

Crisis in Argentina Website

Background to the Crisis in Argentina

Following a decade in which it was held up as a model showcase for the International Monetary Fund's (IMF) economic prescriptions, Argentina dramatically fell from grace in December 2001. Since then, the country has been reported to be in the grips of a terrible economic crisis. Although the country was arguably in the grips of an economic crisis from the mid-1990s onwards, events certainly accelerated suddenly at the end of 2001 following two distinct but interrelated events. Firstly, on 6 November, Argentina's sovereign credit rating was downgraded to "sovereign default", following the decision of President Fernando De La Rúa's government to carry out a distressed debt exchange. This resulted in a panicky run on banks, which culminated in deposits decreasing by US\$1.8 billion on the single day of 30 November.

On 3 December, the De La Rúa government imposed a freeze on bank deposits known as the *corralito*, or 'little fence'. This severely limited the amount of money that could be withdrawn from bank accounts, and trapped many people's savings in failing banks. On 5 December, the IMF announced that it was suspending loans to Argentina because the De La Rúa government had failed to meet conditions on public-spending cuts, and refused to disburse a scheduled \$1.3 billion Special Drawing Rights tranche needed to pay debt obligations and to support the currency, which for the past ten years had been pegged to the dollar on a fixed exchange rate of one peso to the dollar as a way of avoiding hyperinflation.

The combination of these two events led to a process that brought the Argentinean economic, political, and social system to the brink of meltdown, crystallizing a longer-term process of crisis. Widespread popular protests erupted against the banking restrictions, uniting crowds from shanty towns, organized groups of the unemployed known as *piqueteros*, and large swathes of the middle-class, who became known as the *cacerolazos*, being made up mainly of women who marched banging pots and pans. These protests rapidly escalated into violent rioting and looting that were severely repressed by the police, and twenty-seven demonstrators died.

On 20 December, as the protests intensified, De La Rúa resigned the presidency. Argentina then went through five nominal heads of state in ten days, the last being Senator Eduardo Duhalde, who was appointed on 1 January 2002 by the Argentinean senate to serve the remainder of De La Rúa's term until December 2003. During this political merry-go-round, the dollar-peso parity was abandoned and Argentina formally defaulted on its debt of about US\$150 billion. The countrywide protests diminished after the fall of De la Rúa, but discontent has simmered on, particularly as the economy has gone into free fall.

The Argentinean economy contracted dramatically following the events of December 2001, with GDP falling by a record 16 percent in the first quarter of 2002, manufacturing output by almost 20 percent during the same period, and industrial production in general by some 17 percent during the first seven months of 2002. The currency collapsed to about one quarter of its original value, and inflation has spiralled. Unemployment has soared to some 23 percent of the workforce, with a further 22 percent underemployed. Public services have disintegrated, schools have closed, and state pensions and public sector workers' salaries have gone unpaid.

The proportion of the Argentinean population living below the poverty line increased to 57 percent in May 2002, compared to 24 percent four years earlier, and 27 percent live below the indigence line, more than double the number compared to 2001. At the same time, however, the present crisis has not just affected economic life in Argentina, but also political, social, and cultural life, as traditional parties have been discredited, new politicians fail to emerge, the state is increasingly bypassed for all sorts of activities, and social groups and categories have mutated and transformed.

It has to be said, though, that crises are not new to Argentina. As the Argentinean anthropologist Rosana Guber has pointed out, they are in many ways the *leitmotif* of Argentina's history. Certainly, if

one adopts a Marshallian “long view”, it is clear that the country has been affected by a series of intermeshed crises for most of the 20th century. In 1900, Argentina had the sixth highest per capita national income in the world, and was considered a potential economic rival to the United States. Although still a significant economic powerhouse in the Latin American context – albeit overshadowed by Brazil – it now makes international headlines for the wrong reasons.

Following the fall of Peron, the 1950s and 1960s saw a series of weak, corrupt oligarchic regimes, and the 1970s, the rise of a vicious military junta which fought a “dirty war” against its own people, with over 30,000 “disappearing”. The return of democracy in the 1980s brought with it hyperinflation and economic chaos. Although the adoption of neo-liberal economic policies in the 1990s successfully brought an end to hyperinflation, it did so at a grave cost to the poor and lower-middle class, who found themselves increasingly downwardly mobile – in a society which had traditionally enjoyed a high degree of upward social mobility – and impoverished as inequalities rose and structural rigidities developed in Argentinean economy and society.

The present crisis stands apart from past crises, however, in that it was very sudden and immediately dramatic. Although Argentina’s slow decline during the 20th century can be viewed as a prolonged crisis, it has unfolded over a prolonged period of time. The question remains, however, to what extent December 2001 represents a real qualitative shift in Argentinean history or is simply the culmination of longer-term processes, albeit perhaps manifesting themselves in highly visible and dramatic ways.