

“How Have Argentine Presidents Used Economic Policy for Political Gain?”

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A thesis presented in partial fulfillment of the requirements for completion

of the Bachelor of Arts degree in International Studies

Croft Institute of International Studies

University of Mississippi

University, Mississippi

Spring 2009

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Table of Contents

Chapter 1: Background & Cases.....	3
Chapter 2: Menem and the Rise and Fall of Convertibility.....	21
Chapter 3: Kirchner and the IMF Repayment Period	33
Chapter 4: Fernandez and The Soy Export Taxes.....	44
Chapter 5: Conclusion.....	63
Works Cited:	70

Chapter 1, Background & Cases

Argentina is a unique country in that few nations have ever been so blessed with resources yet have never managed to emerge as an economic world power, and have instead ridden the rollercoaster of economic successes and misfortunes that Argentina has. Argentina is like a sports team that manages to “snatch defeat from the jaws of victory” in that it fails spectacularly just when the country looks poised to turn the corner. Two recent examples of such failures are the 2001 crash, which succeeded years of economic prosperity, and the hyperinflation and economic turmoil of the late eighties, which put a damper on the return of democracy. The country has historically been on the wrong side of imperialistic relations, dating back to, if not before, the Roca-Runciman Pact of 1933, and it has not been uncommon for politicians to deflect criticism away from themselves and to blame world powers and multinational organizations, such as the IMF, for domestic problems.

The economy suffered the most brutal failure of its history in the aforementioned 2001 crash. Carlos Menem implemented a currency board to stall hyperinflationary problems, tying the Argentine Peso to the U.S. dollar at a 1-to-1 ratio, and, while an effective short-term goal, the plan would cause long term disaster. According to Alan H. Meltzer (a renowned American economist) in testimony before the U.S. House of Representatives, “astute observers recognized privately as early as 1999 that Argentina's foreign currency denominated debt was unsustainable” (Meltzer, 2002). He explained that “Argentina's budget deficit increased its debt and undermined its monetary policy. The convertibility law tied the peso to the dollar and permitted unrestricted

convertibility at a fixed exchange rate. This arrangement could not cope with an unsustainable debt on one side and an overvalued exchange rate on the other. The appreciation of the dollar and the depreciation of the Brazilian real made Argentina an unattractive place for investment and a costly place to buy” (Meltzer, 2002). As a result, the “severe depression, growing public and external indebtedness, and a bank run culminated in 2001 in the most serious economic and social crisis in the country’s turbulent history” (The World Factbook, 2009), and, in 2001 Argentina defaulted on its debt of US\$95bn, the largest sovereign default in world history (The Economist, 2008).

The country has experienced nearly as much political turmoil as economic, illustrated partially by the “serial handover of executive power” that took place between December 21st, 2001, and January 2nd, 2002, a span during which Argentina went through a succession of *five* different presidents (Schamis, 2002). Another example of political turmoil is the frequent infighting that occurs in Argentina’s most important political party, the PJ. The disputes within the party are an important characteristic of Argentine politics and they will be discussed further in the Fernandez chapter.

I spent the 2008-2009 school year studying abroad in Buenos Aires, and in many ways the scars of the crash were still fresh. The country is very politically active and has a mandatory vote (voting is considered to be not only a right, but also an obligation of all citizens within a certain age range, a relatively rare, but not unique, law among democratic nations)(International Institute for Democracy and Electoral Assistance 2010). It is not uncommon to find political protesters marching in the streets, and the political climate, in general, seemed very unlike what I was used to at home.

Nevertheless, I also felt that one of the most readily apparent similarities between Argentina and the United States was at the top of the political food chain, in the executive office. The countries' democratically elected presidents, as far as I could tell, shared a striking similarity: both were very unpopular.

The Argentine president when I first made this comparison was, and still is, Cristina Fernandez de Kirchner (2007 -), and the U.S. president at the time was George W. Bush (2001 – 2009). As I learned more about Fernandez and the current Argentine political situation I began to mentally connect-the-dots and to form the topic of my thesis. I was in Argentina shortly after Fernandez implemented her soy export taxes, and during my stay I noted first-hand her precipitous fall in popularity. I began to wonder why a president might impose taxes that seemed uniformly unpopular, and my question began to take on a broader scope and to involve other Argentine presidents, until it reached its current and final iteration: “how have recent Argentine presidents used economic policy for politic gain?”

I expected to find evidence of Fernandez misusing her power for personal gain because I believe that countries like Argentina, relatively weak democracies with a history of corruption, are more susceptible to the abuse of executive power and to deviations from socially beneficial policy to ensure personal gain. Additionally, recent Argentine Presidents Menem (1989 – 1999) and Kirchner (2003 – 2007) both emerged from economic crises, which gave them greater opportunity to implement different and creative policies than normal circumstances may have afforded; “crises disrupt old structures and make systems available for new ones” (Corrales, 1997-1998, p. 618). I feel

that the relative weaknesses of the democratic and economic situations of Argentina are what make this a particularly interesting and unique case to examine, and the events I witnessed first-hand during the Fernandez presidency helped me to realize my research question. My thesis extends to past presidencies as well, with a focus on three presidents in particular: Carlos Menem, Nestor Kirchner, and Cristina Fernandez. My examination of each president focuses on a particular case study, and through the individual analysis of each case and through a comparison of the three I shed light on the contemporary Argentine political system and its involvement with macro-economic policy.

Overview

The thesis examines the major policies of the Kirchner, Fernandez and Menem presidencies, and looks specifically at how and why these presidents have used economic policy as a political tool. I look at who has benefited from said economic policies and ask why these politicians have catered specifically to these groups. I contextualize the Kirchner and Fernandez presidencies by reviewing Argentine political history and I investigate why they have followed the path they have, whether or not their economic goals have been achieved and if the economy has benefited from their policy, and why they have lost so much public support during the past several years.

I use trade information to supplement my research by looking at the rise and fall of commodity prices and the corresponding ability or inability of the central government to implement ambitious public policies. While Kirchner benefited from being able to

export soy at record high prices and was able to use the booming, rebounding economy to enact the policies that he wanted, Fernandez has not enjoyed the same opportunities.

My analysis of the popularity or unpopularity of a particular policy hinges on the use of data provided to me by Ryan Carlin (an associate professor at Georgia State University, and an expert on political behavior in Latin America), an aggregation of all available opinion surveys in Argentina since right after the end of the military dictatorship, In 1984. The method smoothes out effects from survey question wording or timing and provides the most reliable estimate of executive support on a monthly basis. This information will be shown in graphs and is used to point out, among other things, Kirchner's drastic rise in popularity to almost-record highs following the IMF repayment and to illustrate Fernandez's plummet in popularity after her implementation of the soy taxes.

I also look at survey data to examine the response of different sectors to the events of the three cases, and to determine whether or not the use of economic policy as a political tool was effective by seeing how the presidents' constituencies reacted. In my study of the individual cases, I look at each president's popularity during and after the implementation of the particular policies to assess each policy's ability to make Argentines happy and, in doing so, strengthen the candidate's odds of being re-elected.

Theoretical Section, Introduction

British Prime Minister Harold Wilson said, in 1968, "all political history shows that the standing of a Government and its ability to hold the confidence of the electorate at a General Election depend on the success of its economic policy" (Lewis-Beck 1988, p.

13). My thesis generally accepts this statement, and examines it by looking into contemporary Argentine politicians' attempts to use this axiom to their advantage. I ask "what roles do economic situations play in elections and politics, and how are politicians able to manipulate these economic situations to ensure themselves favorable election results?" Some methods, such as vote-buying (the exchange of basic goods for votes) are easily identified, while others are less apparent. The concept of the political business cycle is one of the tools I use in analyzing these more subtle economic manipulations, as is scholarship on the political economy in general, and a brief look at the characteristics of general populist macroeconomic policy, which espouses the use of the types of rhetoric and policy of which the Kirchners are quite fond.

Latin American history includes many populist leaders who have used their economic policy for redistributive purposes, and the Kirchners are no exception. Populism has played a dynamic role in the region, and has experienced a new wave of popularity in Latin America since the 1980's. It "is best defined as a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers" (Weyland 2001). Economically, populist governments have often practiced "expansionary economic programs and generous distributive measures", policy aimed to win support from the poor. Weyland's description of how a populist leader commonly wins support could be a blueprint for the Kirchner and Fernandez presidencies, particularly Kirchner's post-crisis emergence: support from a "largely unorganized mass is gained by 'representing' people who feel excluded or marginalized from national political life and by promising to rescue them from crises, threats, and

enemies. The leader appeals to the people for help in his heroic effort to regenerate the nation, combat the privileged groups and their special interests, and transform the ‘corrupt’ established institutions” (Weyland 2001 , pages 1-14).

Argentina’s most famous President, Juan Domingo Peron (1946-1952, 1973-1974), the founder of Kirchner and Menem’s party, was an ardent populist, and his constituents were called the *descamisados*, or “the shirtless.” Latin American populist regimes have generally succeeded by capitalizing on the unpopularity of the small elite class. While politically viable and capable of winning a great number of votes, at least in South America, populism’s insistence on redistribution of wealth has been described as a generally “self-destructive” feature which often leads to “galloping inflation, crisis, and the collapse of the economic system” (Dornbusch and Edwards, 1991).

Partido Justicialista, a Conflicted Party

I spend a lot of time comparing and contrasting Menem, Kirchner, and Fernandez. A key issue in the Menem-Kirchner-Fernandez dynamic is that they all, despite their drastic differences, belong to the same political party: the *Partido Justicialista*, or the PJ. The PJ is a factionalized party that has historically dominated Argentine politics, but has also suffered from frequent infighting and fractionalization over the years. The PJ is extremely pragmatic, and hard to tie to any one political viewpoint, which has allowed, in conjunction with the use of clientelistic networks, the party to enjoy electoral prosperity, especially among poor sectors (Menem was something of an exception; he campaigned to the poor but was seen as a neoliberal ally of oligarchic conglomerates after being elected).

Frequent fragmentation of the party has been a defining party characteristic, especially in recent years. Splits occurred following the implementation of the controversial soy export tax: Fernandez's PJ party has splintered into various opposition groups, with her Radical-turned-PJ vicepresident Cobos leading one, and Carlos Reuteman, a Peronist senator and former governor of Sante Fe, leading another (Latin American Regional Report, Sept. 2008). Sante Fe is rural agricultural province, and Reuteman has benefited from Fernandez's split with the farming sector -- Reuteman broke from the FPV before the 2009 legislative midterm elections, and has been a prominent Fernandez foil since (LatinNews Daily, Feb. 2009). A group of former-Kirchner loyalists are vying to carry the Peronist flag in the next election cycle, and are focused on "pondering how to distance themselves" from the unpopular current president in order to restore future electoral safety (Bravo, 2010).

Another important Peronist division was the 2003 split, in which former presidents Kirchner and Duhalde (2002 – 2003) created different factions to support their wives in the senatorial race for the Buenos Aires province, the most important electoral district. The split led to Kirchner creating the FPV ("Frente Para Victoria"), the faction currently in power (Latinnews Daily, Sep. 2005).

The Role of Economics in my Thesis

Aside from discussing the historical issues and political decisions which have led to Argentina's contemporary economic policy, this paper also examines the theoretical side of the issue. The Political Business Cycle (PBC) is an economic theory that links monetary and fiscal policy with political opportunism by arguing that politicians tend to

implement economic policy that may be popular in the short-run, resulting in popularity and re-election for the incumbent, despite potentially disastrous consequences in the long run (Dornbusch, Edwards 1991). Examples of such consequences which have occurred in Argentine include the economic collapse of 2001, during which Argentina defaulted on the largest sovereign debt in the history of the world. On a macroeconomic level the PBC examines the use of inflation and unemployment rates as a politician's primary tools, and on a microeconomic level I look at how Argentine politicians have aided particular sectors (such as the urban poor) in exchange for support, whether it be through the use of gifts or through the implementation of policy that is especially beneficial to one or more particular groups. With regards to the different methods of "buying-off" these groups, I look into when specific methods are used, and I, particularly in the case of the IMF repayment, examine the timing of the implementation of particular policy and see how that relates to the election cycle. In examining the economic policies in effect I keep a watchful eye on the politicians, and attempt to distinguish where certain corrupt policies may deviate particularly far from what is ideal for Argentines, and in which cases the politicians merely try to help their constituencies, even if this occurs at the expense of other groups.

The Political Business Cycle

Economics begins with the presumption that people are rationally self-motivated, and the Political Business Cycle can explain deviations from the ideal economic policy or the failure to adopt socially beneficial economic reforms by linking politician's vested interests and their non-ideal economic policy. For politicians, reelection is a powerful

vested interest, and one that can be a real barrier to socially beneficial reform; as Drazen writes, “In some ways, the easiest explanation for the nonadoption of a policy beneficial to the population as a whole is that policies are chosen by a minority whose interests are different and who would be hurt by the change ... some policy changes that are beneficial on average may nonetheless harm certain groups; if those groups hold the reins of power, nonadoption results – this may be common” (Drazen 2000, p. 411). Ray C. Fair also explains the problem of divergences between socially ideal economic policy and politically ideal economic policy, noting that there is a gap between “vote-maximizing economics and economic policy that is best for the objective good” (Fair, 1975, p. 33).

Jankowski and Wlezien, in their 1993 article “Substitutability and the Politics of Macroeconomic Policy”, analyze whether governments use certain macroeconomic policies for political purposes, and find that “governments tend to use fiscal policy and exchange rates together, alternatively, or in some combination, for general stimulatory purposes” and “[their] findings support the more general ... observation that there is a ‘political’ component to macroeconomic policy behavior” (Jankowski and Wlezien 1993, p. 1075). The most commonly manipulated metrics are inflation and unemployment, and, as Lewis-Beck points out, “raising unemployment appears to be a remarkably sure way to deliver votes to the opposition” (Lewis-Beck 1988, p.9).

Paul Burstein states that over twenty years of research has yet to yield a conclusive result as to exactly how much public opinion shapes policy, and also points out that some scholars believe public opinion is the most important factor where other

scholars believe that policy is really determined by interest organizations and elites (Burstein 2003, p. 30). Burstein himself, after conducting several tests, “is willing to say that policy is affected by opinion *most of the time* and often the public opinion’s impact is a significant one” (Burstein 2003, p. 34). On the surface, Menem catered more to interest organizations and elites than Kirchner and Fernandez, but Menem’s case is unique because he was able to cater to the elite and the poor by making economic conditions (temporarily) better across the board.

Research Conclusion

My methodology, particularly my focus on the PBC and my focus on measurements of unemployment, inflation, and popularity, may be insufficient in an examination of the United States, but they are particularly well-suited for the Argentine case. The difference? Argentina’s prevailing political systems and political history is very different from that of the United States. Populism has played a far greater role in Argentine history than American, and historically Argentina has been a less stable democracy than the United States, one which allows for greater abuse of executive power and grants leaders more leeway to pursue their agendas.

Populist leaders depend on opinion polls to “demonstrate their distinctive power capability,” and the redistributive methods that have been practiced, methods which aim to maintain approval in opinion polls, seek to manipulate the metrics I am studying (Weyland 2001, p. 1). One measure of redistributing income in the Argentine case have been the soy export taxes, which aim to take advantage of the success of one part of the Agrarian sector, an industry largely-controlled by major corporations, to spread the

wealth and fund the government, which would allow them to subsidize basic goods and keep *inflation* for food costs low. Another use for government revenue has been the expansion of the state, creating jobs and lowering unemployment. Populist politicians, according to some scholars, want to “enlarge the cake” to satisfy everyone and to “give something to the popular sectors without directly taking anything away from others” (Palermo 1998, p. 40). While populism can be tricky to define, the “enlarging the cake” analogy seems apt in a discussion of contemporary Argentine presidents.

Argentine politics are also unique because of the prevalence of the DNU, or “decree of necessity and urgency” – Menem, Kirchner, and Fernandez have all used decrees with previously unprecedented frequency, which has allowed the circumvention of traditional political methods such as the forming of coalitions. These decrees allow the executive in power to create a law without first seeking legislative approval; the advent of governance by decree has granted executives nearly unilateral power, and has been a popular method of lawmaking in recent years.

Cases

My three cases are:

- 1.) Fernandez and Soy Export Taxes
- 2.) Menem and the Rise and Fall of Convertibility
- 3.) Kirchner and the IMF Repayment Period

I have decided to use these three cases because they are the defining events of each of these presidents’ presidencies. By comparing these cases I show the greater

themes of contemporary Argentine politics; the general instability in the Argentine political system and the powerful executive branch, and the clientelistic practices which make up an important part of the politically dominant Peronist party system. By contrasting the cases I show how each president has used different approaches to cater to their differing constituencies, and how their particular approaches have been dictated in part by the economic fortunes or misfortunes they inherited. I hypothesize that, despite drastic differences in political ideology – Menem was a neo-liberal and had close ties with Washington and the IMF, whereas the Kirchners are populist leaders who romanticize following their own path and putting Argentines first – these past three presidents have pursued similar goals by using similar methods.

Fernandez, Soy Export

The Fernandez soy export tax case is important for two major reasons: one, the implementation of the tax managed to drastically reduce Fernandez's public support *very rapidly*, and represents a major change from the way Argentines had felt about their leader since 2003; and two, the point of contention behind the case seems to be over who should receive preferential treatment from the government, the urban poor or the farming oligarchies, the economic elite. Whereas Menem catered to the economic elite, Fernandez seems more than willing to eschew their desires in her nominal attempts to provide affordable food products for domestic consumption.

In implementing the unpopular tax, Fernandez acted as a politician should be expected to: she catered to her constituents at the expense of her political opponents (the former greatly outnumbering the latter). The opposition the tax received was

staunch, and the fall in popularity that has followed has shaped her presidency. The miscalculation of the expected perception of and response to the tax, as well as the response of other party members, who may have used the tax as an opportunity to distance themselves from the president, are key parts to her story. The intended use of macroeconomic policy for political gain that is developed in the soy case is an example of how Argentine presidents have *attempted* to use certain economic decisions to influence popularity, and not necessarily examples of how they have succeeded. Fernandez's failure is made more interesting through a comparison of her husband's success and the differences between the two situations.

The Menem Years: The Rise and Fall of Convertibility

Menem defied typical Peronist conventions, and differed greatly from Kirchner and Fernandez, despite belonging to the same party. Carlos Menem's convertibility plan ultimately effectively wrecked the Argentine economy, and the political fallout and paradigmatic shift that followed the crash is a crucial part of Argentine history which has shaped 21st century Argentine politics.

As I mentioned above, Menem catered to the economic elite while the Kirchners have not. Carlos Menem was a poster-child of Neoliberalism; he made deals with the IMF, he privatized much of the economy, and he even played golf with U.S. President George H. Bush, which helped to develop his image as a proponent of the "Washington Consensus". He also appointed members of powerful conglomerates to his Cabinet. The Kirchners, meanwhile, have distanced themselves substantially from Menem's favorite lending organizations, with Nestor Kirchner saying that he and the President would not

accept money from the IMF, “even if they give it away” (Latin American Weekly Report, March 5 2009).

Menem used privatizations as an integral part of his economic policy, enabling clientalistic practices. Kurt Weyland describes how privatizations may be abused, and how Menem may have abused them, writing that “the sale of public enterprises gives bureaucrats and politicians discretion over the reallocation of vast resources, widening their scope for personal gain,” and this “control over huge streams of future income can be used to obtain exorbitant bribes, *as is said to have occurred during the first privatization deals concluded by the Menem administration*” (my italic) (Weyland 1998, p. 111). Schamis asserts that “the distribution of state-owned assets among private actors was a political tool,” and an “effective rent-seeking mechanism to garner support among the country’s most powerful economic elites”. Menem did not use his broad discretionary powers solely for privatizations, but also packed the Supreme Court and changed the Constitution to allow him to run for a second consecutive presidential term (Schamis, 2006).

Bribes, like those mentioned by Weyland, may also trickle down to the urban poor in the form of food, clothing, medicine, and other goods which are then traded for votes. These exchanges were relatively commonplace in Argentina during the late 1980’s and 1990’s. “Peronist handouts significantly boosted the probability of a Peronist vote,” and “the cohort of young Peronists who entered the electorate in the Menem era were the most likely to be enmeshed in clientelist networks and to ‘sell’ their votes for minor rewards” (Brusco, Nazareno, and Stokes, 2004, p. 71-73, 75)

Kirchner and the IMF Repayment Period

The Kirchner case showcases the potential discrepancies between what politicians claim to want to do and what they actually do, and it shows how the fulfillment of major policy goals can be enacted at a specific time for maximum electoral gain. Kirchner used economic prosperity to provide the people with a nationalistic sense of autonomy when the voters may have been better served by increased funding to traditionally important Peronist sectors.

In the wake of the 2001 crisis, Argentines felt as though the IMF was responsible for their plight. Menem had maintained the convertibility plan after potential problems had become apparent, and the plan was largely the brainchild of Economic Minister Domingo Cavallo, but the IMF was an easy, foreign target, especially given Argentina's history of exploitation vis-à-vis imperialistic relationships. Kirchner framed the repayment of the IMF as a nationalistic move, metaphorically rallying the country around the flag as he created a feeling of "us-versus-them". This dichotomic relationship is illustrated perfectly by a speech he gave in 2006 where he said:

The Fund is in disagreement with the things that Argentina does, but we don't depend on the Fund for anything. If we would have taken notice of the Fund and all of the other we know how it would have went for the Argentines. We had our own recipe, our own concept, we pay our own debt, we have our own absolute sovereign economic independence, and we, the Argentines, decide!¹

¹ El Fondo está en desacuerdo con las cosas que hace la Argentina pero nosotros no dependemos para nada del Fondo. Si hubiéramos hecho caso a Rato, al Fondo y a todos los demás sabemos como nos hubiera ido a los argentinos. Tuvimos nuestra

In early 2006 he paid the IMF the 9.6 billion dollars that they owed and cut all ties. As I show, Kirchner's climb in popularity associated with the repayment was substantial. It is worthwhile to note that the IMF repayment was not a total repayment of the outstanding debt, merely a repayment of the money owed to the most vilified lender, which allowed Kirchner to frame the partial repayment as a non-partisan move that all Argentines could get behind (and not just traditional Peronists). In fact, it may have been less beneficial for traditional Peronist constituents than typical Peronist economic policy (focused on redistribution and extension of government programs aimed towards the lower classes) would have been. Nevertheless, Kirchner's clever marketing of the repayment resulted in a great boost to his approval ratings.

Conclusion

This project examines pivotal events and periods during the Menem, Kirchner, and Fernandez presidencies, and questions how and why certain economic policies have been enacted. I show the importance of economic prosperity (which may come from conventional means or be created "out of thin air", as Menem temporarily did with the Convertibility plan) in the Peronist system, which relies on government revenue to fund party operations. I also look at how political and economic crisis, both relatively

propia receta, nuestro propio concepto, pagamos nuestra deuda, tenemos nuestra independencia económica, absoluta, soberana y decidimos los argentinos.

http://www.casarosada.gov.ar/index.php?option=com_content&task=view&id=4512&Itemid=120

common in Argentina, often lead to dissension within the party, further challenging presidents who inherit or create economic difficulties. The differences and similarities between the three presidents reveal overall trends in Argentine politics and help create predictions of what will happen in the future.

Chapter 2, Menem and the Rise and Fall of Convertibility

Having looked at the current Argentine president in the Fernandez case, this chapter delves into the past, going back to 1989. This case explains further the world of Argentine politics and Argentina's executives, and how they wield their political power, particularly through their implementation of economic policy as a political tool. Carlos Menem is unusual among Peronist presidents and politicians because of his neoliberal beliefs; however, Menem remains a central figure because of how his political path influenced the future of Argentine politics.

Comparing Menem with Fernandez and Kirchner reveals similarities between the two, and general trends in Argentine politics. Menem differed greatly from Kirchner and Fernandez, yet all three belonged to the same party: the PJ, or *partido justicialista*. This chapter examines the Peronist system, some of the different policy approaches employed by successful politicians within the system, and how the name of Peron and association with his party has been evoked by leaders with divergent ideologies. I show how economic policy was a central political tool of both the Fernandez and Menem governments, despite the major differences between their political choices.

Menem paved the way for the "hyper presidencies" of future presidents through his frequent use of executive decrees (or DNUs, *decretas de necesidad y urgencia*). The ultimate failures of his convertibility plan and partnerships with the World Bank, IMF, and "the Washington Consensus," structured the shift of Argentina's perception of these organizations into and throughout the 2000's. Menem's inability to abandon the convertibility plan, from 1994, when skepticism about its long-term viability spread and

faults first began to be detected, up to its ultimately disastrous failure, reflect the danger of being closely tied to certain expectations by the Argentine public, and the difficulties of catering explicitly to the people. The Menem experience of becoming tied to certain expectations by the public could foreshadow future problems for Fernandez and other Argentine presidents. Alternatively, it could be that Menem's ability to become wildly popular after a tough start to his presidency could be a sign of hope for Fernandez, a sign that the Argentine public is fickle and may support Fernandez if the economy begins to show signs of recovery (and if it begins to show stable levels of inflation).

History

Carlos Menem was elected in 1989, during a hyperinflationary crisis; the country was in chaos, suffering 12,000 percent annual inflation. A *New York Times* article published one month prior to Menem's inauguration described the situation. At the time, near the peak of the crisis, 15 people had already died and 80 had been wounded during food riots centered on grocery stores. Argentines rioted because they couldn't afford to buy food and other basic goods (Brooke, 1989).

Ironically, Menem used Argentina's economic turmoil to his advantage by capitalizing on the freedom generally granted to politicians during economic crises. Hyperinflation helped Menem by weakening resistance (especially among Peronist legislators) to his controversial policies. Regarding this phenomena, Torre writes:

"In times of critical hyperinflation, the sudden devaluation of the currency does more than disrupt private expectations and contracts: it inflicts a severe blow on the public's confidence in the state as the guarantor of economic transactions and social life," and "thus it follows that the issue of political deliberation and participation becomes relevant after, and not before, spiraling inflation has been brought to a halt and the economy has been stabilized--that is, after, and not before, the government has regained control of key economic variables and placed a firm hand on the helm of state" (Torre 1993, p. 6-7).

Menem was free to pursue the policies he desired, and, to his benefit, some of them had positive outcomes. Torre also writes that cases of economic deterioration, like the kind that Argentina experienced, may create an outcry for decisive intervention. This type of situation calls for strong executive actions, like executive decrees, a power which I will discuss later on in this chapter, and one which Menem used during his presidency with previously unprecedented frequency (Torre 1993, p. 10).

Menem unsuccessfully tested several preliminary measures before finding a successful short-term solution to Argentina's inflationary troubles in 1992, when he and his newly appointed economic minister, Domingo Cavallo, implemented the now infamous convertibility plan. The plan was successful for at least several years; immediate results of convertibility included marked falls in inflation (inflation fell from 84.1 percent in 1994 to 7.4 percent in 1993) and interest rates, an increase in purchasing power, and the reappearance of commercial credit (Palermo 1998, p. 50).

Importantly, the economic revival and increased levels of economic activity helped to bolster tax revenue. Strong fiscal results permitted the government to maintain the monetary base and reserve levels required by law and to simultaneously increase public spending, which had been reduced drastically under President Alfonsín. Public spending is an important part of Argentine politics. Signs of economic recovery gave the IMF hope, and opened the doors to the signing of an accord with the International Development Bank in 1992. Other signs of economic recovery included an annual increase of seven percent, on average, in production from 1991 to 1994. By 1994 investment had grown 78 percent relative to the levels of investment in Argentina in 1990. (Palermo 1998, p. 47-48).

Cavallo, the engineer of the convertibility plan, wrote in 1998, six years post-convertibility and three years pre-economic crisis, that the plan had been a "resounding success." From a political point of view "convertibility was a smashing success -- it stopped hyperinflation without producing a recession and without causing regressive income redistribution. This is important," he added, "since good economic policies need political support to survive in a democracy" (Cavallo and Cottani 1997, p. 17). This quote is interesting because it offers one of the plan's architect's explanations of the plan's implementation and because he ties together economics and politics, framing policy as a *survival method* as much as a political tool. Good economic policies *need* political support to survive, and popular politicians *need* good economic policies as well.

The plan's miraculous economic success was rather short-lived. Convertibility began to falter in 1994, with the Mexican crisis and the peso devaluation, and it would become clear that "the country's fiscal health was based upon unsustainable levels of internal economic activity" (Palermo 1998, p. 55). The peg of the peso to the dollar had become "a straightjacket against countercyclical monetary policy" (Schamis, 2006). Despite the warning signs, by the time the problems became clear Menem had come to represent price and exchange-rate stability, and voters had begun to expect zero inflation. Convertibility led to catastrophe, and the plan received most of the blame for the 2001 economic collapse (Palermo 1998, p. 55; Schamis, 2006). The plan can be seen as an (imperfect) implementation of the PBC which succeeded for a time, by killing inflation, and then faltered. The government's failure to distance itself from the plan ended up being its downfall, and Menem's implementation of deeply flawed economic policy had disastrous effects on his political future. It was unrealistic to expect

convertibility to succeed in the long-term; Menem's rise and fall is tied to the shortcomings of populist macroeconomic policy.

The next chapter examines the end of the plan and the political fallout of the economic crisis that followed; it is important to understand Convertibility and Menem in order to understand Nestor Kirchner, the subject of the second case.

Privatization, Reversals of Campaign Promises

The story of convertibility is probably the story most commonly associated with Carlos Menem. As the convertibility plan was an example of the use of economic policy as a political tool – decreasing inflation is a method of manipulating the political business cycle – it clearly ties into this thesis, but other aspects of the Menem presidency need to be discussed as well. The drastic change between the policies Menem proposed on the campaign trail and the policies he implemented (along with the effects of the reversals of his campaign promises), how he overcame objections to his agenda, and the ways he used the privatizations of state-owned enterprises as a rent-seeking mechanism, all speak to his use of economic policy as a political tool. These factors represent some of the more nefarious sides of the Menem presidency.

Aspiring politicians are under pressure to please the people and to tell the people what they want to hear, even if this message does not reflect the best approach to managing the country. Winning support from the electorate, after all, is a necessary step in winning elections. This was a problem for Menem -- the policies he thought represented Argentina's best chance at emerging from the hyperinflationary crisis were unpopular among the Argentine electorate. So he obscured his real plans by making

campaign promises that he never intended to keep. Carlos Menem ran as a populist and conducted something of a political 180 once elected, embarking on a path of total neoliberalism (Stokes 2001, p. 45). Numerous factors, as Stokes points out, indicate that he intended to govern as a neoliberalist all along, and that his ideological change was not affected by changing circumstances after his election.

On the campaign trail Menem promised nationalistic and expansionist economic policy, as well as a *salario*, or a positive shock to wages. In reinforcing his nationalist message, he “expressed distrust of Argentina’s export bourgeoisie, epitomized by the conglomerate Bunge y Born,” and he also hinted at a possible military retaliation over the Falkland Islands (Stokes 2001, p. 46). Once elected, Menem named a former vice-president of the previously vilified conglomerate, Bunge y Born, as his finance minister, and when this finance minister died of a heart attack shortly after, Menem “turned the selection of a replacement over to Bunge y Born’s president, who chose Nestor Rapanelli, another vice-president of the firm” (Stokes 2001, p. 46). Menem also began to “normalize relations” with Britain and, only three months after the election, he had abandoned talk of the *salario* in favor of discussion of a “tough, costly, and severe adjustment,” one which would require “major surgery, no anesthesia” (Stokes 2001, p. 47). Miraculously, Menem had reneged on many of his most important campaign promises almost overnight, and yet he still managed to become very popular during his presidency – approval ratings topped out at an impressive 85.6 percent in July of 1990, and neared that mark during the convertibility era, when approval ratings measured 74.2 percent in December of 1993, before the first signs of failure appeared (Carlin, 2010).

The Bunge y Born reversal, from the original public denouncement of the firm to the appointment of two of their vice-presidents as finance ministers only several months later, is particularly interesting. It lends itself easily to a comparison with the second chapter, which examined the trading of favors for votes. In this example Menem also plays favorites, only in this case the recipients of his favors are members of the economic elite. Menem had to conceal his motives to get elected, because oligarchies, by definition, numerically represent a small number of actors, and therefore a small portion of the electorate, and, according to Menem, the public did not yet have a “clear consciousness of what was required” (Stokes 2001, p. 72). Different motives, Stokes argues, “play a smaller part than one might guess in determining campaign messages.” Successful Latin American presidents must be able to appeal to the lower classes; “Latin American class structures are such that electoral rewards are concentrated in the lower classes ... hence bourgeois or oligarchic parties still have to make mass appeals if they are to win elections” (Stokes 2001, p. 57). Even as a member of the largest political party in Argentina, Menem would have committed political suicide if he announced his goals during the campaign by alienating his fellow party members and the poor.

The success of Convertibility gave Menem new freedom, and, with trade and foreign investment improving in the country, he privatized large swathes of the Argentine public sector. Menem had catered to the economic elite shortly after being elected, when he appointed high-ranking executives from powerful conglomerates to cabinet-level positions, and the series of privatizations that followed were his next step. He acted by his own accord, using his executive decree authority to implement privatization (Stokes, 2001). “The distribution of state-owned assets among private

actors was also a political tool, an effective rent-seeking mechanism to garner support among the country's most powerful economic elites” (Schamis, 2006).

The most important part of the privatizations, at least with respect to this paper, is the contrast of the groups that are being catered to by the Kirchners and by Menem, and the comparison of their method of doing so. The constituencies could not be more different; Menem was dispersing assets and favors among the elites, while Fernandez and Kirchner have done the same for the destitute, the shantytown dwellers, and the urban poor. In both cases the presidents have sought to enact economic policy (soy taxes, convertibility and privatizations) that allow the distribution of state assets among their constituents (food, medicine, and jobs for Fernandez, privatized state enterprises for Menem). The two cases, at the same time, are both similar and opposite.

Kurt Weyland (1998) wrote an article on privatizations and corruption, an article in which Menem features prominently. He describes the ways in which Menem was able to benefit from the privatizations. According to Weyland:

“The sale of public enterprises, for instance, gives bureaucrats and politicians discretion over the reallocation of vast resources, widening their scope for personal gain. In exchange for bribes, they can lower the selling price or manipulate market conditions for the newly private firm, heralding, for example, the emergence of monopolies. This control over huge streams of future income can be used to obtain exorbitant bribes, as is said to have occurred during the first privatization deals concluded by the Menem administration. Thus, a refined version of the state interventionism argument can, in principle, account for the persistence--if not the increase--in corruption during the enactment of market reform” (Weyland 1998, p. 111).

Menem’s privatizations were typical in this regard, and corruption was a definite factor.

Weyland is not the only scholar who has shed light on the corruption involved in the Menem privatizations; Cooper and Momani write that the privatization of a “series of state-owned enterprises [occurred] under far from transparent conditions”, and Stokes’

description of the privatizations mentions that “Argentina under Menem was rife with corruption scandals, some of which ended in courts finding officials guilty” (Cooper and Momani 2005, p. 3-4; Stokes 2001, p. 80). Corruption certainly occurred in the privatization of national airlines and the telephone company.

The corruption and bribes Menem received financed his presidency and illustrate the darker side of Argentine politics. Argentine politics are like an institutionalized *quid pro quo* agreement; they rely on trading favors, and the privatizations granted Menem powerful bargaining chips that he could use to take advantage of this system.

Decrees

Similar to how Fernandez’s enacting the soy tax without congressional approval, Menem privatized the economy through a series of executive decrees (Schamis, 2006). Menem’s use of decrees was not limited to his privatizations; he regularly used the *decreta de necesidad y urgencia* as a way to get what he wanted without making concessions. This method of governance has been continued by his successors, albeit to a lesser extent: Menem issued 545 decrees during his presidency, while Nestor Kirchner signed 270. Previous presidents (over a span of 136 years total) issued only 25 decrees *combined* (Stokes 2001, p. 91; La Nacion, 2008)! Fernandez and Kirchner may have used the executive decree less often because they have had more support from Congress than Menem had – unlike Menem, Kirchner and Fernandez have operated along more traditional party lines, and didn’t have to deal with contradicting established party practice while implementing most of their economic policies. One of the most famous cases in which Fernandez *has* reverted to the use of decrees, the soy tax, was one in which she couldn’t rely on support from her own loyalists – her vice-president,

discussed in the last chapter, cast the tie-breaking vote to reject the tax when it finally reached Congress.

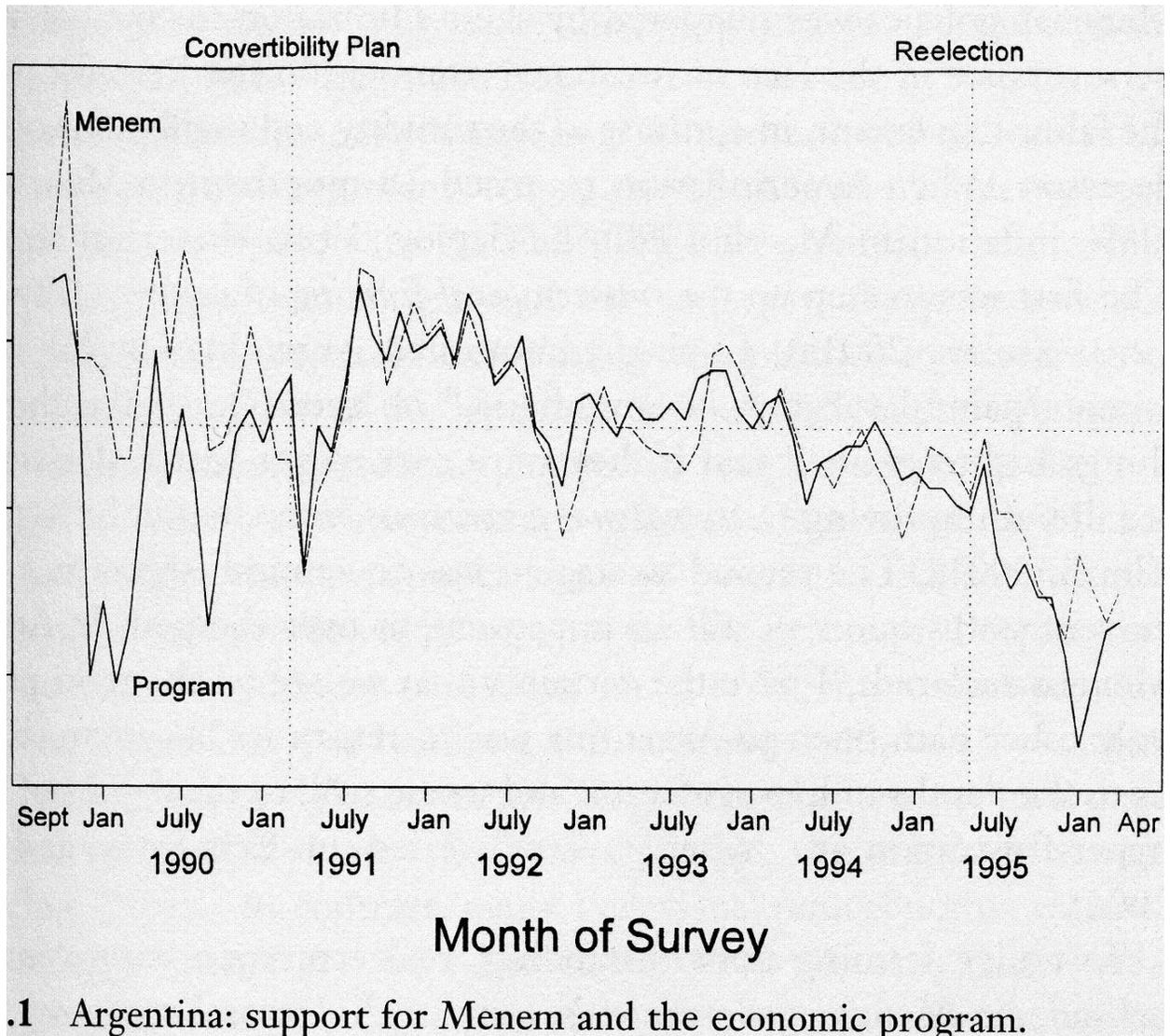
Menem set a precedent of presidents being able to easily, and regularly, bypass an uncooperative legislative branch. As Moffett writes, “Menem’s use of decrees could shed light on how Argentine presidents can control, even without congressional backing, something Fernandez seems to be losing”(Moffett, 2010). This year Fernandez has issued another controversial decree, firing the chief of the Argentine Central Bank, and she could be forced to issue decrees more frequently over the next several years (Moffett, 2010).

Conclusion

Menem aggressively marched to the beat of his own drummer, eschewing Peronist convention and campaign promises in favor of neo-liberal reforms. He governed extensively by decree, and became politically tied, for better and for worse, to his economic policy decisions. Menem inherited a hyperinflationary crisis, and the temporary solution to Argentina’s economic woes, convertibility, would become his downfall.

This graph illustrates the connection between Menem and convertibility, and on a larger scale, between Argentine president’s economic policy choices and their approval

ratings (the dashed horizontal line represents a 50 percent approval rating):



Source: Stokes 2001, p. 137

Once Convertibility went into effect, in 1991, approval of the plan and of Menem in general became closely connected. According to Stokes, the plan was responsible for keeping his approval rating close to 50 percent through the 1995 electoral campaign,

“permitting him the plurality support required for reelection,” although only barely, as popularity began to drop rapidly around January 1996(Stokes 2001, p. 137).

Menem’s presidency is only one example of Argentine presidents and the connection between their economic policy and their presidential popularity. The next two chapters will discuss two more examples; in one case the president inherits favorable economic conditions and prospers, while in the other case the president experiences a drought and a world economic crisis, both factors in her unpopularity. Similarities are evident between Kirchner, Fernandez, and Menem in the way that they exchanged state goods for political benefit and in the way their presidential cycles were tied to their economic policies. The story of Convertibility is *the* story of the Menem years, and understanding the powerful role the country’s economic situation had on his popular standing relates directly to the relationship between the disparate conditions inherited by Fernandez and Kirchner and the drastically different levels of public support they received.

Chapter 3, Kirchner and the IMF Repayment Period

This chapter looks at how the peak in commodity prices, “the soy boom,” was used by Kirchner to fund nationalistic measures that portrayed Kirchner as a savior of the people, delivering the country from the grasp of the imperialistic relationships Menem had engendered during his presidency while simultaneously restoring Argentina’s economic autonomy. A comparison is made between the different ways Kirchner and Fernandez have used export revenue, while keeping in mind the economic prosperity Kirchner enjoyed. I also look closely at possible discrepancies between the goals Kirchner outlined in public and what it seems he really hoped to accomplish, such as achieving more widespread popularity and appeasement of the masses than would be otherwise available through the implementation of traditional partisan politics – nationalism is powerful in Argentina, and appealing to a sense of national autonomy was a surefire way for Kirchner to win widespread support. In this sense, Kirchner paying off the IMF rapidly can be seen as a political maneuver; he could have better spent the funds by using them to provide for his constituency through traditional measures, like the funding of social welfare programs.

Economic Prosperity

I begin this section with a passage from Hector E. Schamis, a professor of political economy and democratization in Latin America whose works I have already cited multiple times. In reading this citation, one should keep in mind the economic conditions of the Kirchner and Menem (during Convertibility) presidencies:

In disjointed party systems, incentives for parliamentary negotiation tend to be weak. Taking political disputes to the streets is routine, and the executive branch enjoys ample room for autonomous action. *The economic cycle typically drives the political process. When prices are favorable and the economy is growing, the incumbent chief executive rides high, often circumventing established institutional routines and concentrating power in the office of the president.* The basic traits of the typically strong Latin American presidential system gain extra force, leading to a "superpresidency" whether a leftist or a rightist is in office. When the wheel turns, with prices falling and growth waning while an angry opposition nurses its accumulated grievances, instability frequently follows and the superpresident becomes an embattled (and sometimes a former) president. (Schamis 2006, my italics)

This passage relates to all of my cases, and explains the fall in popularity from Kirchner to Fernandez. The booming economies of the one-dollar-one-peso plan and the soy-boom economy of post-crisis Argentina coincided with periods (also mentioned last chapter) of extreme presidential autonomy, marked by the frequent usage of executive decrees. As prices fell, early in the Fernandez presidency, "the wheel turned" and Fernandez took the fall, becoming the embattled (and perhaps, within a few years, if she fails to win re-election, "former") president mentioned in the quote. Like Schamis says, *the economic cycle drives the political process*, and the past two decades of Argentine boom-bust economics have supported the powerful presidencies and affected the rapidly rising and falling presidential popularities previously discussed. This is important to an examination of the economic cycle of the Kirchner presidency and its political effects.

The fact that Schamis' quote directly relates to "disjointed party systems is also very important", because this is a key feature of Argentine politics. Argentine political parties are not nearly as cohesive as American political parties, and they generally behave in ways that fit exactly with Schamis' description. The PJ has gone through numerous splits, and leaders often decide to create their own sub-parties at opportune

times, often during some form of domestic or international crisis. Examples of such splits include the splits mentioned in the introduction: Duhalde and Kirchner parted ways in 2003, which led to the creation of current Kirchnerista sub-party the “Frente para Victoria”, and VP Cobos and Senator Reuteman have transitioned from Fernandez loyalist to opponent in recent years.

History

Convertibility ended badly. As the peso became dramatically overvalued, crisis became inevitable. Argentina went through a rapid succession of several presidents, a “*corralito*” (a freeze on bank withdrawals), and an abandonment of the currency board, which drastically lowered the real value of Argentine assets and meant that even when Argentines’ could get money out of the bank, the value of their savings had been more than cut in half. Argentines, understandably, were *mad* (De La Torre, Levy, and Schmukler, 2002).

Argentina needed a strong central figure, and during the “serial exchange of executive power” (when Argentina went through five presidents from December 2001 to January 2002) I discussed in the introductory chapter, Nestor Kirchner emerged as a promising political solution. A fresh face in the world of Latin American politics, Kirchner represented a clean slate and a new start, and, after his election, he cleverly began building his base of support through the use of nationalistic rhetoric. Kirchner was the governor of the southern province of Santa Cruz prior to his presidency, and may have been elected largely because of his provinces’ distance from the political limelight of Buenos Aires and the little negative attention he had attracted, especially

compared to his opponents. The Latin American Weekly Report writes that he may have benefitted from a “Stop Menem” campaign, “as Kirchner does not tend to awaken anything resembling passion, one way or the other” (Latin American Weekly Report, 2003). His nationalistic rhetoric focused on defining a common enemy for the Argentines.

Kirchner defined the economic situation by portraying it as a dichotomous relationship: them versus us. The Argentines versus the IMF. The Left-Wing Kirchnerites versus the Menem legacy of a failed, neoliberal economy. Kirchner blamed the economy’s failure on the policy prescriptions of international organizations, and the IMF received the majority of the criticism for the financial crisis, a stance which he never surrendered; in 2009 Kirchner continued to voice his distrust, saying that the government would not accept money from the Fund, “even if they give it away” (Latin American Economy & Business, 2009.; Latin American Weekly Report, 2009). In 2006 Argentina paid off its US\$9.68bn debt with the IMF ahead of schedule, “freeing” Argentina from the dependence on IMF intervention.

Other countries paid off the IMF before payment was due, including Argentina’s neighbor Uruguay, which cancelled a US\$1.08bn debt payment in November 2006, ahead of the 2008 deadline, in what was described as a political maneuver. Opposition party leader Larrañaga “accused the government of politicizing the cancellation of the IMF debt. He said it was designed as a populist measure to appeal to the support base of the ruling coalition” (Latin American Weekly Report, 2006). A third example of a country repaying the IMF early is the Brazilian government, which formally announced

its intention to repay a little over US\$15 billion in late 2005, even though their scheduled final repayment should have taken place in 2007(IMF External Relations, 2005). Conveniently, all of these repayments occurred around election cycles; President da Silva of Brazil was re-elected in 2006, following the December 2005 repayment announcement, and Argentina announced its repayment two months after Kirchner's first midterm elections, in October of 2005, elections in which his party fared well (Alvarez-Rivera, Manuel, 2010). The Uruguayan repayment was announced four days before internal elections within the ruling Coalition, the Frente Amplio -- the faction that benefitted most from the elections was the Movimiento de Participación Popular, headed by the shrewd, recently inaugurated, Uruguayan president "Pepe" Mujica (Latin American Regional Report, 2006). The early IMF-repayment-as-national-morale-booster is a fairly transparent maneuver, and its political motivation has been identified in multiple countries.

Application of Export Revenue

Kirchner was lauded for his handling of the crisis, including his aggressive restructuring of the debt. From an economic standpoint, it is questionable whether Kirchner should have used the economic prosperity previously discussed, made possible by unusually high commodity prices, to pay off the Fund before payment was due. Examining this question helps reveal the use of Kirchner's economic policy, in this case the payment of debts, for political gain.

Kirchner's stance regarding who deserved the blame for the economic crisis and how the crisis should be handled was a major differentiating factor between him and

Menem in the 2003 election. During the campaign “Menem had promised to make amends with the IMF and pay back the Fund and its creditors,” write Cooper and Momani (Cooper and Momani 2005, p. 309). This was one of his top priorities. Kirchner, on the other hand, “campaigned on the promise that the defense of the domestic interests of the Argentinean populace must come first,” in typical populist fashion (Cooper and Momani 2005, p. 309). Kirchner’s anti-IMF stance won out, and Menem dropped out of the election during the second stage. The Kirchner government immediately alienated past allies who had worked to maintain Convertibility, and they placed most of the blame for Argentina’s recent economic failures on the IMF (Cooper and Momani, 2005).

Argentina had to restructure an enormous debt; the country owed more than \$100 billion to bondholders worldwide. The idea of sovereign debt restructuring is to replace old debt with new debt under more favorable conditions, so that the country may return to the international financial community. The final restructuring offer made in 2004, 3 years after the crash, illustrates Kirchner’s ambitious approach to debt restructuring; the offer represented the largest debt write-down in history, a 75 percent reduction. After years of negotiation, 76 percent of creditors accepted said offer, a significantly greater percentage than the 50 percent acceptance rate the government targeted (Latinnews Daily, 2005). To put that into perspective, a sample of nine Latin American debt restructures from 1990 to 2004 showed an unweighted average of a 35-40% reduction -- about half the size of the repayment plan Kirchner and his aides had proposed (Hornbeck, 2004).

By placing the blame on the IMF and threatening to withhold scheduled loan payments, Argentina was able to maintain an unusual amount of power in the debt restructuring process. The Kirchner government “found ways to create room for maneuver vis-à-vis its creditors by a combination of technical acumen and diplomatic skill”, traits the Fernandez administration has failed to exhibit (Cooper and Momani 2005, p. 317). While I have maintained that Kirchner’s success was due largely to superior economic conditions, the accounts of his handling of the debt restructuring reveal a political savvy that his spouse has thus far seemed unable to match.

Argentina’s hasty repayment was described as a “risky maneuver” because of the importance of foreign currency reserves in controlling the value of the Argentine peso. Kirchner claims he paid the \$9.8 billion debt ahead of schedule because he thought the country would be “better off taking a financial hit now than submitting to more IMF prescriptions for economic policy” (McMahon, 2005). He may have also felt that Argentina would be better off capitalizing on surplus currency reserves to pay off a national enemy while the wounds of 2001 were still fresh.

How could the money have been better spent? In typical Peronist fashion, according to Claudio Katz of International Financial Organizations in Latin America. According to Katz, the \$9.8 billion repayment was a mistake and a “blockade on redistribution,” despite being portrayed by the government as a “sovereign act of historic proportions.” The Argentine government had to adapt to keep up with the early payment, Katz writes, and the money was being withdrawn from “salaries, education, health care, and public works.” Those who benefitted most were the bankers,

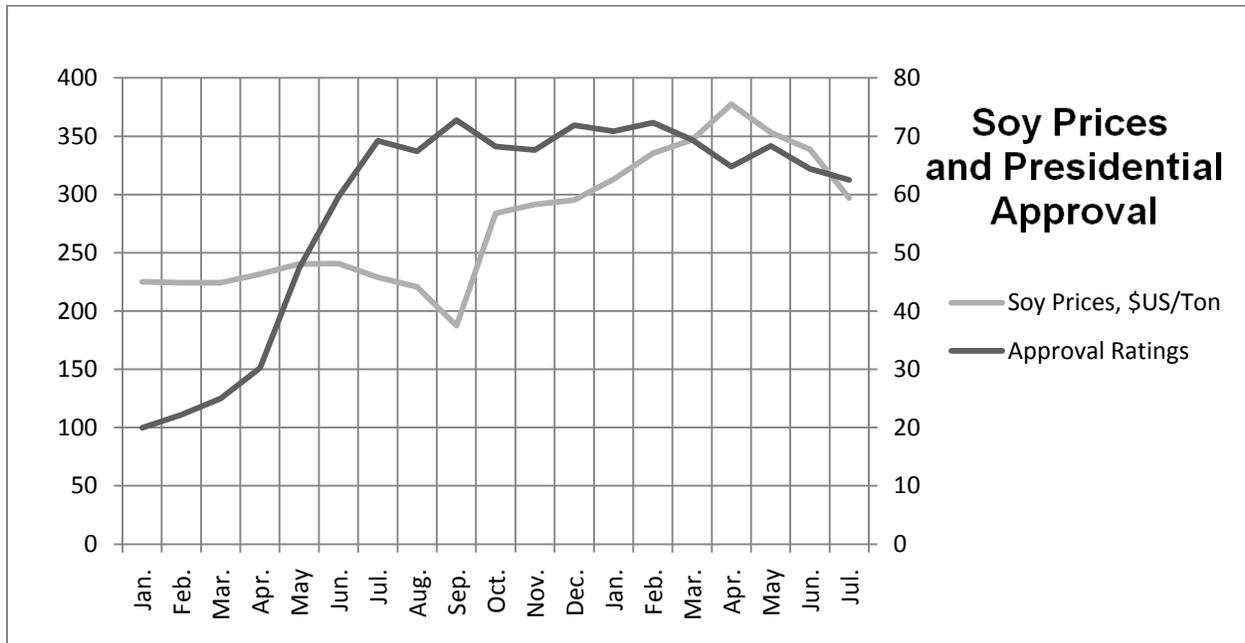
manufacturers and agro-exporters, or, in other words, the local bourgeoisie, yet Kirchner acted as though he was serving the bulk of the Argentine population by preserving “national autonomy!” The bourgeoisie benefit mostly from the lower exchange rate, which promotes exports.

The blockade of redistribution is illustrated by reduced social spending, frozen salaries, and, “at the height of the inflation upsurge [the lack of] pension increases for 63% of retired people with extremely low income, [and the lack of] a Christmas bonus for unemployed people who receive 150 pesos” (Katz, 2006). A typical Peronist would be expected to use that \$9.8 billion to least fulfill these expectations, and possibly increase benefits for the poor, but Kirchner opted not to, and his popularity increased anyways. This speaks to how highly Argentines valued their autonomy.

Data Analysis

I expected to find a definite link between soy prices and Argentine presidential approval ratings during the Kirchner presidency, because of the clientalistic nature of the party and the importance of government revenue to the funding of Peronist operations. What I found was not exactly what I was expecting. The approval ratings are part of a database provided to me by Ryan Carlin, a compilation of all the available presidential popularity rating polls from each month since the fall of the military dictatorship in the 1980’s. The popularity figures are estimated values taken from this collection of polling data, and I used soy prices from the FAO, the Food and Agricultural Organization of the United Nations, database available at FAO.org.

This graph depicts soy prices and presidential popularity from January 1st of 2003 to July 1st of 2004:



Source: Ryan Carlin, 2010; International Commodity Prices, 2010 (FAO.org)

It is surprising that, even though both graphs have definite peaks, the presidential approval ratings peaked *before* the soy prices. The dramatic spike in the Kirchner popularity, beginning between around April of 2003, does coincide with the beginning of his dialogue with the IMF, a negotiation that was very visible, and very popular, as demonstrated by the approval ratings. While beginning negotiations may have originally boosted his popularity, the soy boom that followed shortly after gave Kirchner the power to aggressively pursue his anti-IMF campaign promises and to cut all ties with the Fund *before* the next midterm election (International Commodity Prices, 2010).

While the demonstrable correlation between rising soy prices and presidential popularity ratings are not as obviously connected as I hoped (due, quite possibly, to the lag between the initial increase in revenue, and its subsequent allocation and usage for vote-buying or other politically popular behavior before the boost in popularity eventually registers in the polls), I maintain that the repayment was popular, and high soy prices enabled the repayment. Therefore, there is a link between the economic prosperity of the Kirchner presidency and his personal, political gain.

Conclusion, Differences between Kirchner and Fernandez

Fernandez tried to take advantage of soy revenue to fund greater social spending and to enact policy goals largely benefiting the poor, while Kirchner appealed to a vast majority of Argentines by presenting a nationalistic image in the wake of a debilitating crisis. Argentines suffered during the peso devaluation, and they needed a common enemy and a president to support. Kirchner was that man. As the popularity data shows, his plan was successful. Again, the hyped-up early repayment was not a full repayment of all of Argentina's outstanding debts, but merely the paying off of the IMF, which allowed Kirchner to promote his "Argentine recipe" rhetoric about how Argentines operate according to their own plans and not according to those imposed upon them by multinational organizations.

Critics argue that Kirchner should have used the soy boom tax revenue to provide for the poor, as one may expect from a PJ president, but Kirchner was able to reframe the repayment (a ploy imitated across Latin America) as one which benefitted all Argentines. Doing so allowed Kirchner to earn the approval of Argentine's nationwide,

which catapulted his approval ratings to nearly 80 percent, one of the highest Argentine approval ratings of the past two decades. Fernandez did not have access to the tax revenue garnered by a prospering economic sector, and her efforts to squeeze extra revenue from farmers cost her dearly. Despite the ideological similarities she shares with her husband, Fernandez has been far less popular than her husband.

Chapter 4, Fernandez and The Soy Export Taxes

This chapter discusses the controversial soy export taxes and examines why Fernandez implemented them, what stood to be gained politically from their implementation, and who was upset by them. It also discusses the role the tax controversy played in the 2009 midterm elections (and to what extent the election results should be perceived as a referendum on the tax). While it may be impossible for me to clearly define the role of the taxes in the midterm election, by considering other factors (the general economic crisis, falling soy prices, and other controversial policies -- such as the government attempt to bolster federal reserves by nationalizing pensions) I attempt to isolate effects of the soy case. A large part of the chapter is devoted to explaining the informal networks of the Peronist party system, networks which mandate extensive government and party spending and, forcing government attempts to garner more revenue.

Social Programs and Politics, the Peronist System

To understand Kirchner, Fernandez, and their party, the *Partido Jusicialista* (PJ), it is crucial to understand the Peronist system, and to link the fundamentals of Peronist party operations with the taxes discussed in this chapter.

Argentina experienced several waves of migration from the countryside to the capital during the twentieth century, a migratory process which gradually led to hyperurbanization and the creation of poor, transitory neighborhoods where laborers built their own houses on the outskirts of the city; these *villas*, or shantytowns, emerged

first as temporary dwellings but eventually became permanent, due to reasons that extend beyond the scope of this paper. Marginalized in their ghettos, the poor banded together and formed grassroots movements to make their voices and needs heard, and in doing so, gained access to public resources during the Peron presidency of the 1950's. The success of these grassroots movements led to the evolution of the current system, which features an extensive and informal network of "problem solvers", with a clearly established hierarchy. The book *Poor People's Politics* begins with the author, Javier Auyero, narrating a typical scene: In a ghetto, a truck from the secretariat of public works pulls up, driven and operated by the son of a local Peronist party leader, who unloads *chorizos*, hats, polenta, milk, bread, and other basic foodstuffs. They are hosting a rally and barbeque in the *villa* and attendees will be given the food and party-gear (t-shirts and hats) to wear. The operator is a "ñoqui", a party-activist who does no real municipal work but receives a paycheck as a "ghost employee for some public dependency". He helps with events like this one, and carries out the daily distribution of goods to *manzanas*, block delegates. Throughout Auyero's narratives the chain-of-command-- from those receiving the goods to the *manzanas*, to the party brokers, who transport goods from the leaders to the *manzanas*, and act as a link between the people and those more involved in the political side of the operation-- is clearly visible, and clearly organized (Auyero, 2001).

Social scientists have often studied informal networks of survival and political networks separately, and their interaction plays a pivotal role in the Argentine case. One example of the overlap is the food distribution program called the *Plan Vida*, or Life Plan, which distributes basic goods to nearly 400,000 people through a network of

10,000 *manzanas*, or block delegates. The program is non-partisan in theory, but in practice it is highly politicized, and it is administered mostly by Peronists (Levitsky, 2001 p. 55). Auyero quotes a shantytown dweller who says that “the municipality pushes a little bit to do politics, to attend rallies, to become a member of the party ... and if you don’t want to, they won’t give you anything” (Auyero 2001). *Plan Vida* makes up only a small part of the system, and not every exchange of goods, jobs, or favors, is part of a large program with an official name. Generally, in the informal networks, *punteros*, or “brokers”, operate as a connector for the politicians and local leaders and their constituents; the brokers seek financing, jobs, and resources to distribute them to the constituents. The man driving the truck in the narrative I mentioned above, for instance, was a *puntero*. These networks are most often publically funded, because the leaders of these groups are often public officials, who are able to use money from kickbacks, government agencies they run, and their government jobs to finance the network. Also, the food and medicine that is distributed routinely comes from social welfare ministries. The informality of the PJ and their networks is also interesting, because it makes the connection between the two difficult for the casual observer to notice it at all. The grassroots networks almost exclusively operate off the books, with no record of their existence kept in party documents (Levitsky 2001, p. 46).

Argentine shantytowns saw a 65% increase in population from 1991 to 2001, and more than half of the *villas* occupants lived with unmet basic needs during this time (Auyero 2001, p. 62-67). In the face of such a large, and rapidly expanding, problem, Argentine presidents face a dilemma, as it becomes increasingly more costly to provide for their constituents in typical Peronist fashion. It is also important to

understand how the social services are strongly tied to politics; the actual overlap that I mentioned earlier between survival networks and politics

The Importance of Soy

The history of soy in Argentina dates back several decades, but it wasn't until the 1990's that soy assumed a major role in the Argentine agricultural economy.

Historically, Argentina had been known for their cattle exports, and Argentine beef was prized around the world, but the dynamic began to change in 1996. The "soy boom" began, and soy production tripled over the next eight years, becoming the most important part of the Argentine agroecconomy. By 2004 Argentina was producing 36.5 million tons of soy a year, ninety-five percent of which was exported (Valente, 2004).

Soy has been a problematic crop for some Argentines, especially small time farmers, members of the lower class whom one might initially expect Kirchner and Fernandez to look out for. The soy boom benefited the country's economy by bringing in substantial export revenue, but had negative effects provincially; "while soy output has skyrocketed, so [had] poverty rates in [the soy-producing] region, which is home to four million of Argentina's 37 million people. Between 1998 and 2002, the proportion of the population living in extreme poverty increased from eight to 29 percent in Catamarca, from 20 to 36 percent in Jujuy, from 12 to 43 percent in Salta, from 15 to 32 in Santiago and from nine to 34 percent in Tucumán" (Valente, 2004). This is due in part to the fact that soy is easy to grow and creates few jobs; operation of the plantations, which account for most of the Argentine soy production requires high-tech machinery instead of human labor, and the beans are processed in scattered parts of the

country as well (Valente, 2004). While the extreme poverty levels cited coincide with the economic crisis, when poverty levels were high nationwide, farming regions suffered more than rest of the country; 28 percent of Argentines lived in extreme poverty during the crisis, far more than the 6 percent nationwide average before the crisis, but far less than the 43 percent in Salta and the 34 percent in Tucumán (World Bank 2003).

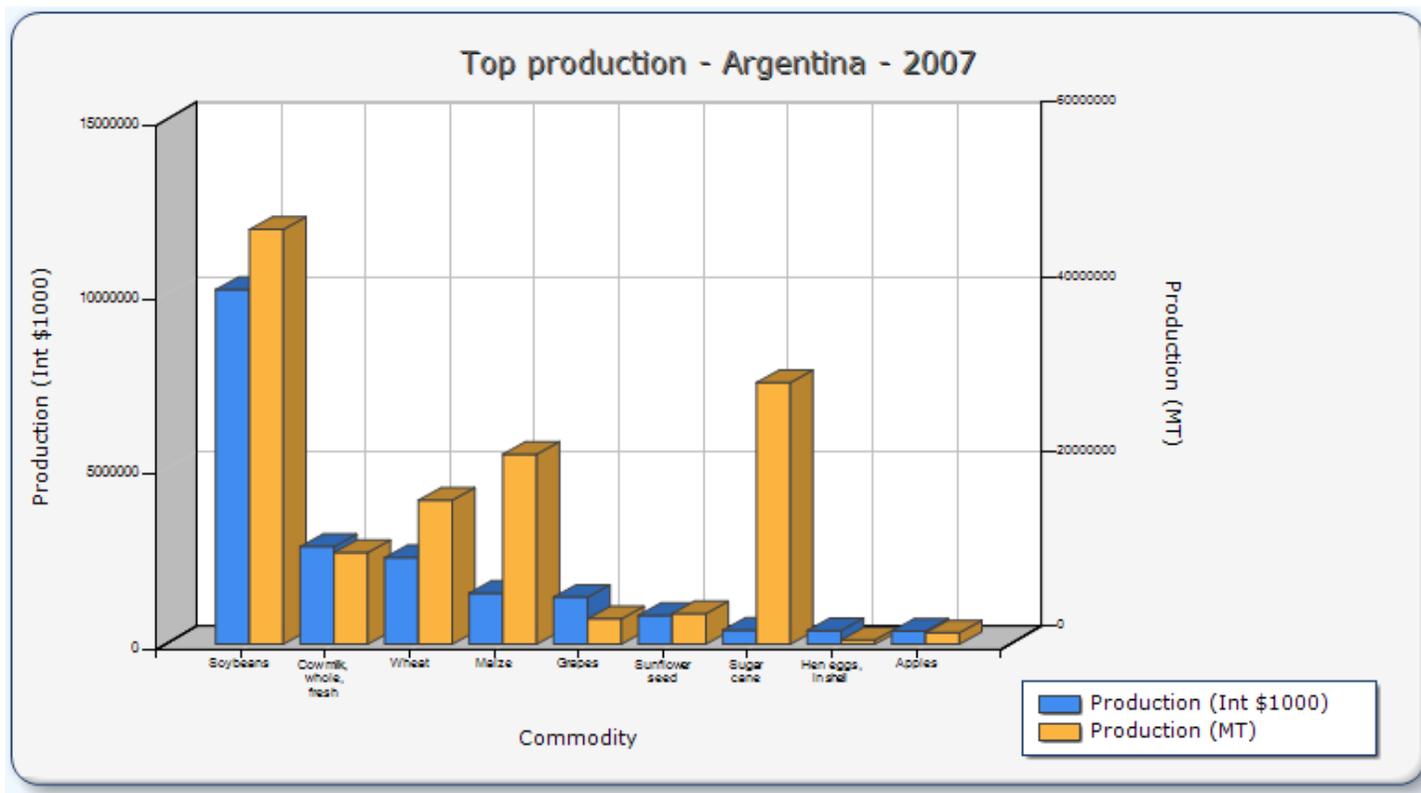
The Kirchner presidency coincided with the peak of the "soy boom" (Leffler Commodities LLC, 2005) -- soy prices topped out in 2004 but remained high throughout his presidency (from 2003 to 2007). The tax revenue garnered from the unusually-profitable exports and the rapid economic growth which Argentina experienced due to the high soy prices and levels of production gained him much economic political leeway and allowed him to pursue the types of policies that he wanted to. Kirchner used this money principally to pay off the IMF in very rapid fashion.

Fernandez lacked the good fortune of her husband, and during the first year of her presidency, from June to December of 2008, soy prices halved, falling to about USD\$300 per ton. Agriculture accounts for 54% of Argentina's total exports, and a 2008 drought augmented the problems created by the rapid fall in soy prices, the worst in nearly fifty years, as "Argentina's harvest of grains and oilseeds [were] expected to fall this season by around 20% from last year, to 80m tons" (Latin American Regional Report, 2009). As the Latin American Weekly Report wrote on August 27, 2009, the soy income was "absolutely essential for the government to fund initiatives such as its 'social cooperatives'," and goes on to mention how the Pope had criticized the "scandalous levels" of poverty in Argentina (Latin American Weekly Report, August 2009). The

culmination of lower soy prices, looming deadlines for debt repayment (and the lack of access to international credit markets, a result of the massive debt default following the 2001 crash), the increased spending necessitated by the 2009 midterm elections, and the desire to continue the populist politics that make up a large part of the Kirchner/Fernandez ideology, forced Fernandez to take a new approach to fundraising (The Economist, 2008).

Table 1 graphically displays the vital importance of soy to Argentina’s economy.

Table 1



The column on the left represents the total production of soybeans. As you can see, Argentina produces far more of this crop than any other, which makes the

fluctuation in prices play such a large role in the volatility of the Argentine economy (Food and Agricultural Organization of the United Nations, 2007). I used the graph from 2007 because it is the most recent, but in general the data has not changed much in recent years.

The Controversial Soy Tax

Now that I have mentioned some of the problems facing Fernandez, namely falling commodity prices and the growing number of those in need of the support provided by the PJ, I will look particularly at the soy case.

In 2008, seeking to bolster her image (presidential approval rating had dropped to around 20%, the second lowest approval rating in Latin America at the time) and the economy, Fernandez announced an ambitious new program, one which The Economist called “Argentina’s ‘New Deal.’” The program sought to respond to the economic crisis by increasing employment, production, and consumer confidence; the public-works component was worth \$21bn alone, and would double the number of public-sector jobs from 362,000 to 770,000 (The Economist, 2008). The plan is significant to my thesis for several reasons: one, the government continues to increase spending on the public sector despite looming financial requirements – a USD\$28bn payment is due within three years – in what could be seen as a lack of foresight and an example of populist economic policy; two, the goal of creating some 360,000 new jobs fits into one of the two major goals of the political business cycle, that of decreasing unemployment; and three, it is an example of announcing and implementing policy goals at crucial points in election cycles. It hardly seems a coincidence that the plan was announced in December

2008, when crucial midterm elections, in 2009, drew near and Fernandez desperately needed a boost to her low approval ratings. The fact that decreasing unemployment is a goal of the political business cycle is particularly important within the Peronist party system; public jobs are the most valuable gift that brokers can distribute through their clientalistic networks. With 362,000 new jobs, Peronist politicians would be able to appease many of their unhappy constituents. Auyero writes that “the expectation of a job works as a very important cohesive element within the inner circle. Although not everyone is employed by the municipality, the fact that someone gets a fixed-term contract or a part-time job has an important demonstration effect” (Auyero 2001, p. 67).

The plans for an “Argentine ‘New Deal’” are obviously an attempt to shore up support among the urban poor, one of the demographics who have experienced an especially strong reduction in their approval of the president; the other groups are generally ones the reader may expect, groups who are not generally Peronists, such as citizens with at least secondary school educations and citizens from the agricultural region (Infotlam, 2008).

Fernandez needed to raise money to fund her initiatives, but her fundraising efforts were immensely unpopular. In Fernandez’s defense, she inherited a very different economic situation than her husband, one of the reasons I find the comparison of the two cases particularly interesting; while Kirchner was elected with a poor economy and high commodity prices, Fernandez inherited a booming economy with soon-to-be falling commodity prices. Both created ambitious plans during their presidencies – the “Argentine ‘New Deal’” discussed above, in the Fernandez case, and

the IMF repayment in the Kirchner case, but Kirchner did so with the funding of a booming agricultural export sector while Fernandez was forced to grapple with drought, farming strikes, and falling agricultural prices.

In defending the urban poor, both the Kirchner and Fernandez governments have taxed agriculture and subsidized important sectors as part of their *redistribucion de la riqueza*, but it was Fernandez who pushed the taxes farthest and who has suffered most from the ensuing political fallout. During the Kirchner presidency, in 2006, “The treasury spent nearly US\$1.5bn in subsidizing the transport sector, especially in the form of fuel for buses to keep fares down, and the energy sector. It also extended the temporary ban on exports of beef, to control domestic prices” (Latinnews Daily, 12 January 2007). In 2007 a four percent increase on soya and cooking oil tariffs earned the government an extra US\$500 million, money used to “subsidize the basic basket of goods and avoid a rise in retail prices” (Latinnews Daily, 12 January 2007). While these goals seem to represent the type of policy that is to be expected from leaders of a Latin American country with high levels of poverty, they also fit the type of behavior of an executive acting in accordance with the political business cycle. In keeping the price of the basic basket of goods down, inflation stays low, and according to the PBC, with low levels of inflation come high levels of political success.

Kirchner and Fernandez, populists both, have constituencies which are composed in large part by the “scandalously” large lower class that the Pope referred to. In looking out for these constituencies, the “Kirchners justified the higher taxes as critical to plans to redistribute wealth and hold down Argentina’s food prices”; in other

words, the growing lower class and their needs again forced Fernandez to look for ways to increase government revenue (Barrionuevo, 2008). Part of Fernandez's fundraising approach was to set a fixed-rate export tax of 35 percent on all soy exports; this was demonstrably unpopular, at least among farmers, who mobilized their unions and engaged in roadblocks and other demonstrations of their discontent (The Economist 2009). Some have seen the midterm election results as an example of more widespread disapproval of the tax, an issue which discussed later on in greater depth. The new taxes, which were announced on November 7th, 2007, represented an enormous raise from the pre-boom years; in 1994, soy export tariffs of only 20 to 23 percent were in effect (Latin American Regional Report, 2007; Valente 2004). The proposed beneficiaries of the tax, the urban poor to whom the wealth would have been re-distributed, failed to effectively rally in Fernandez's support. I attribute this to a failure on Fernandez's part to really advertise how the soy tax would benefit her constituents; while the farmer's were able to clearly see the effects of the taxes on the profitability of the exports, it is much more difficult to perceive future social plans and lower inflation than there would otherwise be (especially when inflation is already high, as is the case in Argentina).

Agriculture powers the Argentine economy, and the taxes levied upon agriculture have played a large role in the functioning of the economy for years. Between 2002 and 2007, agricultural retentions accounted for about 10 percent of total government collections, and rose to nearly 14 percent in early 2008 (Castro and Frers 2008, p. 11). The Argentine economy is now tied to the tax revenue agriculture creates:

estimations indicated that a removal of retentions would cause between a 9.6 and 14 percent increase in the cost of basic food items (Castro and Frers 2008, p. 12).

The taxes were introduced by the Fernandez administration, by decree, anti-constitutionally: Article 75, Subsection 1 of the Argentine Constitution says that Congress is in charge of customs decisions and is in charge of “establishing the rights of importation and exportation,” however, soy taxes were implemented by the Economic Ministry without ever being brought before the legislative branch (Castro and Frers 2008, p 27). Bypassing the Constitution has been common during the “hyperpresidencies” of the past 20 years. Controlling supply has helped keep prices down, but, economically speaking, retentions are not the best anti-inflationary measure. In order to control inflation, the government must monitor its fiscal and monetary policy (Castro and Frers 2008, p. 24).

The uproar following the anti-constitutional implementation of the tax resulted in her precipitate fall in popularity.. There were more opponents to the tax than Fernandez must have initially expected; while higher taxes are almost never popular, the farming sector would prove to be more vocal and organized than they were expected to be, and the resulting crisis begot an opportunity for political entrepreneurship. As I have already mentioned, politicians who plan on running in the 2011 presidential election used the soy tax as a way to distance themselves from Fernandez. Argentine Vice President, Julio Cobos, is one such politician who disapproved of the long-term effects of the policy, and, despite the Kirchner’s justification for the taxes (redistribution of wealth and maintenance of food prices), he cast the Senate’s tie-breaking vote and the

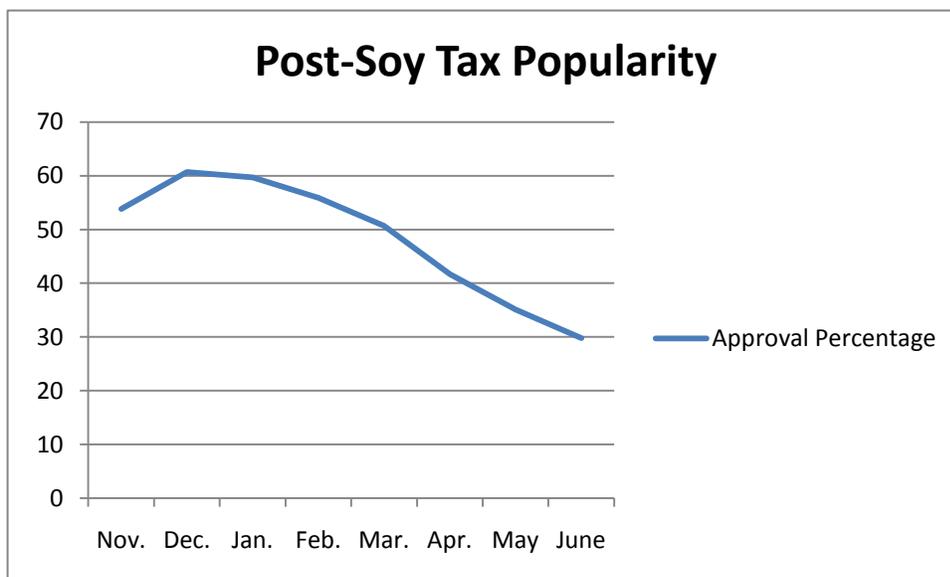
tax was rejected, 37-36. The Argentine legislature, months later, was able “to reject the system of floating-rate taxes that the government of President Fernandez imposed in March without first consulting with her nation’s Congress” (Barrionuevo 2008).

The rift created in the administration as a result of Cobos’ disagreement with the Fernandez policy represents only a portion of the problems created by Fernandez’s imposition of the taxes. While the issue took some time to be resolved by Senate, the taxes provoked immediate opposition from the rural sector and from small producers in particular (Latin American Regional Report, 2007). Farmers mobilized in mass to illustrate their discontent, staging roadblocks, rallies, and strikes. All four farming unions (Confederaciones Rurales, Federación Agraria, Coninagro and Sociedad Rural) joined together and staged a joint strike for the first time in years, and on May 25th 2008, “between 200,000 and 300,000 people attended a rally held in Rosario in what was the biggest mobilization against a government since the restoration of democracy in 1983” (Latin American Weekly Report, 2008; Latin American Regional Report - Brazil and Southern Cone, 2008).

Government attempts to settle the dispute only compounded their problem, as “various ... ploys at winning public support ... failed, while political miscalculations served to alienate the population further” (Latin American Regional Report - Brazil and Southern Cone, 2008). These political miscalculations include cabinet chief Alberto Fernández’s decision to allow federal forces to clear roadblocks, a decision which resulted in protests around Buenos Aires condemning the government’s obstruction of

the peaceful protests (Latin American Regional Report - Brazil and Southern Cone, 2008).

The following graph illustrates Fernandez’s fall in popularity in the wake of her announcement and implementation of the soy tax. The tax was first announced in November of 2007, the first month on the graph, and went into effect in March.



Source: Ryan Carlin, 2010

While the graph shows that Fernandez experienced an immediate increase in popularity following her election, I attribute this to the “honeymoon period” following her election, a period during which Argentines were willing to give their new president the benefit of the doubt. The political honeymoon period is a phenomena in which executives are granted an unusual amount of leeway immediately following elections, and this transitory period offers recently-elected officials an opportune time to

implement policies that may not be widely accepted, such as the Argentine soy export tax (Beckmann, Godrey 2007). Ultimately, the honeymoon effect wore off and Fernandez's popularity suffered.

The tax was clearly unpopular among some sectors, but Fernandez must have felt that increasing tax revenue, which was necessary to fund her agenda and to provide for her constituency, was more important than risking an upset farming sector. To her political misfortune, several factors culminated in the disastrous 2009 legislative midterm election, the results of which were essentially a referendum against her policy choices.

According to *Clarín*, a popular Argentine newspaper, the presidential couple has “[induced] the fragmentation of the parties,” and they have also managed “to break whatever instance of political negotiation [existed] to establish confrontation as the norm; and to polarize the political climate, dividing [the party] between loyalists and enemies²” (Bravo 2010). The negative effects of the fragmented party were revealed in 2009, during the legislative midterm elections.

The PJ is historically characterized by the political entrepreneurship of its members and the willingness of its leaders to challenge traditional or ruling party, stances during crisis. Such behavior has often been rewarded by the electorate, as it was

² “El matrimonio presidencial ha logrado durante su ciclo tres cosas: inducir la fragmentación de los partidos, que no subsanará el emparche sancionado para realizar internas abiertas; romper cualquier instancia de negociación política para establecer como norma la confrontación; polarizar el clima político, dividiéndolo sencillamente entre obedientes o enemigos”

in the cases of Menem and Kirchner. Argentine Peronists readily abandon their party in the wake of controversial party decisions.

“As Fernandez’s popularity waned over the course of her eighteen months in office, a growing number of politicians abandoned the Kirchners’ FPV faction of the Peronist party”; these deserters ran under new parties they had created as well as under separate PJ factions (Lupu 2009, p. 174). Kirchner and Fernandez had brought some former-Radicals (the “K Radicals”) into the PJ in years prior, and the K-radicals whom have split from Fernandez have mostly returned to the ACyS (*Acuerdo Civico y Social*). Peronist opponents of the Kirchners also “formed a center-right alliance of [their] own”, the *Propuesta Republicana* (PRO) (Lupu 2009, p. 174) .

Another problem Fernandez has faced is the ordered, efficient opposition of the farming sector. While few in number, the prominent actors are accountable for a large portion of the Argentine government. Taking on powerful interest groups is a tricky prospect for politicians, as Fernandez discovered. The relative disorganization of the Kirchner’s political base (composed largely of the lower-class urban poor) was no match for their opponents, and the election, which was very important because it was “seen as a referendum on the couple's economic policies and combative governing style”, ultimately, reflected the discontent with the Fernandez administration, who lost control of the legislative branch majority(Reuters, 2009; Bloomberg, 2009). Voter turnout was abnormally low, which may reflect on the disorganization of Fernandez’s political base (Lupu, 2009).

While it is clear that raising taxes would have had negative effects on the oligarchic farming organizations, large-scale agricultural enterprises and their investors account for a small portion of the electorate, and Fernandez should have been able to (and must have expected to) acquire a net political gain. The substantial amount of poor, urban voters who stood to benefit from additional government revenue should have continued backing Fernandez and should have balanced the negative reactions the Soy tax received.

The election, contesting half of the seats in the lower house of Congress and a third of the Senatorial seats, resulted in a resounding defeat for the Kirchners, who had to compete in large part against former allies (Lupu 2009, p. 176). Lupu confirms that “the elections were seen broadly as a referendum on Fernandez’s performance in office” and the major issues were economic ones, including the unreliability of inflation figures provided by the State and the export taxes (Lupu 2009, p. 175).

Following the midterm elections, the FPV-bloc is now about 9 votes short of the 129 needed for a majority, and the two major opponents, the ACyS and the PRO, hold 108 seats, or about 20 short of the 129 needed for a majority, but they should be able to attract votes from other anti-Kirchner factions within the PJ. Also, Lupu predicts the Kirchner’s will lose more voters in post-election desertions. One of the major implications is that Fernandez will now have to attempt to re-win support while sharing power with her opponent; the 2011 election, almost certainly, will not mimic Fernandez’s 2007 electoral success (Lupu 2009, 176-177).

Additional Considerations

In discussing the election results, it is also important to consider other factors, such as the general economic downturn that occurred worldwide in the wake of the economic crisis. Strong relationships do exist between economic conditions and electoral outcomes in Latin America, and “It is evident that elections held under conditions of economic crisis in Latin America have consistently produced losses for government parties. Moreover, in the overwhelming majority of cases, elections resulted in the defeat of the governing party or coalition (Remmer 1991, p. 781)”. This suggests that Fernandez was in real trouble, regardless of how she may have handled or mishandled agricultural taxes during her presidency, and, furthermore, studies suggest that Latin American countries with powerful, deeply-ingrained clientalistic networks, like Argentina, fare worse than their neighbors during economic downturns, presumably because of the difficulty in funding operations. Worth noting is that Fernandez and her loyalists lost not to the Radicals, but to other Peronist factions. Fernandez knew that she could not fulfill her agenda without upsetting someone, but the strength of the rural sector and the internal rifts within the PJ created in the wake of the soy tax have caused Fernandez a lot of trouble.

Conclusion

The soy tax debacle is due largely to several problems: the splintering of the PJ in the wake of unpopular policy, poor economic conditions worldwide and in Argentina, and the organized opposition of the farming sector.

Unfortunately for her, Fernandez seems to be backed into a proverbial corner. According to opinion polls, one of Argentine's biggest concerns going into the midterm elections were inflation and her "failure to tame high prices is one reason her popularity has flagged" (Reuters, 2009). Obviously, this puts the president in a tough position, because her attempts to diminish one of the public's primary concerns (inflation) incited the anger of an extremely organized and vocal opposition.

While Fernandez may not have been able to predict the drought and poor soy production, she should have been aware of the pitfalls involved in agrarian economies based on the cultivation of a single crop. One-crop economies are historically vulnerable to swings in commodity prices, Fernandez's failure to learn from the past led her to repeat it, and she will have to find a way to please her electorate if she or her husband hope to win re-election. Party politics and her previous policies make me expect to see continuing efforts to create jobs and to fund programs such as *Plan Vida*, to maintain the support of the poor who make up an estimated 30-35% of the country (CIA Factbook 2009).

The fact that voters turned to other Peronist factions suggests discontent with the leader, and not necessarily the party, whose trademark clientelist networks help assure voter loyalty among the urban poor. It is my contention that the fragmentation within the PJ and the shift in popularity towards other leaders stems largely from Fernandez's inability to provide sufficient amounts of jobs, food, and medicine for the poor, and that this sector is willing to vote for other members of the same party (her VP will be contesting the presidency in the 2011 election) who may be more able to distribute

resources in exchange for votes. In keeping with tenets of the Political Business Cycle, *Plan Vida* and similar programs are crucial to maintaining low unemployment, and therefore are crucial to implementing macroeconomic policy decisions for political goals. Fernandez's ability to effectively operate the PBC has been hamstrung by low commodity prices, and the PJ fragmentation that often accompanies crises and unpopular policy decisions has cost her party solidarity and has cast a dark shadow over any hopes of future electoral success for the Kirchner-Fernandez couple.

Whoever the next Argentine president may be – one thing is clear. It will probably not be part of the Fernandez-Kirchner coalition: Clarin, a widely-read Argentine newspaper, reported on April 4th that 76 percent of Argentine voters have said that they would never vote for Nestor Kirchner in the future. This information was acquired through a national survey carried out by private polling companies (Kooy 2010).

Chapter 5, Conclusion

Menem experienced extremely high approval ratings during his presidency. He brought neoliberalism to a historically conservative country recovering from the “Dirty War,” years spent under an oppressive military dictatorship. Despite his ideological differences and the popularity he enjoyed, Menem acted similarly to the current president, Cristina Fernandez de Kirchner, as he presided over the reversal of Argentina’s economic fortunes. While they catered to different constituencies, both sought to distribute state assets for political gain, and, in doing so, enlisted economic policy as a way to win votes and appease their constituencies.

Menem has also been important in defining the role of the current Argentine president; his frequent (and previously unprecedented) use of decrees has been continued by Kirchner and Fernandez, a trend that could hinder the development of a strong democracy or economy in Argentina. Bypassing the legislative branch grants the president extreme power which can (and has) been used to effect economic policy that will win votes in the short term and potentially harm the economy in the mid- or long-term.

All three Presidents were able to act with a relatively strong amount of autonomy, and pursued different policy goals, despite belonging to the same party. The ideologically nimble PJ is extremely pragmatic, and allows executives a great amount of leeway, as long as the economy stays healthy and the party remains popular among voters. Any sign of weakness from the executive office is liable to induce opposition from within the party, causing Peronist-versus-Peronist electoral competition.

In the case of Fernandez, the taxation and the redistributive policies she pursued governance they practiced were not just attempts to take advantage of smaller groups of voters. Fernandez was attempting to deal with the nation's actual problems in a very Argentine way, through redistributive economic policy.

This chapter synthesizes the arguments, conclusions, and connections of my thesis, emphasizing comparisons between the three cases. An analysis of the past twenty-odd years of Argentine politics reveals certain undeniable trends, which occur regardless of the president's political stance, and these trends can be expected to continue occurring in the future. I also give my predictions for Argentina's future, based on what I have learned and on current events.

Cases

Menem:

Menem's presidency prospered when, in the wake of a hyperinflationary crisis, he introduced the convertibility plan, which ushered in a decade of relative economic stability. He began a trend of powerful presidencies during which executives have ruled by decree. With his decree power and the political freedom he was granted after reviving the economy, Menem privatized liberally and distributed state assets as a rent-seeking mechanism, rewarding his constituency (composed mostly of oligarchic powers and large conglomerates) in exchange for financial and political support. He became tied to convertibility and the connection between his economic policy choices and his popularity (or lack thereof) was responsible for the success and failure of his presidency.

Kirchner:

Like Menem, Kirchner inherited an economically troubled country. Unlike Menem, Kirchner was able to capitalize on booming commodity prices and did not need to create anything as innovative as the convertibility plan. Thanks to the “soy boom”, Kirchner was able to use the tax revenue created by the skyrocketing commodity prices in order to pay off the IMF, a national enemy after the 2001 crash, and portray himself as a savior of national autonomy. His popularity remained high after the repayment, and in 2007 Kirchner passed the reins to his wife and PJ ally, Cristina Fernandez de Kirchner.

Fernandez:

Fernandez won the 2007 election by a healthy margin, capitalizing on the support base of her immensely popular husband. Unlike her husband, Fernandez soon encountered economic and agricultural crisis (the start of her presidency roughly coincided with the world economic crisis, a drought, and falling commodity prices). Her popularity suffered drastically, and she rapidly transformed into an embattled president.

Fernandez’s controversial soy tax, which attempted to tax the farming elite to help fund social programs and to maintain low inflationary levels, caused uproar (especially in the farming provinces outside of Buenos Aires), and some opportunistic PJ allies (many from rural, agricultural provinces) seized this opportunity to distance themselves from the situation. Fernandez now finds herself without much support, facing a bleak outlook regarding her chances of reelection.

Widespread Use of Economic Policy for Political Gain

I asked “have Argentine executives used economic policies for political gain?” and the answer is a resounding ‘yes’. The IMF repayment, the convertibility plan, and the soy taxes were all implemented with the goal of pleasing the Argentine electorate, or at least a majority of the president’s constituency.

Economic conditions played a role in the popularity enjoyed by the presidents; more favorable economic conditions have been helpful for Argentine presidents. Additionally, it has been shown that economic crises grant some leeway to presidents, especially early on in their presidencies. The success of Argentine presidencies in the past decade has been loosely tied to soy prices, because of the huge role soy occupies in the overall functioning of the Argentine agro-economy. Although soy is an extremely important component of the Argentine economy in general, soy prices have not been the only factor involved in determining the political success gained through economic policy implementation. Menem succeeded, and failed, because of his currency board, the convertibility plan, but even in the case of the other two presidents, both relatively soy-dependent, how they accessed and used their soy revenue was as important as how much soy revenue they had access to. The Argentine electorate is fickle, a fact partially illustrated by Fernandez’s relatively sudden and drastic fall in popularity and Kirchner’s precipitous rise in popularity.

Future Expectations

What sort of predictions can be made about future Argentine political behavior? Taking into account the well-documented history of strong executive action, it is reasonable to predict the continued implementation of executive decrees as a method of bypassing congressional opposition, and the continued use of economic policy as a political tool. If Argentine voters continue to favor populists and Peronists, expect to see state revenue funneled towards clientelistic practices and the continued maintenance of high levels of state spending. Future economic crises should bode poorly for presidents who are in office during these crises, and while this is to be expected for all governments worldwide, Argentine executives may suffer more than their European and North American counterparts, because of the larger lower class in Argentina and the lower class' dependence on an active, relatively wealthy, welfare state.

Political success will continue to be linked with economic success. My graphs in the second, third, and fourth chapters illustrate definitive connections between the success or failure of economic conditions and/or policy choices and the political success of the president in power.

A recent overlap of the use of executive decrees and Argentine economic policy has been Fernandez's dismissal of the Central Bank chief. Fernandez fired the Central Bank Chief Martin Redrado, by decree, on January 7 2010, for refusing to allow her to use bank reserves to pay off foreign creditors. His replacement, Mercedes Marco del Pont, is a Kirchner-Fernandez loyalist (O'Grady, 2010). Decrees will probably continue to play an important role in Argentine politics as well, given their prevalence since the Menem administration.

It is reasonable to expect more factionalization and fragmentation within the PJ. Kirchner opposed Menem, his party ally (although Menem was also his ideological opposite), in order to win the 2003 election, and Kirchner also split from former president Duhalde to create the FPV, a faction within the PJ. Other PJ leaders (and possible future-Argentine-Presidents), such as Cobos, have split in more recent years, and these sorts of divisions can be expected to continue, as party infighting seems to be a natural component of the Argentine political system.

We have seen appeals to nationalism in the Kirchner case and attempts to boost foreign currency reserves to fund state operations both successfully and unsuccessfully during the Kirchner and Fernandez cases, which sets an interesting back-story for developments currently unfolding in the news. Given the believed size of the oil reserves recently found beneath the historically controversial Falkland Islands (*las Islas Malvinas*), Fernandez must be salivating over the prospect of regaining territory near and dear to the Argentine psyche, which just so happens to contain an abundant supply of petroleum. While I remain doubtful that Argentina will be able to profit from this situation, successful negotiation or (much less likely) military intervention on Argentina's part would almost certainly prove to be a turning point in her presidency.

I have found no signs of an impending switch in Argentina's general political leaning towards the left, but as we saw with Menem, a future shift towards more neoliberal policy may be unannounced until after that president's election. The next president may or may not be part of the Fernandez/Kirchner partnership. While some observers have theorized that Kirchner and Fernandez plan to alternate presidencies

over the next several terms, Kirchner has denied any such plan during an interview with Time magazine shortly before her election (Time, 2007). Both Kirchner and Fernandez suffered during the midterm elections and will need to rally support if either is to have any chance of reelection.

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