developing nation in the Latin American world characterized by poverty, extreme debt loads, and increasingly precarious economic systems. While the prospects for Argentina are certainly better than those for such states as Paraguay, Bolivia, or Peru, the country faces an uncertain future as it attempts to put its economic house in order and leave behind a long legacy of military rule. This paper will attempt to judge Argentina's future prospects via two key issues facing the people today, namely, the ravages of inflation and its attempts to restore democracy.

The research base for this paper emanates from my experiences as a Fulbright Fellow in Argentina from June to August, 1990. Information is based upon a series of interviews, lectures, and seminars throughout the country with such individuals as former President Raul Alfonsin (1983-89); the Minister of Taxation (IRS); Dr. Gustavo Wolfenson, former Ambassador to Mexico and a director of the Raul Prebisch Foundation (a major economic think-tank); the Honorable Carlos Grosso, Mayor of Buenos Aires; Governor Eduardo Angeloz of Cordoba Province; and a host of other national leaders and academics from the universities of Buenos Aires, Cordoba, and Cuyo.

The results are reported here in human terms rather than in the form of economic facts or analyses. The latter are, in essence, simply inaccurate in Argentina today. Viable economic statistics are routinely unavailable and, at best, suspect. Guesswork prevails at all levels. The government is unable to gauge the true costs of its system of subsidies or of the laws it passes; it adjusts economic figures and estimates daily. Planning is based upon an unstandardized base, that is, one ministry uses one set of criteria or data while another utilizes a different data base. Consequently, inflation rates or monetary supply projections depend largely upon your source. With this in mind I am attempting here to place the issues of inflation and democratization in human terms; to examine the human drama of a nation in transition.

### Inflation

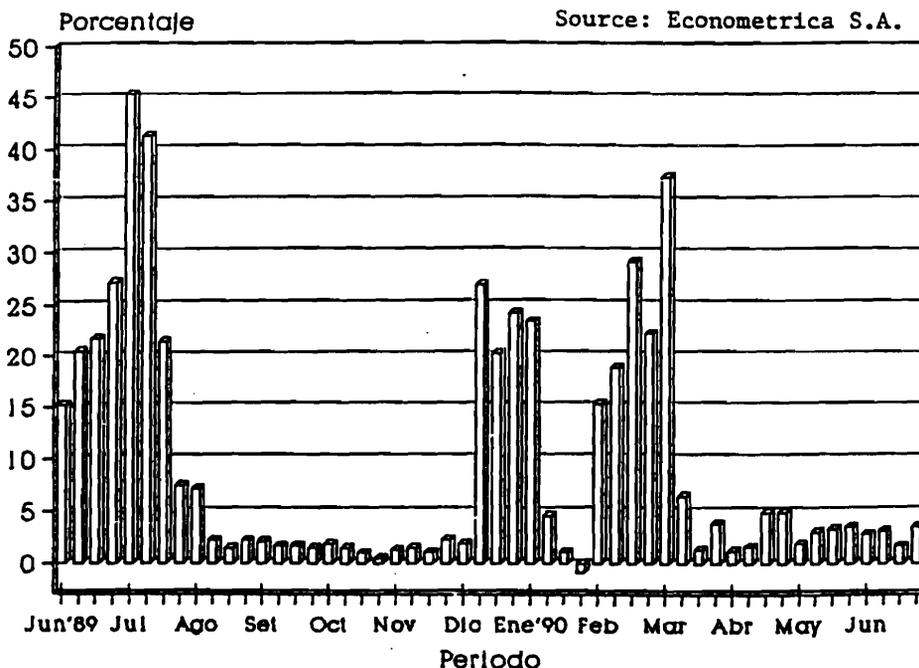
Argentina is emerging from a period of hyperinflation which saw the rate exceed 640% in 1989. One measure actually placed the increase at over 12,000% (Goodwin, Jr. 1990). On a monthly basis we can see substantial volatility (Figure 1). For example, weekly rates for July 1989 were 45, 41, 21, and 7% for a monthly total of 168%. During that first week, inflation averaged some 6.5% per day. Using the INDEC scale (Figure 2), which is presumably a range of leading economic indicators, the rate for July 1989 approached 200%. Today (pre-Iraqi invasion of Kuwait), monthly rates seem to be settling in the 10-12% range.

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FIGURE 1

Evolucion semanal de la Inflacion

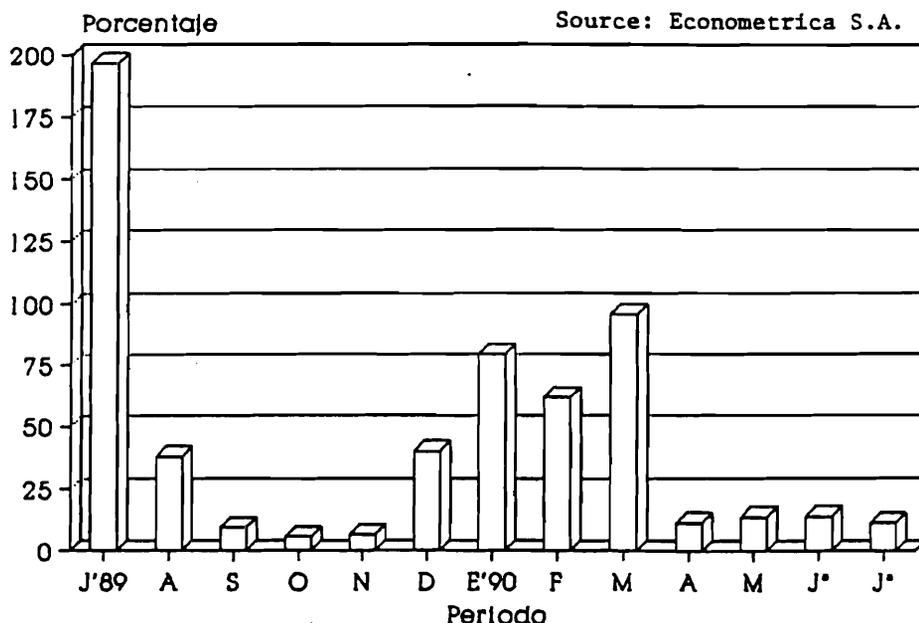


In recent months the government has pursued anti-inflation policies designed to hold the monthly rate to less than 10%. The necessary measures for such a program have been couched in the concept of a new social compact designed ostensibly to restore government credibility in both the marketplace and with the populace (Villaneuva 1990). Priority efforts include stability in food prices, exchange rate controls, and perhaps most notably the sale of a host of state-owned industries, which, it is hoped, will reduce the subsidy hemorrhage of some \$4.5 billion annually (Miguenez 1990). Privatization in the last two months has led to the sale of ENTEL, the state phone system, to Bell Atlantic and the Spanish telephone network; Aerolíneas Argentinas was privatized; and sectors of the national rail network have been auctioned off. Similarly, major components of the inter-provincial highway network have been turned over to private firms which will maintain and upgrade roads in return for the right to collect tolls. The University of Cuyo (Universidad Nacional de Cuyo) sports complex (soccer) may be privatized while the Federal Capital District of Buenos Aires will soon relinquish ownership and management of such municipal services as trash collection and street cleaning and maintenance to its employees (Grosso 1990).

But this is all coping at the administrative level. Has the nation's embrace of what some call Reaganomics worked? Are the people buying into this new (economic) social compact? Is inflation being tamed? The answers are a qualified no. As state assets are sold to foreign interests at seemingly fire sale prices, fears about a new era of neo-colonialism are emerging. The people are not saving money or delaying purchases. Perhaps a few cost and wage figures will clarify why. In July 1990 municipal tax rates in Buenos Aires rose 400%, adding to a previous increase which boosted the total 1990 hike to 6200% (Buenos Aires Herald 1990). Telephone charges increased 1700%, bus fares 20%, gasoline almost 53%, and laundry services rose 15% in one week. Saving for the future in such times is untenable, especially in light of a government freeze on

FIGURE 2

Evolucion de la Inflacion  
Segun INDEC



\* Estimada

savings accounts for a lengthy period last year. A few wage rate examples will clarify the individual's dilemma. A full-time janitor/electrician in Buenos Aires draws a salary of \$100/month; a beginning teacher \$40; an assistant professor \$200; and a full-time professor with a Ph.D. and 20 plus years of experience tops-out at \$550/month. Not one of these salaries reaches the level judged necessary by the government or unions to support a family of four (Weinberg 1990).

Argentines respond to such pressures in a variety of ways, some unique -- most sad. Virtually everyone has two jobs, many have three. We witnessed the elderly selling family heirlooms and jewelry at street fairs. Bank savings are virtually non-existent, forcing banks to offer astronomical rates to attract capital. In June 1990, a seven-day deposit at the Banco Rio earned 162% and the bank offered 207% for a 31-day note. Such instability often drives funds offshore to Uruguay, the United States, and Europe. Some estimates show that upwards of \$40 billion left Argentina in 1989-90 (Miguenez 1990). The wealthy avoid paying taxes, perhaps to maximize interest rate returns, and most bills go unpaid, especially utility charges, which just further exacerbates municipal financial problems (Miguenez 1990; Boron 1990). Innovative methods of skimming and service charges appear daily -- every personal service offered now has its price.

On payday, when rents are due or when the U.S. dollar fluctuates, people line up at banks and cambios (exchanges) for blocks playing the currency market day by day. Hundreds of thousands of man-hours and productivity are lost while people wait in such lines. Most bills must be paid in cash, preferably in new, unmarked U.S. dollars. Bills marked in any way or with the slightest tear are discounted 10%. Everyone -- everyone plays the buy-sell currency game. Daily exchange rates are the benchmark for tomorrow's activities. Merchants routinely add a 10-50% surcharge for credit card purchases. Bills often go unpaid or are delayed for months on end. President Menem refused to pay

the 1700% increase in his phone bill -- his service was terminated. Only American Express travelers checks are accepted, and only at their main corporate office. There is a purchasing, cashing, and exchange rate fee. In Buenos Aires, formerly one of the world's wealthiest cities and labelled the Paris of Latin America, children panhandling at traffic lights are a common sight.

Yet despite the hardships such circumstances impose, the people seemed at ease, their air of cosmopolitanism hardly diminished. They retained their sense of dignity and humor; they were confident of their nation's will and ability to survive and succeed. Nowhere was this more evident in their belief and quest for democracy. Let us now focus our attention on that issue.

### Democratization

The history of democracy in Argentina is, at best, checkered. While born into it in 1810 on principles borrowed from the United States and France, the nation was really governed for the first century by a small, self-serving, wealthy oligarchy of European descent (Luna 1990). Real democratization and grassroots mobilization began only in 1910 as laws were enacted to allow universal participation in governance (Miguenez 1990). Yet, this process lasted only 20 years, derailed in 1930 by a period of electoral frauds, juntas, and instability. As the military consolidated power, it began the process of turning the state inward, of protectionism, and of viewing itself as the only responsible force able to sustain Argentina. The militarization of national affairs was institutionalized (Boron 1990; Luna 1990).

This stage lasted some 50 years and culminated in the torturous military regimes of the 1970's and early 1980's. Urban guerrillas paralyzed city life; rural insurgencies saw several regions pass into "communist" hands. Ultimately, the Peron government passed the full reins of power to the generals by authorizing the elimination of the guerrillas "to extinction" (Ordonez 1990). While space does not allow a full discussion of this action, the results led to an orgy of violence; the disappearance, torture, and murder of some 10-11,000 citizens; the emergence of the famous Mothers of the Plaza de Mayo; and the Malvinas Conflict. In 1983 the disgrace of the nation was put aside with the election of Raul Alfonsin, the first truly democratically elected president in 50 years. He began the cleansing process with the trials of the top military leaders deemed most responsible for recent horrors. Most penalties for criminal offenses were struck from the books and the Armed Forces were dispatched to their barracks. Democratization emerged as the passion of modern Argentina.

Alfonsin's platform sought to restore the ideals of democracy and solve the state's economic woes. He succeeded in the former, but the failure of his debt restructuring program and Austral Plan created a base for the runaway inflation noted above. The popular quest for the full restoration of democracy has become the opiate of the masses, monopolizing virtually all discussions by cabbies, coffeeshop patrons, homemakers, businesspeople, and of course politicians. The depth of intensity of discussions witnessed is beyond belief, something Americans are unlikely to ever experience in modern times. Governor Angeloz understates the issue when he notes that "we are today a very political society; politics is constantly discussed at all places, at all times, at 18 of 20 tables (in any bar)" (Angeloz 1990).

Democracy, however, is much easier to discuss than implement. The necessary constitutional reforms are not so readily forthcoming in an intense and jealously-guarded tri-partisan system. Generations raised in the absence of democracy are uncertain how to proceed (Ferner 1990). The nation is still in the process of learning such principles and of overcoming its inherent, deep-seated fears of criticizing the power structure.

Dictatorial persecutions and the Dirty War are still all too fresh in the minds of many (Moreno 1990).

The new democracy envisioned must, in essence, be based upon a new federalism and a new geographic alliance among the Provincial States. Elected officials, however, cannot even agree on which federalist model to adopt. The United States, Canada, and France are the three most often cited ideals (Luna, 1990). Yet all agree that state, senate, and presidential reform is necessary; that human rights must follow; and that bipartisanship must be dampened for Argentina to move forward (de la Rua 1990; Angeloz 1990; Grosso 1990).

I believe the national passion for democracy is aptly summed up in the words of the Honorable Carlos Grosso, Mayor of Buenos Aires. As one who was captured and tortured for one month under military rule and whose children's toys were confiscated by soldiers, his reflections on democracy are powerful. Argentine democracy, he says, is the "structural revenge on these people -- on those military rulers and dictatorships of the past who tortured and murdered our own people. It is my 'spiritual resolve' that my sons will never experience what I experienced. The way to do that is via democracy" (Grosso 1990).

### Conclusions

We have briefly examined two key issues facing Argentina today. They point to a troubled but promising future. Solving inflation and debt by selling the family assets is, to say the least, disconcerting to many. Discussions about restoring full democracy have been going on for eight years now. It is time for action. As Daniel Ortega noted on a state visit to Argentina, "the time for talking is over; do not talk about doing things -- do them" (Ferrar 1990). In a nation with a viable, albeit deteriorating, infrastructure, a rich land base, a strong sense of purpose and work ethic, and an all-consuming passion for democracy, the future can be bright.

Argentina has chosen its path for the remainder of the 20th century. The next decade will be perhaps the most significant in its modern history. I believe we must assist the people of Argentina in their journey, for they represent one of the most significant economic, cultural, and human assets in Latin America.

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