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AUTHORS	Zohrab S. Demirdjian
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Stabilizing Argentina's Wild Socioeconomic Swings: A Pragmatic Paradigm for a Steady Progress[1]

Zohrab S. Demirdjian[2]

Abstract

Argentina's recent economic woes have already made the headlines all over the world. Despite the country's rich endowments in natural resources and human talent, the nation is facing an unprecedented economic disaster. Based on an extensive research inquiry, this paper highlights the behavior of the self-centered politicians in the area of their questionable policies which robbed the country of its robust fiscal integrity. Since it takes two to tango, the ethos of the Argentinean people is also discussed in the light of its contributions to the near collapse of this once prosperous nation. To complicate matters, the people are opposed to any kind of necessary restrictions which would afford a safe net to the Argentina's banking system. The prevailing attitude has been that when the economic ship of Argentina lists, the people want to be the first to abandon it. The self-indulgence of the politicians and the people are sinking the once mighty economic engine of Argentina aground. The agricultural sector has been relegated after WWII in favor of rapidly industeralizing the nation. The plans have backfired, leaving the economy in a seesaw condition between prosperity and poverty. To mitigate the situation, a two-pronged paradigm to a sustainable national progress is recommended as a viable way out of this sticky, murky quagmire which is engulfing and endangering the socioeconomic well being of this once internationally known cornucopia land of opportunity.

Introduction

There is truth in the figurative expression that "When the elephants fight, it is the grass that suffers." Against the backdrop of political wrangling, Argentina recently had to bite the bullet in facing the enormous interest accrued on its multibillion dollar international debt. As a result, the ordinary citizens now are suffering from a precipitous economic collapse. Goodman (2003) states that Argentina's economic crisis is pushing 8,000 people a day into poverty. An accusing finger could unequivocally be pointed at the politicians who have been pursuing self-serving policies in running the nation.

A perusal of Argentina's recent history would indicate that the country has achieved high peaks and deep valleys in its economic charts. Currently, the entire economy is put on a life support. The country is going through unprecedented financial straights, struggling with the default of $141 billion on public-sector debt. Such a looming debt is threatening the democratic underpinnings of this sovereign nation. Argentina is fast becoming unraveled. In addition to the economy being in shambles, Wallin (2002) reports that the country is facing a shaky banking system and an unstable political leadership. Unbelievable as it may sound, there has been six presidents since December 2001.

To add insult to injury, the people of Argentina are also acting self-centered in the face of the financial fiasco the nation is experiencing. Instead of cooperating with policy makers to save this once prosperous nation from a total financial ruin, the people in Argentina are irresponsibly refusing to abide by restrictions on their, for example, banking practices. The people, perhaps out of valid fear, would like to withdraw their money from their banks any time they want, without any time restrictions. Such a practice, of course, puts a heavy strain on the cash flow of most financial institutions and puts them smack on the road to bankruptcy. Due to the frequent incidence

[1] Dedicated to The Memory of the World Victims of Terrorism, the Very Antithesis of the Spirit and Ideals of Global Cooperation and Business.

[2] California State University, 1250 Bellflower Boulevard Long Beach, CA 90840, zdemirdj@csulb.edu, Tel. (562) 985-4764. Fax. ((562) 985-5543

of financial crises, the people seem to have been conditioned to expect the worst out of fear of losing their deposits at the banks.

As it could be easily gleaned from the above discussion, Argentina is, therefore, sitting on the horns of the bull. Argentina's woes stem from two major sources: the politicians' self-serving policies and the consumers' self-centered behavior. In this paper, what follows is a systematic study of Argentina's economic and political life without any hypothesis testing and without passing any moral judgement. The examination is based on the observation of the available qualitative and quantitative information and events surrounding the pendulous socioeconomic extremes of Argentina.

Paradoxically, at the outset one would ask: Given a rich and talented nation, why do terrible political and economic misfortunes befall Argentina time after time? Argentina's financial crisis is deja vu to the world, yet why are most people shocked? Crisis has been the norm, especially after WWII, rather than the exception in this nation. Why are the Argentineans irate and taking to the streets striking, looting, and fighting the police? Why does the perennial insolvency of the government persist year after year? Where does all that borrowed money go? An attempt will be made to shed some light on these and other baffling, important questions. These events are occurring without any known scientific explanations, as though, we have now to resort to paranormal interpretations. Some have talked about the "riddle of Argentina" (Weil, 1944), others mentioned the "paradox of Argentina" (Erro, 1993), and still others discussed the "demise of Argentina" (Becker, 2002), but nobody seems to present a simple explanation as to why Argentina has been suffering from these epitaphs.

After a brief introduction to the economic and political landscape of Argentina, the antecedent events and causes for the present financial fallout are discussed. Then, the current problems facing the nation are evaluated, followed by a forecast to serve as an outlook for the country's future. Finally, a paradigm for national progress is recommended to possibly steer clear the economy from falling again into disastrous sinkholes on its road to recovery.

The Economic and Political Landscape: An Overview

It wouid be a gargantuan task to try to trace the history of socioeconomic realities of Argentina. Therefore, in this section, only a brief refresher introduction is given to the physical and economic geography of Argentina, and then a sketch is presented to portray its political history to serve as a background for the recent events and developments.

The Land of Abundance

Although Argentine Republic is its official name, the country is commonly known as Argentina. The nation is the second largest country in South America (after Brazil) and it is about three-tenths of the geographical area of the United States. In 2001, the population of Argentina stood at over 37 million. Shaped like a long pick, it extends from just north of the Tropic of Capricorn to cold Tierra del Fuego at the southern tip of the continent. The country can be divided into four environmental regions as listed in Table 1 (Helgren and Sager, 2000). The Andes, the country's only mountains, border a long narrow region of grassy and forested highlands along Argentina's western boundery. Here, there are many modern and well-appointed ski resorts and idyllic, beautiful lakes for recreation.

Table 1

Four major environmental regions of Argentina

Region	Resources
The Andes Mountains	Great ski resorts and beautiful lakes for tourism
The Chaco	Great quebracho forests for tannin in leather processing
The Pampas	The heartland for beef, wheat, and vegetable oils
Patagonia	Great oil deposits, promise for new energy resources

East of the Andes in northern Argentina is the second region called the Chaco. This region consists of low plains covered with dry forests and savannas. These plains are so flat that water sometimes stands like vernal lakes for months after the spring rains are over.

Argentina's third natural region is the Pampas. The Pampas is wide plains with grasslands located southwest of the estuary of the Rio de la Plata. The Pampas is relatively lush and are nearly flat. Because of its rich soils and humid climates, the Pampas plains have become one of the world's major agricultural regions similar to San Joaquin Valley in California. The Pampas is one of the world's largest "greenhouses" stretching 400 miles. It is the food basket of Argentina. These plains are the heartland of Argentine life and are by far the country's most densely populated region.

Patagonia, Argentina's fourth region, is located south of the Pampas. This region is characterized by land forms which are dry plains and windswept plateaus. Since the Andes Mountains block the region from the Pacific Ocean's rain-bearing storms, this area has arid and semiarid climates. Few Argentinians live in this region. Fossil oil deposits off the coast of Patagonia promise new energy resources, though.

In earlier times, the Pampas were divided into very large haciendas (family-owned estates), some of which covered thousands acres of endless horizons. Livestock was allowed to wander freely, just as in the Great Plains of the United States many years ago. Gauchos, the Argentine cowboys, managed the cattle akin to the cowboys of the United States. When ranchers began using modern ranching methods, they fenced the livestock in. The gaucho, like the American cowboy, began to vanish.

Today, the Pampas are one of the world's largest cornucopias of beef, wheat, and vegetable oils. Maize (corn) is raised north of Buenos Aires and, like wheat, is mainly an export crop. Farmers have developed vegetable and dairy farms to feed the populations of Argentina's ever-growing cities.

Unlike the Pampas, Argentina's other regions are less developed. North of Buenos Aires between the Parana and Uruguay rivers is a region of grassy plains that is devoted mainly to grazing cattle and sheep. The Chaco in northern Argentina is important for its valuable quebracho forests. An important substance used in preparing leather is called tannin, which comes from quebracho trees. In the northern foothills of the Andes, farmers grow grapes and sugarcane on vast stretches of irrigated lands.

The chief industry of Patagonia is sheep grazing on huge ranches . Though many crops could be grown here with irrigation just like it is done in the Coachella Valley in Southern California, there has been little need for developing this potential since food is plentiful in Argentina.

Argentina competes with the United States, Canada, and Australia in selling beef and wheat on the world market. Argentina has been competitive in the world market and can often sell these products at very low prices because of low production costs. The country has low land values and pays lower wages than its competitors. Large amounts of wool and other products are also exported to the United States.

Argentineans seem to be suffering from a superiority complex. They compare themselves with post industrial societies and feel relatively deprived at times. Thus, Argentina's aspired reference group consists of post-industrial nations. In fact, Argentina's siblings are Canada and Australia. All three of these countries were once largely inhabited by the British. They do not consider themselves as another Latin country. All three are predominantly white of European stock.

Although commercial agriculture is Argentina's main source of wealth, only about 10 percent of the people are now farmers (Holgren and Sager, 2000). Many more are employed in manufacturing. Most of Argentina's industry provides consumer goods, such as textiles and beverages, for local markets. Food processing is the primary export industry. Argentina has few mineral resources for the nation to be somewhat self-sufficient.

Like the United States has done with Coca Cola, Argentina has reached the four corners of the world market with their canned corn beef products. After WWII, though, Argentina's supremacy began to be chipped away by Brazil and the United States Hormel brands.

Balze (1995), laments the fact that one of the mysteries of the second half of the 20th century is how Argentina, well endowed in many ways, had gotten into social and economic crisis after crisis. Like a good girl, who had gone bad, Argentina seems to sink deeper and deeper into trouble. Balze hastens to explain that the international economic system and the global political environment had changed to the disadvantage of Argentina in the 1930s and 1940s. While Japan, Taiwan, Korea can easily compete in manufactured goods area, Argentina would outperform them in agricultural products. Unfortunately, though, the country eroded its agricultural comparative advantage by focusing on its industrialization programs, which are pale in comparison with that of Southeast Asian emerging nations.

Buenos Aires: The Nexus of Argentinean Life

Perhaps Argentina has the most diversity (after the United States) in the world. The population consists of many subcultures ranging from large groups of Italian, German, and English immigrants to small groups such as Jewish, Armenian including Romanian gipsies. Argentina is a veritable salad bowel of diverse ethnic groups.

Rosario and Cordoba stand out among Argentina's large cities. Buenos Aires, however, dominates the country; the wide boulevards of this European-designed city have helped to earn it the name of "Paris of America." Its metropolitan spread has more than one-third of the nation's people and an even larger share of the industries. This is the place where the political and economic actions take place. As an overview, Table 2 presents the vital statistics of Argentina's recent economic health.

Table 2

Vital statistics of Argentina's economy in the year 2001

Variables	
Purchasing power	$476 billion
GDP growth rate	0.8%
GDP per capita	$12,900
Unemployment rate	15%
Inflation rate	-0.9%
Budget: revenue	$44 billion
Budget: expenditures	$48 billion
Exports	$26.5 billion
Imports	$25.2 billion
Debt -external	$54 billion
IMF support	$13.7 billion

Source: Cia –The World Fact Book –Argentina 2002.

It is quite obvious, the government has to spend $48 billion more than it will take in as revenue of $44 billion. Such a great disparity of $4billion causes the consumers to form a great deal of concerns which, in turn, complicate matters for the government to meet its obligations. Currently, the government seems to be caught in a vicious circle. When the government raises wages, people become happy, but increased wages make Argentina less competitive. Therefore, the country earns less in revenues and it loses its differential advantage. With less revenues, government obligations on external debt mount. Paying higher wages, while factory productivity keeps falling, is akin to shooting the economy in the foot.

Political Turbulence

Taking Argentina's abundance of natural resources and great human potential into account many people believe that Argentina should be the richest country in South America. Unfortunately, the politics and economy of Argentina are nearly inseparable. Ineffective governments run by dictatorships and the military have been the norm. During a particularly violent period of

unrest in the 1970s, many Argentineans were killed by the military government. Internecine executions behind the scenes have created deep fear and mistrust of those politicians who rise in power to take the helm. As Simpson and Bennett (1985) have clearly chronicled the events of the 1980s is the time during which time 11,000 Argentinean political dissidents had vanished. These tragedies are still fresh in the memory of many of the citizens. Moreover, corruption is so rampant that the people seem to have a paranoidal distrust. The people are always ready to jump ship. There is so much corruption that even the entrepreneurs expect sinecures and privileges from the government. Without bribery and graft, things move at the snail's speed.

After Argentina lost a brief war in 1982 over the Falkland Islands, a south Atlantic territory of the United Kingdom, democratic government returned to the country. Economic reforms which emphasized free markets and business growth have been instituted. Argentineans began to enjoy more freedom, and the economy had been improved until recent times. The backwash of previous economic policies now makes Argentina face serious problems, but the future would look brighter if the politicians put their acts together again.

Whatever its causes, economic trouble has always accentuated the political turbulence of Argentina. Governments were very short-lived. Musical chair presidents came and went until the era of Colonel Juan Domingo Peron and his wife Eva. From 1946 to 1955, Peron ruled Argentina with an iron fist of a president who was devotedly nationalistic. During his rein, the government controlled almost every aspect of the economy. Peron's government intervened in the economy more than the preceding administrations.

Despite Peron's authoritarian style of leadership, he endeared himself to industrial workers by raising their wages repeatedly even though productivity kept falling. His neglect of agriculture also helped speed the process towards economic decline. People began to rush to the cities because of higher wages. According to Lewis (1990), Peron's "great sin" was his anti-capitalistic rhetoric which was used to rally labor's support and to raise the political consciousness of the lower classes.

Peron's position was weakened in 1952 by the death of his wife who had been an extremely popular person within the working masses. Besides, a quarrel with Roman Catholic Church had complicated matters further for him. He was deposed in 1955 by a military and civilian revolution.

Another succession of military governments was ended by the disastrous Falklands maneuvers in 1982. The Argentine army invaded the British Falkland Islands, claiming it as its territory. British forces reinvaded during a 10-week war and established a garrison on the islands. Argentina was deeply humiliated by the defeat.

The Falklands conflict cost Argentina 750 lives and led to the ousting of a military junta headed by General Leopoldo Galtieri. As a result, the country returned to civilian rule after a democratic election in December 1983. The new president, Raul Alfonsin, ordered to carry out an investigation into the atrocities committed by previous military regimes. The inquiry revealed that 9000 persons had been killed, an additional 9000 imprisoned and tortured, and two million people had fled the country.

In 1989, the collapse of the economy led to an election victory for President Carlos Saul Menem. When he came to power, the first thing he tackled were the economic problems. For instance, he reintroduced privatization. Between 1989 and 1992 Argentina privatized the majority of the public enterprises controlled by the national government (Ministerio De Economic, 1994). The result of this process brought in huge amounts of money to reduce the public debt and to stabilize the finances of the country. Between 1989 and 1991, inflation dropped from 58% to 2.2%; in the period of 1991-1993, the economy grew by an annual 8% – a wild, but a welcome, swing in the economic curve of the nation. This was not without a price, though. The effect of Menem's economic polices, especially the wholesale privatization of national enterprises, made the rich considerably richer, the poor poorer.

By the first quarter of 1994, more than two million Argentineans (18% of the workforce) were unemployed. Furthermore, the government was in arrears in paying what little social support it was still providing. The status of the economy was in sharp contrast of the vibrant economy of a

year ago growing at an annual 8%. Unfortunately, the economic pendulum swung back to austerity again.

Constituent Assembly elections in April 1994, while bringing victory to Menem and the Peronists, failed to bring them the desired majority vote. The Menem legacy to Argentina was a recession, huge external debt ($140 billion) mainly for industrialization, bloated government structure, and a deficit of government finances.

When President Fernando De la Rua came to power, he increased taxes, sought for IMF help, strove for zero deficit in government spending, and encountered strong opposition by his legislative and provincial governments. To crown all that, the government budget was not approved. That caused a calamity for the working class. Katz and Keaveny (1999) reported that, in the face of unemployment being close to 15% and a looming budget deficit exceeding the $5 billion target agreed to with the IMF, manufacturers, farmers, and exporters were up in arms over high taxes and rigid labor laws.

Conflicts, corruption , and conspiracy have all contributed to the demise of Argentina's socioeconomic well being. In 2001, the country found itself unable to make payments on its huge national external debt as is shown in Table 3. These and other events prompted the financial crisis in Argentina. Gary Becker (2002), the 1992 Nobel laureate, maintains that deficit spending by the politicians plunged Argentina into the present mess. Becker (2002) further warns that printing pesos now will ease government budgetary problems, but such an act would pave the way for a return to a demoralizing inflationary pattern. While the government owes $20.9 billion in accrued interest on its external debt in 2002, the worst is yet to come. In the years 2003-2007, a staggering $68.4 billion debt will have loomed in Argentina's national debt accounts. Irrational spending, constantly borrowing money push the nation from one crisis to another one. Each subsequent crisis is getting bigger and messier to control.

Table 3

Argentina's progressive payment schedule on its external debt of $146.9 billion in 2001

2001	$4.3 billion
2002	20.9 billion
2003-2007	68.4 billion
2008-2029	47.2 billion

Source: Argentine Consulate General of Los Angeles, 2002.

Of all the problems facing the politicians and the people presently, the most pressing is the ever increasing interest obligation on Argentina's external debt. Furthermore, the Argentineans find themselves at their wit's end in dealing with incompetent government, ever changing leaders. Perhaps out of rational fear, the people are not willing to abide by restrictions imposed by the government for improving the economy. Everybody is for himself or herself in today's Argentina. The joke is that even the swallows of Capistrano are unwilling to return to Argentina in the fall to escape the winter in California.

The Root Cause and Precipitating Events of the Problems

The Root Cause

According to Balze (1995) Argentina's failure to achieve economic success stems from the politicians' pursuing misguided economic strategies and from its resulting inability to deal effectively with changes in the international environment. After World War II, the quest of the politicians for rapid industrialization led to the neglect of agriculture. In so doing, Argentina's agriculture relatively suffered. Lewis (1990) states that Argentine industry had underwent considerable change in the period 1955-1973. Firstly, there was a shift from labor-intensive to capital-intensive methods of production; secondly, the average industrial enterprise became larger; thirdly,

technological progress and growth in size were mainly achieved in all branches of manufacturing such as iron and steel, chemicals, petroleum derivatives, rubber, automobiles, and machine building. The preceding fields were known as "dynamic" industries, to distinguish them from more "traditional" industries like food processing, tobacco, textiles, clothing, leather, and woodworking. Fourthly, most of these changes were the result of foreign capital usage. Most of these policies went smack against the tenets of comparative advantage: failed to focus on what the country could do best and import the rest of things needed.

The Argentine politicians' zeal for the pursuit of industrialization was so intensive that the Ministerio De Economia (1994) published a book entitled *Argentina: A Country for Investment and Growth* to entice foreign investment and capital. Thus, every time, politicians had to overcome a crisis affecting the country's economic development, they had to resort to foreign loans and capital investment. Argentina galloped deeper and deeper into debt over the years. The nation is now drenched by the accrued interest payments of the external debts.

While industrial products were competitive at the turn of the century, after WW II, international competitors like Japan, Taiwan, South Korea, and Singapore presented fierce challenges in manufactured products. Such a cut throat price competition had a toll on Argentina's exports. Argentina ended up with a loss from neglected agriculture and the loss from foreign competition in manufactured goods. As a consequence, the people of Argentina are now facing the fallout from rapid industrialization based on borrowed money.

While the root cause of the problems was rapid industrialization by relegating the agricultural sector, there were other important mitigating events and circumstances. Following independence from Spain in 1816, Argentina experienced periods of internal political conflict between conservatives and liberals. The country also experienced a long, protracted feud between civilian and military factions. The nation's problems have been compounded further, as Erro (1993) indicates in his analysis, by the action of the "Corporatist" entities which were organized by interest groups whose enormous lobbying power was exerted on successive puppet governments to yield to their demands.

In sum, this era was characterized by predominantly state-owned institutions and corporations which were not competitive in the international markets. Argentina faced a stagnant economy, suffering from an unprecedented hyperinflation of 3,000% in 1989 and 2,300% in 1990. According to Becker (2002) prices increased by more than 1,000% in both 1989 and 1990. To make matters worse, the nation experienced a precipitous fall in the value of Argentine austral ($1 = 1000 pesos). Several families would share a cucumber since its price had sky rocketed to $US 30 - 35 a piece. The economic curve of Argentina had swung again at its all time deepest valley of low productivity.

After World War II, a long period of Peronist authoritarian rule and interference in subsequent governments was followed by a miliary junta that took power in 1976. Democracy returned in 1983, and numerous elections since then have underscored Argentina's progress in democratic consolidation.

By observing the political landscape scene and by examining the facts, here are some of the findings of the inquiry:

1. After WW II huge amounts of money were borrowed.
2. The money was spent on industrialization.
3. Factory wages were raised even while productivity kept falling.
4. The agricultural sector was taken for granted.
5. Politicians acted out of self-interest.
6. The people were unwilling to accept normal banking restrictions.
7. Globalization intensified world competition.
8. The politicians and the people entertained unrealistic expectations.

Menem-Cavallo Desperate Rescue Efforts

Argentina is generously blessed with rich natural resources, a highly literate population (96% in 2001), an export-oriented agricultural sector, and a diversified industrial base. However,

when President Carlos Menem took office in 1989, the country had piled up huge external debts, inflation had reached 200% per month, and output was plummeting.

To combat the economic crisis, Domingo Cavallo, Economy Minister, embarked on a path of trade liberalization, deregulation, and privatization. In 1991, he implemented radical monetary reforms. First of all, he pegged the peso to the US dollar and limited the growth in the monetary base by law to the growth in reserves. Barraclough (2001) reported from Argentina that Cavallo's energetic response to curb Argentina's 33-month recession had "cheered investors." Inflation fell sharply in subsequent years. In 1995, Mexican peso crisis produced capital flight, the loss of banking system deposits, and a severe but short-lived recession. A series of reforms to bolster the domestic banking system followed. Real GDP growth recovered strongly, reaching 8% in 1997, putting Argentina's economy ahead of the curve in South America at a devastating cost. Previously, Argentina had industralized into state owned companies, then during Menem's long presidency started a wholesale privatization of the assets of these companies. Billions of dollars raised through privatization were spend on social programs and debt financing.

Domingo Cavallo, a very forceful and intelligent person, followed President Menem's economic model of 1990-1999. He also encouraged privatization, free trade, deregulation. For the sake of easy convertibility, he pegged 1 peso = $1.

The days of the Argentine government, like an impulsive compulsive shopper with a handful of credit cards, are over. The government cannot afford to shop anymore. This is not the first time for Argentina to face an insolvency crisis. According to Lewis (1990), twenty years ago Argentina had severe financial crisis. This time, though, it is Argentina's journey into the night; it seems that the country won't be able to return from the abyss of indebtedness.

The outcomes of Menem-Cavallo era are summarized in Table 4. Notice how the government continually changing economic and fiscal policies in the face of huge external debt of $140 billion in 1995. No matter how the government has tried to wiggle out of it, this time Argentina's government finds itself in the deadly arms of a black widow of a debt. This time the clasp seems unbreakable and the bridegroom is on the verge of being ravished by the creditors.

In 1998, international financial turmoil caused by Russia's problems and increasing investor anxiety over Brazil produced the highest domestic interest rates in more than three years, halving the growth rate of the economy. Conditions worsened in 1999 with GPD falling by 3%.

Burdened by the Menem legacy of recession, huge external debt, bloated government structure, and deficit in government finances, President Fernando De La Rua, who took office in December 1999, sponsored tax increases. He later initiated spending cuts to reduce the deficit, which had ballooned to 2.5% of GPD in 1999. De La Rua strove for zero deficit in government spending by salary cuts; by eliminating one month bonus in December for government employees; by appropriating less money to the provinces; and by making cuts in education and other government expenses. He encountered strong opposition from legislative and provincial governments. Consequently, the government budget was not approved when he was in office.

Growth in the year 2000 was at a disappointing 0.8 per cent, as both domestic and foreign investors remained skeptical of the government's ability to pay debts and maintain its fixed exchange rate with the US dollar. De la Rua sought for IMF help; one bright spot at the beginning of 2001 was the IMF's approval of $13.7 billion in support.

In retrospect, the root cause of recent problems that broke the camel's back could be traced to de la Rua's lack of power base to lead, the deficit spending because of bloated bureaucracy, and to the venture of "convertibility" (pegging the peso to US dollar) which reduced competitiveness on the international arena. The "me first" attitude of politicians, and a little motivation of sacrifice among Argentine people have aggravated the economic survival of the country.

Table 4

The events and outcomes of Menem - Cavallo era in a nutshell
(not listed in any order of importance)

*Stable currency	*Lessened investment
*Economic growth-1	*Argentine firms relocate in Brazil
*Growth in investment	*Cavallo replaced by Roque Fernandez
*Lack of intl. competitiveness	*Fernandez replaced by Lopez Murphy
*South East Asia crisis (1998)	*Continually changing economic policies
*Brazil crisis (1998)	*Continually reformulating fiscal policies
*Devaluation neg. effect on GDP-2	*Recession
*Huge external debt, $140 billion	*bloated government structure
*Deficit in government finances	*Economy, government instability

-1 The economy grew by 51% in constant terms in 1990-97.
-2 About 3.5% drop in GDP in 1999.

Precipitating Events

Rumors of devaluation and restrictive financial policies provoked people's run on their dollar deposits. On December 8, 2001, Cavallo introduced "corralito," limiting the withdrawal of cash deposits to $1000 per account per month. Checks to institutions within the country, however, were allowed. Recession showed signs of worsening which gave rise to protests, strikes, and acts of vandalism. On December 13, 2001, there was a nationwide strike, massively supported by the unions and others. On December 20 looting started in some of the provinces. Like a wild fire, looting spread to a dozen more provinces and suburbs of Buenos Aires. The president declared a nationwide state of siege, but the people did not respect the siege and police did not enforce the command. The people took to the streets with "cacerolazo," noisy banging of pots and pans, and demanded resignation of Cavallo as a government official (i.e., Minister of Economy).

Despite Cavallo's resignation, the protests continued this time against the president and violent confrontation took place near Plaza de Mayo. It was estimated that about 14 to 28 people died during the protests. De la Rua resigned amidst the national upheaval.

Transition

Some have dubbed the phrase "five presidents in a month" to characterize the extent of recent government instability in Argentina. Adolfo Rodriguez Saa, a Peronist, was elected interim president until the next election either in March 2002 or in 2003. Earlier policies were maintained, but checks for social services were no longer allowed to institutions within the provinces. After a major disagreement with his own party, claiming that he was sabotaged by fellow members of the Peronist party, President Saa resigned after a week in office. Argentina has met its nemesis: leaving behind a leviathan of a debt which is hungry to collect its feast of accumulated interests. It is ready to liquidate the assets of the nation to satisfy its demands.

Current Situation

Eduardo Duhalde, a former Vice-President and two-time governor of Buenos Aires province, was elected by the legislative body, but not by the people, as interim president until elections in 2003. He was known to be a Peronist but resigned from the party immediately. He also renounced candidacy for 2003. After being elected, he devalued the peso, but maintained two rates: official rate being $1 = 1.40 pesos; free rate based on whatever results from market transactions, hopefully $1 = 1.70 to 1.80 pesos, with Central Bank Intervention.

Duhalde defaulted on making payments on loans, but IMF provided extension for its own loan. Later on he came up with the idea of "pesify" (transform to pesos) bank debts and deposits in

dollars at rates not yet decided ($1 to 1 peso or 1.40 pesos). Banks began to hurt government plans to make up losses by taxes on exports of oil exacerbated Argentina's overly exhausted patience. Goodman (2002b) points out that the recent parade of Argentine Presidents is quite baffling. Goodman rhetorically asks: "Wasn't this an economic and financial crisis, not a political one? Shouldn't the people be desperately attempting at stabilizing the situation in Argentina, instead of throwing Presidents out of office one after another? The bickering over power and the default on the debt is bringing the country down to its knees.

Ferrer (1985) in a booklet aptly entitled *Living Within Our Means: An Examination of the Argentine Economic Crisis,* warns some 18 years ago that Argentina's insolvency was a challenge to its national economic sovereignty. In Ferrer's view the choice is clear: the Argentine government either become the administrator of its foreign debt on behalf of the creditor banks or regain control of its economy by putting national interests first. For the latter, Argentina must learn to live within its means by depending on its national resources. To achieve this goal, Ferrer calls for the establishment of an Economic and Social Pact by the principal sectors of Argentine society, leading to a reform of Argentina's financial system.There must be a stop put against incurable gambler politicians with a voracious appetite for borrowing money now as a band aid solution to Argentina's socioeconomic problems.

As a consequence of the economic downturn and the political turmoil, currently alarming brain drain is taking place. The country has more emigrants than immigrants; its population is decreasing. Inexhaustible, so Argentina's resources once seemed. About four out of ten young persons now want to leave the country. There are long lines at Italian, Spanish, French, American, and other embassies. People in droves are leaving the one time land of abundance, mainly because of politicians's mismanagement of the government affairs and the national resources of Argentina. The politicians are rife in a quandary which is paralyzing the country and exasperating the people.

Amid the nation's uncertainties, a few things remain clear. Politicians must continue to reach out and help the distressed, offer support, and take steps to rebuild and create the best possible future for generations to come. The government should proceed with guarded optimism, but abstain from band aid treatment of issues which would aggravate the nations problems for the future. It is also clear that Argentina remains strong, as does its agricultural sector. While the nation's financial system has been deeply affected, the system's foundation can be strengthened.

Outlook and Challenges

The challenge facing any president of Argentina now is tantamount to parting the Red Sea. Argentina needs external help in financing recovery and growth. The country first needs to come up with a realistic economic plan, stick to one exchange rate, and provide equitable treatment of the sectors hurt by the dismal economy. To survive the crisis, there must be a reduction in government spending and a renegotiation of the financial agreement with its provinces. Then and only then, there might be some hope for an economic recovery, no matter how slow and painful it would be.

To demystify the events behind Argentina's fallout, an investigation of the violation of the two-pronged approach to progress is in order. A sustainable progress should emanate from a strong agricultural base and industrial efforts. The Argentine politicians apparently have violated the time-tested formula. They followed a lopsided approach: industrialization, industrialization, and industrialization. They borrowed huge amounts of money to spearhead their industrialization plans. Industrialization can also make the citizenry leave their farms for the glamour of city life and for the tempting higher wages offered by the factories.

Industrialization continues to spread around the world. New factories are being built in countries where only a few years ago subsistence farming was the main economic activity. These countries hope that industrialization will improve their economies. Changing to an industrial economy can be expensive, however, especially asynchronously; and it requires large sums of money and resources such as water, fuel, and low-cost labor. Usually, the money required for industrialization is borrowed with hefty interest rates. In addition, industrialization can create problems, such as pollution and industrial waste, and it can also deplete natural resources. Moreover, industrialization can also trigger an exodus to leave the farms and move to urban areas where higher paying jobs become relatively plentiful.

Brazil, Mexico, and to a greater extent the former Soviet Union have fallen victims to this myopic approach to pursue rapid industrialization or militarization at the cost of agriculture. How many times, the United States had engaged in humanitarian missions carrying wheat and other agricultural products to save the Soviets from famine. In 1995, the United States gave $55 billion to bailout Mexico. Unlike the preceding countries, Israel, on the other hand, worked hard to improve the agricultural sector of the nation even though they had to deal with an unyielding desert like land. For instance, United States imported avocados mainly from Hawaii and Florida. Now, Israel exports it to Europe and to the United States, distance being offset by the fruit's relatively long shelf life.

In 1980s, the author happened to be at a nursery which specialized in desert plants in southwestern portion of the Riverside county in California. There he met a delegation of agricultural experts from Israel who had come to purchase young jojoba (Simmondsia Chinensis) plants for commercial cultivation. Jojoba bush, which is indigenous to the southwest United States and Mexico, bears nut like fruit which is a good source for oil used in shampoo and other products. A mature jojoba is a drought resistant plant which can tolerate desert conditions admirably well. Some of the members of the delegation explained that Israel was going to plant jojoba commercially over an entire region consisting of thousands of acres with little or no rainfall. Thus, thousands of acres would be devoted to the plant. Currently, drip-irrigation provides needed water to crops in the Jordan River Valley in Israel. Israel, much of which is dominated by a desert climate, has developed extensive water conservation and irrigation system. The kibbutz (collective farm) method made Israel's farms among the most productive in the world even though today few Israelis work in agriculture (Helgren and Sager, 2000).

After having secured their food basket, Israelis worked hard to make Hertzelia and Giva'at Shmuel the two Silicon Valley centers of the Middle East. No wonder Israel first and foremost wanted to bloom the desert with lush oases of orchards and farms. Thus, they harnessed agriculture and industry in tandem. A stable peace in the region will help Israel and its neighbors further improve efforts to conserve water. Had it not been to the perennial Arab-Israel conflict over homelands, Israel would have become one of the most, if not the most, economically advanced small nations in the world.

A Paradigm for a Steady Progress

Now, Argentina has no choice but to emulate Israel's simple, elementary approach to industrialization if it wants to slowly pull out of the quagmire created by its own politicians and people. The marriage of agriculture and industrialization should be indefinite. The country cannot afford to remain stuck neither in reverse nor in neutral. The economic engine must forge ahead.

By protecting and promoting Argentina's agricultural sector, easier said than acted on, the government would return its economy to a high level of prosperity. The road will be long, though, and is paved with obstacles ranging from self-serving politicians to paranoically diffident population who thinks Argentina's return to prosperity is Mission Impossible. According to the following the formula, the country may recover slowly to its former glory days provided there is a confluence of politicians, unions, and the people to solve the country's problems:

$$NP = f(A + I),$$

where,
NP =- National Progress
f = is a function of
A = Agriculture
I = Industrialization

The simple formula above is based on the proposed paradigm. Central to this paradigm is the notion that national progress must be based on a strong agricultural base while the country cautiously begins to industrialize. Political and economic policies and decisions should always favor some equilibrium between the two sectors. Rapid industrialization when agricultural sector is weak would spell disaster. The latter should always be kept in repair and both sectors should move forward

abreast, if possible. Argentina should not ever forget its huge comparative advantage in producing food for export. While signing a bill for $190 billion subsidy to the U.S. farmers and ranchers, President George W. Bush has recently stated that "Farming is the first industry of America." He goes on to maintain that "The success of America's farmers and ranchers is essential for the success of the American economy" (CNN.com, May 13, 2002). This shows a strong commitment to agriculture by the U. S. policy makers; however, a close examination of the antecedent events and causes has shown that the behavior of Argentine politicians have been less than sterling and astute in this regard.

The above formula based on the paradigm is not a mathematical but a conceptual model. Lack of fancy figures and symbols should not mitigate against its importance, though. As to what relative emphasis on each variable to put? That would depend on how advanced each variable is. For example, if agricultural sector is advanced and up to par competitively, more efforts should be exerted on the industrial sector, but never at the neglect of the former. Ideally, both should be promoted equally, but, unfortunately, governments always find themselves in short of money to finance projects.

It is always the simple things in life that are taken for granted, like the air we breath, the water we drink, the trees we have, and other natural resources. The simple paradigm is to preserve, protect, and not to pollute for the benefit of society at large. Despite the simplicity of the formula, we pollute the air, we poison our rivers and lakes, we denude our mountains, and we destroy plants and animals either for food or for fun.

From the ashes, hope springs, though. The people of Argentina are highly talented and well educated. By following this simple, descriptive formula of NP = f(A+I) and with international help, the Phoenix Bird would rise again to reclaim its crown as the quintessential Land of Abundance in the big league of export-oriented nations of the Western Hemisphere.

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