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Argentina's Political Upheaval

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Summary

Argentina's democratic political system has been under considerable stress since social protests over the country's rapidly deteriorating economy led to the resignation of President Fernando de la Rúa on December 20, 2001. After a series of short-lived interim presidents, Peronist Senator Eduardo Duhalde was sworn in to serve out the remainder of de la Rúa's term of office until December 2003. President Duhalde faces critical political and economic challenges, most significantly his ability to quell social unrest associated with the country's financial instability. The dilemma for Duhalde is that the economic measures to revive the economy likely will exacerbate social and political tensions. President Bush has said that the United States is prepared to help Argentina through the international financial institutions, but only when Argentina has committed to a sound and sustainable economic plan. This report, which will be updated as events warrant, examines the Argentina's political upheaval, the outlook for the Duhalde government, and implications for the United States. For information on the economic situation, see CRS Report RS21072, *The Financial Crisis in Argentina*.

Political Background

Argentina's recent political upheaval should be viewed in the context of its historical political development. Before 1930, Argentina enjoyed some 70 years of political stability that facilitated rapid economic development, and made Argentina one of the world's wealthiest countries. It ranked seventh in the world in per capita income in the 1920s.¹ In contrast, from 1930 until 1983, Argentina experienced significant political instability, characterized by numerous military coups, 25 presidents, 22 years of military rule, and 13 years of "Peronism."²

¹ Thomas G. Sanders, "Argentina and the Politics of Economic Distress," UFSI Field Staff Reports, 1988-89, No. 4, p. 1.

² Carlos Waisman H. "Argentina: Autarkic Industrialization and Illegitimacy," in *Democracy in Developing Countries, Volume Four: Latin America*, edited by Larry Diamond, Juan L. Linz, and Seymour Martin Lipset, Boulder, Colorado: Lynne Rienner Publishers, 1989, p. 63.

When the military intervened in 1943, the regime came to be dominated by a colonel serving as Secretary of Labor, Juan Peron, who went on to build a formidable political base through support from the rapidly growing union movement. Peron was elected president in 1946 as the candidate of the Argentine Labor Party, which later became the Peronist Party. During his presidency, Peron bestowed considerable benefits on Argentina's working class through wage increases, fringe benefits, and the creation of a social security system. He also emphasized rapid industrialization of the economy by establishing state-run industries protected by trade barriers, a process also known as import-substitution industrialization.³

Peron's mobilization of the working class had an enduring effect on Argentina's political system over the next four decades. Even when Peron was ousted by the military in 1955, Peronism as a political movement survived despite attempts by the military and anti-Peronist sectors to defeat it. After his ouster, a series of civilian and military governments ruled until 1973 when Peron was reelected to office after 18 years of exile. Just a year later, however, Peron died and was succeeded by his second wife Isabel, who had little political experience. Economic and political chaos ensued, with political violence surging and Argentina experiencing its first bout of hyperinflation.

As a result, the military intervened once again in 1976, but this time ruled directly until 1983, when it fell into disrepute in the aftermath of its failure in the Falkland Islands (Islas Malvinas) war with Great Britain in 1982. It was during this period that the military conducted the so-called "Dirty War" against leftists, guerrillas, and their sympathizers, and thousands of Argentines "disappeared."

In 1983, Argentina returned to civilian democratic rule with the election of Raul Alfonsin of the moderate Radical Civic Union (UCR). Alfonsin was widely credited with restoring democratic institutions, but economic conditions during his tenure were chaotic, with hyperinflation and considerable labor unrest. As a result, Alfonsin left office six months before his six-year term ended, letting the winner of the 1989 election, Carlos Menem of the Justicialista Party (PJ, formerly the Peronist Party), take office early.

Menem transformed Argentina from a state-dominated protectionist economy to one committed to free market principles and open to trade. Most state enterprises were privatized, hyperinflation was eliminated, and the economy was opened up to foreign trade and investment. In 1991, under the direction of Minister of Economy Domingo Cavallo, the government pegged the Argentine peso to the U.S. dollar and limited the printing of pesos to the extent that they were backed by U.S. dollars, a policy which helped keep inflation in check, but as we now know, became a major factor in Argentina's recent financial turmoil.⁴ What made Menem's transformation of the Argentina even more extraordinary was that he broke with the traditional Peronist protectionist policies favorable to the working-class and labor. Under Menem, the PJ began to attract middle-

³ William Ratliff and Roger Fontaine. *Changing Course: The Capitalist Revolution in Argentina*. Stanford, California: Hoover Institution, 1990, pp. 12-13.

⁴ Ultimately, the dollar peg led to an overvaluation of the peso, making Argentina's exports uncompetitive, while continued overspending led to large increases in external debt. See CRS Report RS21072, *The Financial Crisis in Argentina*, by J.F. Hornbeck.

class voters and even some business interests.⁵ Yet increasing corruption and high unemployment at the end of Menem's second term were factors that led to the defeat of his party in the October 1999 elections – Menem himself was prohibited constitutionally from seeking a third term.

From De la Rúa to Duhalde

Fernando de la Rúa won the October 1999 presidential race as the candidate of an electoral coalition known as the Alliance for Work, Justice, and Education, that brought together de la Rúa's moderate Radical Civic Union (UCR) and the leftist Front for a Country in Solidarity (Frepasso). De la Rúa ran on a platform of fighting corruption, curbing crime, and funding new social programs by cracking down on tax evasion by the rich. Capturing about 48% of the vote, de la Rúa soundly defeated the Peronist party candidate, Eduardo Duhalde, who received 38%. The Alliance also won the largest bloc in the Chamber of Deputies, the lower house of the Argentine Congress, while the Peronists controlled the Senate.

While there was initial optimism when de la Rúa took office in December 1999, that optimism had faded by the end of 2000 because of doubts about the government's ability to bring about economic recovery and because of corruption in the administration. While the government negotiated several financial arrangements with the International Monetary Fund (IMF) in 2000 and 2001, the most recent in September 2001, the de la Rúa government was unable to fulfill IMF imposed conditions relating to spending cuts. De la Rúa also faced problems within his own governing coalition, and Vice President Carlos Alvarez of Frepasso resigned in October 2000 to protest the government's failure to aggressively investigate a Senate bribery scandal.

Because of the declining popularity of the government, the Alliance fared poorly in the October 2001 congressional elections. As a result of the elections, the PJ continued to control the 72-member Senate and became the largest bloc in the 257-Chamber of Deputies. Another party that fared well was the newly formed center-left Alternative for a Republic of Equals (ARI) that won 17 seats in the lower house and became the third most important bloc. Comprised largely of dissidents from the Alliance, its base is concentrated largely in Buenos Aires. While ARI fared well, the center-right party of then Finance Minister Domingo Cavallo, Action for the Republic (AR), lost three seats in the lower house. Perhaps the most important outcome of the election was the rise in the blank or negative vote, which accounted for 21% of all votes cast (compared to 6% in the 1999 election). The large negative votes illustrated the population's dissatisfaction with current political parties, even the Peronists. In some electoral districts, negative votes surpassed those of the winning party. The government's loss in the elections made it more dependent on the opposition, not only in Congress, but in the provinces, where Peronists controlled many of the governorships. De la Rúa's own coalition continued to have problems, with 12 out of 17 Frepasso deputies leaving the coalition in late October 2001.⁶

⁵ Manuel Pastor and Carol Wise, "From Poster Child to Basket Case," *Foreign Affairs*, November/December 2001.

⁶ Economist Intelligence Unit, *EIU Country Reports, Argentina*, "Political Scene," December 1, 2001.

Meanwhile, the government faced a deepening economic crisis. In November 2001, President de la Rúa announced a debt restructuring package that proved unsatisfactory to the international financial institutions. While the IMF provided some \$12 billion in funding to Argentina from March 2000 until September 2001, it ultimately declined further financial support in December 2001 because Argentina could not produce a balanced budget. In late November, Argentines began rapidly withdrawing dollars from banks until the government limited withdrawals to \$1,000 per month. The denial of access to bank funds, combined with already high poverty and unemployment rates after four years of recession, sparked widespread opposition to the government. The country's major labor confederations held two days of nationwide strikes beginning in mid-December in opposition to the banking limitations and proposed austerity measures, while the opposition-controlled Congress vowed to oppose the government's proposal to cut spending by one-fifth to balance the budget.

As confidence in the government evaporated, widespread demonstrations erupted around the country, with thousands calling for the President's resignation and supermarkets ransacked. President de la Rúa responded by declaring a state of siege and signing an emergency decree to provide food to provinces where there were protests. Last minute efforts by the President to work out a power-sharing arrangement with the opposition proved unviable as widespread protests continued. Middle class Argentines participated in spontaneous demonstrations, filling the Plaza de Mayo in front of the presidential palace in Buenos Aires. Protests turned violent with rioters battling police with stones and bottles. Some 28 people were killed in the protests and hundreds were injured. Some blamed riot police for over-reacting to peaceful demonstrations.

As a result of the violent protests, President de la Rúa fled the presidential palace and resigned on December 20, 2001, paving the way for a series of interim presidents from the Peronist party. After de la Rúa's resignation, Senate President Ramon Puerta agreed to become president for 48 hours. On December 22, Governor Adolfo Rodríguez Saa, became interim president with a term of 90 days until new elections could be held for someone to serve for the remainder of de la Rúa's term. After just a week in office, however, Rodríguez Saa resigned abruptly amid more protests. Rodríguez Saa had upset other Peronist leaders when he appeared to be positioning himself to run for president, and protesters objected to his choice of cabinet members who were already tainted with corruption accusations. The majority leader of the Chamber of Deputies, Eduardo Caamaño, then became interim president until the Peronists could agree on another candidate. After reportedly "negotiating multiple political deals with rival Peronist leaders and opposition political parties,"⁷ Senator Eduardo Duhalde became president on January 1, 2002, with a mandate from Congress to serve out the remainder of de la Rúa's term. Duhalde, who had been Vice President under Menem from 1989-1991, Governor of Buenos Aires province, and the PJ's 1999 presidential candidate, was one of the most well known and powerful Peronist leaders.

Outlook

President Duhalde faces critical political and economic challenges, most significantly his ability to quell social unrest associated with the country's financial instability. The

⁷ "Argentina: Newest President May Soon Be Latest," *Stratfor*, January 4, 2002.

dilemma for Duhalde is that the economic measures to revive the economy likely will exacerbate social and political tensions in the country. President Duhalde announced on January 6 that he was abandoning the currency dollar-peso currency peg, with a managed devaluation of 1.4 pesos to the dollar for exports and official transactions and a free floating peso for other transactions. The devaluation and pending fiscal cuts to balance the budget will aggravate social tensions in a country that has endured four years of recession, with unemployment approaching 20% and a poverty rate of 40%. How the government handles the relaxation of banking controls has been described by Duhalde himself as a time-bomb. The limit will be difficult to dismantle without bankrupting the nation's banking system. Beginning January 23, 2002, Argentines were allowed to exchange up to \$5,000 from frozen dollar accounts into devalued pesos, but many complained about the erosion of their savings and the lack of full access to their savings.

In contrast to Argentina's economic policy of opening and liberalization in the 1990s, Duhalde has promised such populist measures as increasing the state's role in the economy and protecting local industries. Yet at the same time, the President expects to negotiate with the IMF for billions more in assistance to shore up the financial system. Such assistance seems unlikely if Argentina pursues a protectionist economic model.

President Duhalde appealed on January 14, 2002 for national unity to prevent additional unrest and anarchy, and he called on business, union and political leaders to work together to rebuild the country. It remains unclear whether Duhalde's efforts will be enough to curtail the middle-class protests that led to the resignation of two presidents. Duhalde also faces formidable challenges within the political system. While the Peronists control the Senate and have the largest bloc in Congress, the PJ has been characterized by factionalism that could eventually pose a threat to Duhalde's rule. One major Peronist figure and potential Duhalde critic, Buenos Aires Governor Carlos Ruckhuaf, was brought into the cabinet to serve as Foreign Minister, but former President Carlos Menem has been a vocal critic of the new administration. Moreover, as the October 2003 presidential elections approach, Duhalde could face increasing challenges from Peronist rivals wanting to run. Menem, who at this juncture remains unpopular because of his association with an arms smuggling scandal, has aspirations to run for a third presidential term. At this juncture, the opposition Alliance coalition, particularly the UCR, is in disarray because of the failure of de la Rúa's presidency. What may be more of a threat to the Duhalde government is the rise of public dissatisfaction with the traditional political parties. As noted, while the Peronists won the largest blocs in Congress in the October 2001 elections, over one-fifth of the electorate cast a blank or negative votes.

Some observers believe with social unrest continuing, and riots and street violence similar to that in December, the Argentine military could step into the political vacuum and assume power, with support from the middle class. Others dispute this scenario, arguing that Argentina's military is thoroughly discredited because of its involvement in massive human rights violations while it was in power in the 1970s. They believe that the down-sized Argentine military has no interest in governing, and will remain on the sidelines.

Implications for the United States

Amid Argentina's recent political upheaval and financial crisis, the United States has taken a tougher approach in deciding whether to support large-scale rescue effort by the international financial institutions. In the past, the United States has supported IMF

backing for Argentina, most recently in August 2001, when the Bush Administration agreed to an additional \$8 billion in IMF lending. In the current crisis, President Bush has said that the United States is prepared to help Argentina through the international financial institutions, but only when Argentina has committed to a sound and sustainable economic plan, including tough fiscal and monetary measures. President Bush noted in mid-January 2002 that “America is deeply concerned about the difficulties facing our ally and friend,” but stated that Argentina needs to strengthen its commitment to market-based reform, not weaken it.⁸

Argentina’s recent crisis could have significant implications for the United States and for U.S. policy in Latin America. While most economic analysts maintain that there is not a threat of financial contagion to other Latin American nations, the crisis could still have significant economic implications. If President Duhalde turns his populist rhetoric into concrete protectionist actions, there could be an effect on the momentum toward hemispheric free-trade and negotiations for a Free Trade Area of the Americas (FTAA). Duhalde has already indicated that he wants to strengthen ties within Latin America, especially Brazil, as a means of challenging the United States on trade issues. How forceful such a policy can be is questionable, given Argentina’s need for international financial assistance. The open, free-market model of economic development in the region could be jeopardized if Argentina moves toward erecting protectionist trade barriers. Another economic implication involves losses by foreign-owned banks operating in Argentina. The extent to which Argentina shifts the cost of its devaluation to the banks will have an effect on U.S. banks operating in the county, such as Citigroup and FleetBoston Financial Group.

Some observers judge that Argentina’s political upheaval raises the threat of political contagion in Latin America, ushering in a wave of destabilizing populism. They argue that Argentina’s new embrace of populism could influence upcoming elections in Colombia, Ecuador, and Brazil,⁹ and could discredit the free market/democratic model that the United States strongly advocates. Such a shift, it is argued, could complicate U.S. relations with the region and lead to less cooperation on bilateral and regional issues.

Another potential problem for the United States is its stance on a rescue package, which may create the perception that it is deserting a close ally in time of need. U.S.-Argentine relations have been strong since the country’s return to democracy in 1983, and were especially close during the Menem presidency. Argentina has made contributions to peacekeeping operations worldwide, participated in the Gulf War, and contributed to operations in Haiti. Because of its military contributions, President Clinton designated Argentina as a major non-NATO ally in 1997, a status that gives Argentina access to grants of surplus military hardware. Some observers fear that United States will be perceived in Argentina and throughout Latin America as an unreliable friend if it is not more active in helping Argentina come up with a sustainable economic program. Others see the U.S. stance as a necessary reaction in light of Argentina’s need for domestic reform before external financing can have a positive effect.

⁸ White House. “President Announces Step to Expand Trade & Create Jobs,” January 16, 2002.

⁹ Andres Oppenheimer, “Argentina’s Crisis May Influence the Upcoming Latin Elections,” *Miami Herald*, January 6, 2002.