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Financial and Economic Crisis Back to inflation. What is its secret and that of the financial and economic crises? And what about the constant ups and downs in this country's economy?

I ask my friend Alex Bazelow in New York, who has been studying these issues for a long time. He also studied political philosophy with Hannah Arendt and her husband Heinrich Blücher and was her assistant.

There are many types of inflation and many theories about its causes, he explains. Sometimes the causes are merely the effects of other causes. A simplified theory, well known even to laypeople, is that inflation occurs when too much money chases too few goods and services. However, this theory does not distinguish between supply shocks, where the volume of goods and services collapses (as during the Covid pandemic), and currency collapses, as in Germany in the 1920s and Zimbabwe more recently. In the case of the Weimar Republic, this was the result of decisions by Hjalmar Schacht, the German Reich's Minister of Economics, to print Reichsmarks in order to pay reparations. (Ferguson) In the case of Zimbabwe, it was rampant political and economic corruption under the regime of Robert Mugabe and his successors. This latter case is most similar to Argentina, although Argentina has not yet experienced true hyperinflation (defined as a price increase of 50 per cent or more, month after month, over a prolonged period). Alex writes:

People often look for complicated explanations when less complex ones are right in front of them. Argentina, like the Soviet Union after Lenin, China after Mao, Zimbabwe after the collapse of the Rhodesian apartheid state, and Spain after the civil war, all experienced a collapse of civil society. In some countries, such as Spain after the dictatorship, South Africa or even Russia before Putin's rise, remnants of civil society remained that were strong enough to help these countries mature and reform, even if the process was long and uneven. In other countries, such as Russia, this was not the case.

When a civil society collapses and enough generations experience the collapse

as inevitable, they lose all hope. In my opinion, this is exactly what happened in Argentina. My proof is this: doesn't everyone believe that if 95 per cent of Argentina's debt were cancelled tomorrow, the same thing would happen again in ten years?

There are no economic equations that can solve the problem. It is a political problem, not an economic one, and I have the impression that the major powers, as in many other parts of the world, are easily exploiting the divisions that have arisen.

I could also say that there are warnings for us in the West here. It is almost impossible to look around and not feel the sense of hopelessness that young people in particular are experiencing.

Argentina's fate could easily become our own.

All the best, 13 August 2023

In a second email, he immediately adds:

I must point out that even though the United States and the European Union have high levels of debt, and a large portion of this debt is held by foreign countries, it is denominated in their own currencies. In Argentina, the currency is the problem; unlike, for example, the Brazilian real or the Mexican peso, it is only accepted outside Argentina by financial speculators. As with the Turkish currency, another example, Argentina is experiencing a collapse of civil society that reflects a lack of confidence in the country's government. For Argentina, Peronism has always been the greatest misfortune. The Peronists have built a cult around themselves, just like the cult around Stalin or Mao or Erdogan or Trump, even in the face of irrefutable evidence today, and political cults, once deeply rooted, are all the more difficult to remove the longer they exist as a political force. That is what Trump has tried and is trying to do; the people who support Trump are as fervent as the most fervent Peronists and cannot be dissuaded from their beliefs, even when presented with irrefutable evidence. They consist largely of what used to be called the working class, and for me, one of the most tragic things is seeing them at his rallies, cheering his speeches and waving his red MAGA (Make America Great Again) hats like Mao's little red book, while he secretly mocks and disparages them because he really doesn't like them.

One of the economic problems I see today is the lack of agency in all national currencies. Everyone is handed colourful pieces of paper with politicians' faces printed on them. Citizens have little idea where this paper comes from, what it has to do with their individual economic lives, and what it means for their future. I have argued in some financial forums that, if properly regulated, the new cryptocurrencies could offer a partial solution to the problem of agency because they would allow individual communities to issue their own currency to pay for

the goods and services produced within their borders.¹ Unfortunately, cryptocurrencies are mostly in the hands of criminals today. This is a very complicated issue, but before we start talking about new world orders that could easily turn into new world dictatorships, it would certainly be worth investigating further. None of this can help Argentina at the moment, but as long as there is no generation of politicians willing to take responsibility for their decisions and institutions, nothing will help.

It's all here – <https://www.youtube.com/watch?v=HU5tGYDe9zk>

Civil societies can collapse, but in most cases they recover. Argentina has been in debt for over a century. You can't blame the IMF for that. All the talk of dollarisation distracts from the real problem. One of the most important aspects of Solanas's significant film² is that it exposes the last dollarisation programme under Carlos Menem. What did Menem do when the currency stabilised? He borrowed more money. The result: a national bankruptcy of 200 billion dollars, the largest in history.³

At a time when they could have implemented reforms, as Mexico did after the Latin American debt crisis in the 1980s and in 1995, they continued to borrow money. No one held a gun to their heads and forced them to do so.

Best regards, 14 August 2023

The outlook is bleak.

Politicians often blame the markets for their problems without realising that trying to eliminate market pricing does not eliminate the markets. It only shifts them. Regulated markets become black markets, prices are either inflated or shortages occur, and a shadow economy emerges which, if not curbed, eats away at the real economy. The result: a mafia-like economy that becomes the economy of a mafia-like political state.

Now Milei wants to administer “economic shock therapy” to Argentina if he is elected. People have short memories. It was the “shock therapy” developed by economists that enabled the Russian oligarchs to amass great wealth and bring Vladimir Putin to power. The abolition of the ministries of education, health and finance, which Milei boasts he will do, will only mean decades of political anarchy and perhaps even a return to dictatorship. This is very tragic. The right-wing media cannot praise him enough.

Best regards, 14 August 2023

You cannot introduce austerity measures or “shock therapy” in an economy as

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- 1 See the discussion between Professor Gary Gorton, Professor of Finance, Yale University School of Management, and Stefan Ingeves, Governor of The Sveriges Riksbank of Sweden at the Swedish House of Finance (<https://www.youtube.com/watch?v=8UUXKBprVE4>).
 - 2 Pino Solanas, *Memoria del Saqueo*, 2004
 - 3 See the IMF, Argentina, <https://www.imf.org/en/Countries/ARG>

weak and devastated as Argentina's, because that could easily trigger a depression and deal a fatal blow to the whole of Latin America. This is not a reasonable or normal economy. The London Financial Times interviewed him and was astonished by some of his statements. What kind of person names each of his four dogs after one of the "Chicago Boys"? That's not normal.⁴

Alex concludes:

In my opinion, what Argentina needs is the economic equivalent of the "Juicio a las Juntas" (the trial of the military juntas of the 1976–1983 dictatorship, WH), i.e. a judicial investigation involving all social groups to examine the economic mismanagement of recent decades, identify those responsible and create new institutions led by people with a sense of social and political responsibility.⁵ There is no law of nature that says Argentina cannot have a banking system like Brazil's, which, while not perfect, was strong enough that even Bolsonaro's government could not destroy it. It is not an economic law that Argentina's great wealth of natural resources should be secured in the form of government debt, which, when added to existing debt, leads to the destruction of the currency and then to further debt. If Western economists want to use Argentina as a laboratory for their experiments, then they should also bear the responsibility and the losses when these experiments fail and everything collapses. None of this is necessary.

All the best, 16 August 2023

But it happened and it is happening. Why?

The Enigma of Economic Policy Argentina has declined from being one of the ten richest countries in the world in 1913 to being an emerging economy. According to the first census, Argentina had 1.8 million inhabitants in 1869, 71% of whom were illiterate. With the development of a strong export economy (wheat, meat), the expansion of a railway network, the recruitment of migrants and the introduction of universal education, Argentina experienced a dreamlike upswing until 1930. Massive immigration brought 7 million people to the country between independence in 1810 and the outbreak of the First World War, 1.7 million of them between 1901 and 1910. In addition, many Southern Europeans came to Argentina for seasonal work. The beginnings of industrialisation and the construction of the Buenos Aires underground railway in 1913 (Paris 1900, Berlin 1902) accompanied the boom.

4 See <https://www.ft.com/content/782197c9-35dd-42e4-96f3-910cf60e9ecf>

5 This could be carried out as a formal legal investigation or as something like a truth commission, as described by Claudia Hilb <https://journals.co.za/doi/pdf/10.10520/EJC169558>).

However, the global economic crisis of 1929 caused industrialised countries to switch to import substitution, forcing Argentina to increase its own production of industrial goods. This in turn promoted the growth of a broad working class and the nationalist and socially oriented populism of Perón, accompanied by generous social programmes thanks to the increase in foreign exchange reserves. Nevertheless, economic growth between 1933 and 1943 averaged only one per cent due to a lack of economic strategy. With the agricultural sector severely disadvantaged and parts of the middle and upper classes despising Peronism, the military felt encouraged to overthrow Perón in 1955.

A period of economic and political instability began, with five military coups, the last and most brutal of which took place in 1976. In a constant economic paradigm shift, classical liberalism prevailed at times, followed by *desarrollismo* with stronger state intervention in the economy, and then nationalist policies. None of this was able to halt the decline. With the beginning of the last dictatorship in 1976, neoliberal policies were introduced, which lasted until 2001, plunging into a severe crisis and were replaced by an economic recovery that lasted until 2012, but then fell back into a crisis.

The list of economic ministers since the end of the dictatorship in 1983 contains 30 names for 30 years. One exception right at the beginning is the longest term of office of four years: many last only a few months, the shortest one day. As an example, Nicolás Dujovne, a member of the liberal UCR party, served under conservative President Mauricio Macri from 2017, and stepped down after two years, seven months and sixteen days in office. During his short tenure, unemployment rose to 10.1 per cent and poverty reached a record high of 32 per cent, affecting 14 million people. Monthly debt payments could only be met with the largest loan in the history of the International Monetary Fund.

Successors to the Successors No one wants to take responsibility for the debacle. The borrowing is controversial because of the link between loans and fiscal reforms. Even supposedly educated university professors, ignorant of the economic context, parrot the mantra that the IMF is to blame for all this – unemployment, poverty, price increases, inflation – and behind it stands the United States. If you can't get rid of it, at least you have the ideal scapegoat. Alternatively, you can blame the last military dictatorship.

Before the comparatively social democratic Peronist Alberto Fernández succeeded him, Macri appointed the conservative Hernán Lacunza from the “*Propuesta republicana*” (Republican Proposal). “I am confident that he is the right person for this new stage,” Macri wrote on Twitter. But his term ends after only three months and twenty days. The capital controls he imposed led to crowds of people gathering in front of banks to withdraw their deposits.

His successor, Martin Guzmán, an independent, resigned after two years, six months and twenty-two days. The economist led Argentina's debt restructuring negotiations with the IMF and creditors. Their criticism pointed to a bloated state apparatus, low industrial productivity and a large shadow economy that did not pay taxes. The government enacts an emergency law to accommodate the IMF and other creditors. Among the many measures is the suspension of automatic pension adjustments for 180 days. Faced with currency problems, protests over diesel shortages and pressure from left-wing coalition partners, Guzmán finally resigned.

His successor, Silvina Batakis, a member of the *Partido Justicialista* (Justicialist Party), threw in the towel after only 24 days. After finishing her meeting in Washington with the heads of the IMF and the Fed, the presidents of multilateral banks and the heads of investment groups and rating agencies, she learned from the newspaper at the airport on her way back that President Alberto Fernández had been negotiating with Sergio Massa about her succession. Massa, a member of the Peronist *Frente Renovador* (Renewal Front), is to head three ministries (Economy, Productivity Development, and Agriculture, Livestock and Fisheries) in order to reduce traditional conflicts of interest. Like her colleagues before her, Ms Batakis took on a lucrative post, in her case that of president of the Argentine National Bank.

One economy minister surpasses all others in terms of length of service: Domingo Carvallo served for five years from 1991 to 1996 under the Peronist but extremely market-liberal Carlos Menem. However, Menem first handed the economy ministry to three senior executives from the Bunge & Born conglomerate, who between them lasted just one and a half years. The first, Miguel Ángel Roig, an engineer and executive vice president, tragically died after five days. His successor, Néstor Mario Rapanelli, had to step down after five months in the face of renewed hyperinflation; he was also under investigation in Venezuela for excessive prices. The third, Antonio Erman González, finally resigned because of the *Swiftgate* scandal, involving corrupt behaviour of state employees towards the Swift company. President Menem was angry about the public reporting of the case and felt he had to retaliate by insulting the media as "journalistic criminals".

Bunge & Born, a wheat trading company founded in 1884, is now not only the largest Argentine company, but also one of the five largest agricultural corporations in the world. In 1974, the Montoneros kidnapped the two sons of the owner, Juan and Jorge Born, and released them six and nine months later after a ransom of 60 million US dollars was paid. After the end of the dictatorship, the kidnapped Born and kidnapper Galimberti met. The kidnapper asked for forgiveness and was given a job in Born's empire. In 1988, Menem, on behalf of the Peronist party, contacted the company to seek its help on economic policy issues. The company's representatives Roig and Rapanelli, who later became ministers of economy, and above all by Ferreres, a macroeconomist and later deputy minister of economy under Menem, recommended modelling the economic cycle with 150 variables in accordance with

the work of Nobel Prize winner Lawrence Klein. The company was persuaded to purchase two supercomputers, while Ferreres later recalled: “I had a book on hyperinflation in my office that I read every day.” (Clarín, 30 July 2022) Nothing is heard of the success of this project.

As expected, the trio from Bunge & Born failed, and the hour of the wait-and-see Cavallo arrived. As an orthodox Peronist, he succeeded in reducing hyperinflation from 2000% to 0% by pegging the peso 1:1 to the US dollar. In 1992, *Euromoney* named him Man of the Year, but just three years later, he was convicted of corruption along with Menem and the Minister of Justice (with sentences of four and a half, three and a half, and three and a quarter years, respectively). They had approved permanent extra salaries for themselves from the secret service budget, paid out in cash by the office of the cabinet chief. Cavallo cunningly explained: “I didn’t know that the bonuses could come from an illegal act. If I had known, I wouldn’t have declared them to the tax office.” (El Mundo, 1 December 2015) The verdicts were not confirmed by the Court of Justice until 2018. But Cavallo had already left office in 1996, due to internal party differences. His pegging of the peso to the dollar hurt exports, fuelled unemployment and was soon abandoned.

When Menem was placed under house arrest for at least six months in 2001 for illegal arms trading, Cavallo became Minister of Economy again under the new president, Fernando de la Rúa – but only for nine months. The suffering population was no longer willing to go along with the constantly changing attempts. Wages and pensions were cut, and just before the holidays, Christmas bonuses were also cancelled. The economic and social crisis, with unemployment, currency devaluation and corruption among the political class, was already weighing heavily, but then Cavallo imposed a general cash restriction (*corralito*). This fuelled fears about savings, which were already threatened by inflation. This led to mass protests, clashes with the police and looting of supermarkets. The number of demonstrators chanting “*Qué se vayan todos – que no quede ni uno solo*” (They must all go – not a single one should remain), accompanied by drums and cooking pots, only grew with the imposition of a state of emergency. It was not long before the government fell and the president fled by helicopter from the grounds of the presidential palace.

The economic crisis even hindered the president’s travels. Nestor Kirchner, the popular president from 2003 to 2007, a social democratic Peronist who, with his wife and successor to the presidency, Cristina, is reminiscent of the couple Perón and Evita, wanted to travel to Berlin in his plane called Tango 01 to meet with the German Chancellor Schröder. But Argentina declared a national bankruptcy on Christmas Day 2001 and suspended debt repayments. Now it demanded debt relief of around 70 billion dollars from 70,000 private creditors. In response, German small investors filed seizure claims against Argentina. This made the president flinch. Perhaps his plane could be seized. So he preferred to stay in Buenos Aires.

Corruption Corruption is one of the main causes of the crisis: a staple food, a cultural custom, a phenomenon of little moral significance and low risk as long as the police and judiciary turn a blind eye. Jorge Born sees it very starkly: “Either you paid bribes or you left the country, and today corruption is still the same, or even worse [...] Everyone has skeletons in their closet, and no one dares to tell the truth. That’s why I believe that the problem in this country is more moral than economic.” (Noticias, 3 July 2015)

And the political class? That’s what this is all about. Menem’s and Cavallo’s extra salaries are clearly peanuts if you believe Born’s explanation that no one is left out. And indeed, the following case involves incredible sums of money.

In 2018, the wife of a chauffeur has had enough. She no longer wants to be mistreated, so she grabs eight spiral-bound notebooks containing 673 pages written by her husband and sends them to a journalist. Oscar Centeno is the driver of Roberto Barrata, a high-level employee in the planning ministry under Minister Julio De Vido. In the notebooks, Centeno had recorded all the trips he had made over the past ten years. When the police find out, it doesn’t take long before an employee of the Planning Ministry is arrested as he attempts to deliver 6 million dollars and an assault rifle to a rural monastery. The first entry ten years earlier reads:

08:00 from home to the ministry, 249 km, La Plata special trip
 14:10 From the ministry to the home of Lic. Barrata
 17:00 From Lic. Barrata’s house to the ministry
 18:00 From the ministry to meet President Chávez (Barrata) at the petrol station
 10:00 p.m. From the ministry to Quiroga’s house

A total of 200 million dollars is said to have been moved around. Based on the entries, proceedings are being opened against 43 entrepreneurs and more than a hundred people. Among them is Cristina Kirchner, who receives regular payments and has been able to increase her fortune to ten million dollars. She and her husband are “the richest and most powerful presidents in Argentine history”; they “amassed their enormous fortune illegally,” begins Luis Majul’s biography. That was apparently what the taxi driver meant when he spoke of millionaire politicians on my way from the airport to the city. What do you call what Kirchner has achieved after a year in office, when on the one hand he declares: “In Argentina, our guiding principle must be the fight for justice and against impunity. We want to do everything we can for a country of equal opportunities, social empathy, and the fight against unemployment and injustice,” and immediately after taking office receives the Mothers of the Plaza de Mayo and representatives of the unemployed, but on the other hand is open to everyday and “normal” corruption? Hypocrisy? Dishonesty?

The defendants included Ángel Calcatera, the cousin of former President Mauricio Macri. The former president of the Argentine Chamber of Construc-

tion Companies, Carlos Wagner, described a system of cartel formation in public construction projects in which companies that were awarded contracts agreed to make payments in the form of returns. The CEO of Techint, Luis Betnaza, was also charged, admitting to paying bribes estimated at one million dollars to three officials in Cristina Fernández de Kirchner's government; finally, Manuel Abal Medina, former chief of staff to Cristina Kirchner, claimed that the money was not obtained by coercion (Infobae, 10 August 2018). His father belonged to a fascist faction within Peronism, and his uncle, together with others, founded the Montoneros and assassinated former General Aramburu, who had led the coup against Perón in 1955. A small Peronist family that represented the various wings of Peronism and wanted to play a more prominent role as a clan. All were charged with forming a criminal organisation or aiding and abetting a crime.

Some of the defendants were also charged with other offences and, in some cases, were even convicted. This included Cristina Kirchner, who was sentenced in 2022 to six years in prison for corruption in the awarding of state construction contracts in the province of Santa Cruz, combined with a ban on holding public office. The sole beneficiary was a bank teller, Lázaro Baez, who became the province's largest construction contractor and landowner thanks to contracts awarded to him. When the Kirchners' protective influence waned, he was investigated for corruption and money laundering in particularly serious cases. The accused was sentenced to 12 years in prison, and his four sons and 17 other people also received prison sentences.

Lazarus, the delinquent, is the patron saint of butchers, gravediggers, beggars, lepers and leper colonies, but not in this case. He has nothing to do with the poor, not even his name Lazarus, which means "God has helped" in Hebrew. It was not God who helped, but Nestor, the president, with his wife. Nestor is known in Homer, among other things, for his honesty. Not so in Argentina. The Bible is outdated and morals have gone to the dogs. Just as there is a lack of direction in economic policy, so too is there a lack of direction in social policy. Does the political class still ask itself what politics actually is, what its purpose is, and what the political class is actually there for? Yes, occasionally. And the answer is a complete lie. We have already heard it from Nestor's mouth.

Cristina Kirchner is under investigation in ten other cases, including offences related to liquefied gas imports, of which the former Secretary of State for Planning, Roberto Baratta, is also accused. He has been imprisoned for five months.

"4,161 days. That's 594 weeks, 137 months or 11.4 years. That's how long a corruption trial lasts on average in Argentina. It is not uncommon for these cases to come to nothing," writes Friederike Elias in the OCS Blog of the Max Weber Institute for Sociology at the University of Heidelberg. OCS – Organisational Crime Stories. We are in good company there. What crime story does the Argentine justice system have to tell? One of powerlessness. Thanks to the presidential system, the highest judges

are appointed by the new president. It is impossible to oppose this. In cases of doubt, fear prevails, because they are not only powerless, but also afraid of conflict.

As a result, in cases of doubt, the opening of proceedings is delayed, official channels move at a snail's pace, or investigations are unnecessarily prolonged. If the interests of a president are at stake, proceedings are not opened before the end of his term of office if possible. The National Chamber for Criminal and Judicial Affairs, with 12 judges, 12 prosecutors and their respective secretariats, is also responsible for corruption cases. Human trafficking, drug-related crime and white-collar crime are also dealt with at the federal level. In all these cases, the public is more interested in the specific victims. But who are the victims of corruption? Everybody? Electricity customers? The poor? Pensioners? The victims, however, are not very specific and are more suited to political propaganda. All the more so, the perpetrator is perfect for a crime story, whose ingenuity and audacity are admirable and set him apart from the grey masses of the suffering and invisible.

And the police? Do they enforce the law when necessary or even when in doubt? Hardly likely with such a corrupt political class, i.e. a corrupt upper class, a passive middle class and, finally, an excluded lower class. Not all, but many want to share in the spoils and create similar structures. Isn't one conforming to the system if one exploits the weakness of another, and seizes the opportunity?

In 1991, Mauricio Macri was kidnapped and held captive for twelve days. At the time, he was not yet a politician, but one of six children of the well-known industrial magnate Franco Macri, who had emigrated from Italy and earned enormous sums from public contracts during the military dictatorship. Macri was released after a ransom of six million dollars was paid. One would hardly suspect that most of the kidnappers who were later arrested belonged to the federal police, which is why they were called "The Commissioner's Gang." They were sentenced to prison terms ranging from ten years to life. It is not surprising, however, that in 2017, two years before his death, Franco Macri was charged by the federal prosecutor's office, together with his son, President Mauricio Macri, the secretary general of the presidential office and the heads of the Colombian airline Avianca, among others, with forming a criminal organisation, defrauding the public administration and irregularities in connection with the use of Argentine airspace.

In April 2011, airport police arrested a Colombian businessman who had been living in Argentina since 2005 and had set up around 50 companies for money laundering and had invested heavily in real estate and agriculture in Santa Fe, the province with the second strongest economy in the country. In connection with this case, the police chief of Santa Fe, and former head of the drug squad, was arrested on suspicion of maintaining a vast network of connections between drug traffickers, football hooligans and at least 200 police officers. Federal Highway 34 runs north-south through the province of Santa Fe, connecting hundreds of illegal landing strips in

the north with the river ports of Rosario and San Lorenzo, where ships depart for Europe. (*Die Presse*, 5 November 2012)

It is hardly a coincidence that brand new pistols belonging to the Buenos Aires police have turned up in a favela in Rio de Janeiro.

In order to curb widespread crime among the 93,000 police officers in Buenos Aires, the provincial government launched 12,395 internal investigations at the end of 2015, dismissing 4,747 officers and imprisoning 390. Half of the cases involved corruption and 15 per cent involved domestic violence by police officers against their wives. Nearly 900 uniformed officers are under investigation for illicit enrichment, and 73 of them are already facing criminal proceedings. Seven police officers, including two high-ranking ones, are accused of protecting a human trafficking ring. The most serious case came to light in 2022, when eight police chiefs were arrested on suspicion of setting up a network that paid drug dealers and pimps for their protection. The Interior Ministry found 36 numbered envelopes containing more than \$10,000 each at the department's headquarters.

Once again, there are calls for structural reforms of the police. Without result.