

U.S. Must Help Argentina Recover, by Jorge I. Domínguez and Steven Levitsky

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The Bush administration, like its two predecessors, has expressed strong support for democracy in the Americas. It is now time to put its money where its mouth is.

Argentina's story in the 1990s was, in many respects, exactly what the United States would like to see happen throughout the hemisphere. The country has been a democracy since 1983, its longest span of constitutional government since the 1920s.

It has undergone a major foreign policy shift. Argentina resolved territorial disputes that once brought it to the edge of war with its neighbors, dismantled programs that could have led to the development of nuclear weapons, downsized its armed forces and became one of the most reliable U.S. allies in Latin America.

POSTER CHILD

Argentina also became a poster child for market-oriented economic reform in the 1990s. The 1991 Convertibility Law, which pegged the Argentine peso to the dollar at a one-to-one rate, ended a devastating period of hyperinflation and helped to reintegrate Argentina into the global economy. The first Bush administration was a key ally in this process, supporting Argentina politically and financially.

Yet today Argentina is bankrupt, and its hard-won democracy is in danger. Mass riots and looting left at least two dozen people dead and forced President Fernando de la Rúa to resign in December. After more riots last weekend, Adolfo Rodríguez Saá also resigned a week after being appointed interim president.

A nearly four-year-long recession has pushed the unemployment rate to almost 20 percent and, according to one study, more than three million people into poverty in the last year alone. Argentina now stands on the brink of a huge debt default and a political meltdown.

The causes of the current crisis are disputed, but most observers agree that the same convertibility scheme that had ended the hyperinflationary crisis a decade ago left Argentine governments without instruments to respond to the recession that hit the country in the wake of the 1997 Asian financial crisis. Unable to increase the money supply or devalue the currency, governments were left only with fiscal policy instruments.

The de la Rúa government was also shackled by its \$132 billion debt burden. Rather than boosting the economy through a fiscal or monetary stimulus, as governments normally do, Argentine governments did the opposite in their increasingly desperate effort to sustain international financial credibility: They cut spending in the face of recession and refused to dismantle the currency peg that once ended hyperinflation.

The recession deepened, unemployment soared, poverty widened and tax revenues plummeted.

NO EASY WAY OUT

There is no easy way out of this crisis. Indeed, any interim government will have to undertake one or both of the two Ds that its predecessor desperately sought to avoid: default and devaluation. Both options will entail massive economic and political costs.

This is where the Bush administration can help. Argentina's successful economic adjustment requires approximately \$50 billion in international support for its evolving international-debt and exchange-rate policies, consistent with its economic realities and its international financial obligations.

That large sum can be assembled only with the direct, active and immediate support of the Bush administration, working with the International Monetary Fund and other governments and public and private financial institutions. One reason to assemble the large sum is to deter a worse panic.

Why should the U.S. government help soften Argentina's difficult landing? During the 1990s, Republican and Democratic administrations actively pursued the twin goals of democracy and economic integration in the Americas. Those goals are now imperiled. Argentina's further collapse would directly or indirectly damage other South American economies, provoking cumulative financial panics. And the breakdown of one of the region's largest democracies would undermine two decades of gains across the hemisphere.

Only two decades ago, dictatorship, not democracy, dominated much of Latin America. Argentina suffered six military coups between 1930 and 1976.

Since 1983, Argentines have put political violence and instability behind them. Presidents are now regularly and freely elected, and power has passed peacefully several times from government to opposition. Civil liberties are now widely respected, and the country possesses a vibrant free press and civil society.

LOSING HOPE

The current crisis threatens to undo these democratic gains. After four years of recession, Argentines are beginning to lose hope. Trust in government has eroded. Many citizens no longer believe their elected leaders are able to address their most pressing problems.

The de la Rúa 2-year-old government suffered such a dramatic loss of support because it was increasingly perceived to be sacrificing its citizens' well-being to meet the demands of financial markets. In his wake, Rodríguez Saá's grace period lasted only a week.

The danger today is that frustration has spread to include the entire political elite, and perhaps even Argentina's political institutions -- patterns similar to those that gave rise to Alberto Fujimori in Peru and Hugo Chávez in Venezuela. If that occurs, the prospects for democracy will dim considerably.

It has not come to that yet. Neither de la Rúa's or Rodríguez Saá's resignation was a military coup, and no Argentine Hugo Chávez has yet emerged. No one doubts that the election to choose de la Rúa's successor will be free and fair. But if Argentina is to steer clear of a Venezuela-like fate, its new government must deliver economic solutions to Argentines. To do so, it will require external assistance.

A successful model of such U.S.-backed support was tested in Mexico. The U.S. government's decision to organize a financial assistance package to help Mexico address the 1994-95 financial panic was bold and politically risky. But it clearly worked. A worse panic was deterred, economic growth was soon restored and Mexico made an impressive transition to democracy.

Argentina deserves similar help. Few, if any, Latin American countries combined democracy and market reforms as successfully as Argentina did in the 1990s.

Argentine democracy has proven remarkably resilient, weathering hyperinflation and radical economic reform. But if something is not done soon to give Argentines a realistic expectation that their politicians and democratic institutions can provide solutions to their problems, someone else will try to convince them that those politicians and those institutions are themselves the problem.

If that happens, U.S. interests will suffer badly in Argentina and elsewhere in the Americas.

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