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## ARGENTINA AFTER THE ELECTIONS<sup>1</sup>

### **PRESIDENT KIRCHNER EMBARKS ON HER SECOND TERM OF OFFICE WITH A STRENGTHENED MANDATE**

*Bernd Löhmann*

With the country-wide primaries on 14 August 2011 and the general election on 23 October, Argentine president Cristina Fernández de Kirchner has in effect been twice confirmed in office. She was re-elected with around 54 per cent of the votes cast. In the concurrent congressional elections, at which half the seats in the Chamber of Deputies and a third of the seats in the Senate were up for renewal, the Peronist election platform "Frente para la Victoria" (FPV) that backs her also emerged victorious. The FPV, with the parties allied to it, has thus regained the majority in both houses. In addition, governors and parliaments were elected in most provinces. In almost all cases the winners were forces allied to the national government; only in three of the 24 federal units are parties openly opposed to the FPV.

Cristina Fernández de Kirchner's victory has been aptly described as a "tsunami". Boosted by the outcome of two elections, the President now wields far more political weight than any of her predecessors since Argentina's return to democracy. Even her husband, who was president of Argentina from 2003 until 2007 and was regarded until his death in October 2010 as the real leader of Argentine politics, was never able to rely on such a broad legitimization and power base. Commentators have also pointed out that never before has a power project such as that represented by Kirchnerism been prolonged over three terms of office (Néstor Kirchner 2003 to 2007; Cristina Kirchner 2007 to 2011 and 2011 to 2015).

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## SPECULATION ABOUT THE NEW CABINET

In political circles speculation on how the President will use this unprecedented degree of power is now rife. It is true that in her speech on the eve of the election – as ultimately in the election campaign generally – she appeared conciliatory and prepared to engage in dialogue, but it is by no means certain whether the moderate tone of the President's discourse actually signals a less confrontational political style. Radical change is not to be expected. It is likely that the political faces will remain largely the same. Few people are anticipating major changes when the President presents her new cabinet on or around 10 December, the date on which her second term of office commences.

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It is widely assumed that the present planning minister Julio de Vido will be given a key position, perhaps becoming minister of economic affairs. His ready access to both employers and trade unions make him the obvious person to take the reins in the time ahead, in which economic challenges and distribution conflicts will be prominent concerns. A potential leader of the new cabinet is the cautious and hard-working security minister, Nilda Garré – although she has at times appeared to have a rival for the post of head of the “Jefatura de Gabinete” in the quick-witted minister of the interior, Florencio Randazzo. If the President were eager to signal the rejuvenation of the cabinet, Juan Manuel Abal Medina – currently state secretary for communication – could be the person to come out on top in the race for cabinet leadership. The future Argentine vice-president and present minister of economic affairs, Amado Boudou, who the press has sometimes described as being groomed by Cristina Fernández de Kirchner for the presidency, has probably overstepped the mark in terms of political self-assertiveness, with the result that the President appears to have distanced herself somewhat from him.

Cristina Fernández de Kirchner's choice is crucial. It is reported from sources close to her that when her husband Néstor was still alive he had the last word, but that she

as his confidante played a key part in decision-making. Now she is stepping into her husband's shoes and her son Máximo is said to be taking on the role of confidant and personal advisor. To this extent the decision-making mechanism has not changed. But the events of 23 October mean that the conditions of government have shifted in the President's favour.

The remarkable feature of the 2011 elections was that Cristina Fernández de Kirchner achieved her spectacular election victory not only in defiance of the published views of the country's largest media conglomerate, Clarín, but also without the collusion of the Peronist "territorial princes". To their discomfort the President oversaw the nomination of FVP candidates for the parliamentary elections virtually single-handedly. It did her no harm at the ballot box. Reflecting this, the message from the President's close circle after the election victory was self-assured: "The votes have gone to Cristina." It is probably not wrong to see in this a rejection of the claims of the previously powerful Peronist partisans.

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Néstor Kirchner strove for compromise with the Peronist establishment; right down to local level he knew every single decision-maker by name. For Cristina Fernández de Kirchner that appears – at least for the time being – to be no longer necessary. Her words in the media are addressed directly to the people, whose support she is more than ever cultivating. The renewed emphasis on the personal exercise of power and the increased curtailing of intermediary structures may signal a transition from the *kirchnerismo* of the first and second phases of government to the *cristinismo* of the third term.

## CONSEQUENCES FOR THE OPPOSITION

The election tsunami of 23 October has taken a heavy toll on the opposition, which despite successful intermediate elections in 2009 is more or less in tatters. Some long-standing politicians – especially Elisa Carrió (1.82 per cent) and ex-president Eduardo Duhalde (5.86 per cent) – may be facing the end of their political careers. Within the leftist

liberal Unión Cívica Radical, the likewise hard-hit Ricardo Alfonsín (11.14 per cent) is fighting for his political survival. Alberto Rodríguez Saa (7.86 per cent) at least managed to beat the President in his home province of San Luis. No doubt it was also a cause of satisfaction to him that he received more votes than Eduardo Duhalde, who like Rodríguez Saa comes from the anti-Kirchner Peronist camp. Only for the socialist Hermes Binner (16.81 per cent) can the outcome of the election be regarded as relatively successful. His election platform Frente Amplio Progresista (FAP) now claims to be the second political force in Argentina. However, the FAP is regarded as markedly heterogeneous, so that most observers have little faith that the alliance will last for long. Because of its ideological closeness to the government on some points – both groups define themselves as *progresista* –, and not least also because of the FAP's lack of political weight, it is unlikely that the FAP will assume a key role in the confrontation with the government. There is even some speculation that the parties may come together on a range of important issues.

Contrary to previous declarations of intent, Mauricio Macri, leader of the centre party PRO, did not stand in the presidential elections. In view of this, the candidates he put forward as deputies did surprisingly well in the congressional elections. Just a few weeks

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before 23 October Macri had defended his power base as “Jefe de Gobierno” in the city of Buenos Aires with an outstanding election result. In consequence he has indicated his intention to run for the presidency in 2015. Meanwhile PRO remains for the time being a regional party in the city of Buenos Aires. The attempt to develop party structures in Argentine “territory” has not so far proved entirely successful. However, bridges are already being built with mayors in Buenos Aires province, a potentially crucial election district.

It is uncertain whether the protracted confrontation between the governments of Kirchner and Macri will be continued or whether the mutual gestures of détente during the election campaign will lead to some form of cooperative

policy-making. A number of observers assume that the mighty national government will allow the city government a certain latitude – if only in order to have a political opponent in the almost “opposition-free” environment of present-day Argentina. Such an opponent is needed – mainly for internal party discipline, but also to use if necessary as a scapegoat for one’s own failures.

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Nowhere in Argentine politics is there evidence of a genuine counterweight to the government. The new Congress is returning to its pre-2009 position, when groupings loyal to the government had clear majorities in both houses. Once again, the extent to which Congress can function as a field of action for the opposition will now be very limited. Instead it is likely that the government will use the new majorities to expedite the passage through Congress of key legislation – such as the budget or extension of the economic state of emergency.

From the current perspective Mauricio Macri is the most likely person to be able to challenge the government in 2015. However, a number of observers comment that only a major crisis could significantly improve Macri’s election prospects. If the coming years proceed more or less calmly, the expectation is that the decisive power struggles will take place within the Peronist movement. As the 2011 elections clearly showed, Peronism remains by far the most important political force in Argentina.

Overall, the election success of Fernández de Kirchner has resulted in a coming together of Peronism. Most of the groupings that previously sought to distance themselves from Kirchnerism in “Peronismo Federal” are now moving towards the national government. A minority are allying themselves with PRO. The followers of Duhalde, who remain openly anti-Kirchnerist, appear isolated. It is uncertain where Francisco de Narváez, the glittering winner of the 2009 elections to the house of deputies, is heading. In the race for the governorship of Buenos Aires province he performed far less well than expected, conceding a clear victory to another Peronist, the re-elected governor Daniel Scioli. The fact that de Narvaéz had sought an alliance with

Alfonsín's UCR has made it difficult for him to return to his old coalition partners Macri and Felipe Solá. Solá – until recently head of the "Peronismo Federal" grouping – has now defected to Sciolism.

### UNASSAILABLE DOMINANCE

Within the Peronist movement with its focus on election success the President is at present unassailable. For some time there has been public discussion of a revision to the constitution that would permit a third term of office from 2015 onwards. Even the possibility of converting the presidential system into a parliamentary one is a

topic that has been raised in this connection.

Strangely, interest in these issues – which had been hotly debated before 23 October – flagged noticeably after the elections. In fact

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at the moment the President does not need to comment on these matters. Yet the further she is into her term of office, the more difficult it will become to realise the ambitious scheme for constitutional change. Some of the President's remarks indicate that she is more inclined to start handing things over to a younger generation of politicians. For example, she has repeatedly emphasised that it is not about her but about continuation of the political "model" – a model that is only vaguely defined but is national and popular in its orientation and includes among its priorities nationalisation, strong government intervention in the economy, an emphasis on national interests in foreign trade, distance from the IMF, a predominantly consumption-based growth policy and money transfers to poorer sections of the population. Whether the President is giving thought to the succession arrangements, in which her son Máximo would play a part, is not yet clear.

Just as obvious as the current dominance of Fernández de Kirchner is the fact that a number of Peronist politicians are not going to abandon their personal ambitions. As things stand at present any attempt by them to oppose the renewed re-election of the President would appear far too reckless. However, if the President were to see her role as being only to groom a candidate as her successor, there is far more scope for them to assert themselves.

**Daniel Scioli, a potential Peronist presidential candidate, achieved an outstanding election result in the largest of Argentina's provinces.**

Many observers view the governor of Buenos Aires province, Daniel Scioli, as a potential Peronist presidential candidate. He achieved an outstanding election result in what is by far the largest of Argentina's provinces and in the election campaign he has already attempted to distance himself from the President on some points. That the President is aware of his intentions is evident from the fact that she has imposed on Scioli a vice-governor whose main task is probably to curb Scioli's power plans. Scioli, however, is not the only Peronist politician with ambitions of his own. The governors José Manuel de la Sota (Córdoba), Juan Manuel Urtubey (Salta) and Jorge Capitanich (Chaco), among others, are seen as having the potential to shine at national level.

Despite all the speeches of homage to the President, Peronism is still far from becoming a monolith. One of its distinctive features is its capacity for change in the face of fluctuating political and economic circumstances. In view of this it must at present seem tactically clever not to swim against the current of the election of 23 October but nevertheless to prepare oneself for a possible turning of the tide. For example, it is not yet clear what the implications for Kirchnerism will be if the scope for financial redistribution decreases sharply in the coming years.

#### **POSSIBLE CONFLICTS: THE TRADE UNIONS AND THE CLARÍN GROUP**

Like the population as a whole, political leaders within the Peronist camp are likely to keep a very careful eye on the President's handling of everyday political and in particular economic matters in 2012. In the election year, a year after the death of Néstor Kirchner, she avoided painful decisions of any sort. Now she has little choice but to nail her colours to the mast, even where difficult issues are involved.

There are already signs of initial conflict with the trade unions, which belong to the Peronist establishment. In particular, the truce with the powerful leader of the unified trade union (CGT), Hugo Moyano, appears to be faltering. For weeks there has been speculation – probably prompted by an interested party – about its possible collapse. This

gave Moyano all the more cause to broadcast his demands publically. The President is said to have held against him the fact that he used an event commemorating the first anniversary of Néstor Kirchner's death as a forum for propagating his idea of statutory profit-sharing for employees, and moreover invoked Néstor Kirchner in connection with his plans ("Profit-sharing for workers is the best way of honouring Néstor Kirchner"). The politically highly ambitious Moyano – he models himself on the Brazilian trade union leader and former resident Luiz Inácio "Lula" da Silva – continues to goad with calls for special payments and tax relief for workers. The skirmish with the government could degenerate into open battle over the issue of pay rises. For the moment both sides are minding their manners.

A sign of what could be in store is the government's refusal to confirm a 35.7 per cent pay rise negotiated by the agricultural workers' trade union. In view of galloping inflation, the government clearly wants to get the parties to the wage negotiations to agree more moderate pay rises in future. The government is appealing in the first instance to the patriotic sense of those involved, but the threat of a cap on pay increases at 18 per cent, which could be imposed by presidential decree, is also in the air. Given the annual inflation rate of 24 per cent, it is somewhat unlikely that the bellicose Argentine trade unions would simply give the nod to an enforced decision of this sort from the President.

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Some commentators are raising the question of whether daggers-drawn conflict is a structural element of Kirchnerism, suggesting that – after the "Campo" (the representatives of agriculture) and the media conglomerate Clarín – the trade unions may be the next major opponent to be picked on. They point out that access to the trade unions' vast social funds (*obras sociales*) could act as an additional incentive for the government to venture into battle. It would have public opinion behind it in the clash with the trade unions.

It is highly likely that the government will continue its "cultural battle" against the two most important daily



newspapers *Clarín* and *La Nación*. Numerous international exhortations to preserve the freedom of the press have had virtually no impact on the outcome of the Argentine election. The media outlets, in particular *Clarín*, are regarded – with some justification – as the real opposition within the country. In the wake of the election they are felt to be among the losers. In the eyes of the government there must now be little reason not to harvest the fruits of victory. It is likely that there will be increased pressure from the government for the courts to make outstanding decisions on some controversial core issues of the new media law. In addition, the new Congress could expropriate the country's only newsprint factory Papel Prensa, which is majority-owned by Clarín, by declaring newsprint national property. Import restrictions would give the government complete control over paper imports. However, many Argentines now see the conflict with the anti-government newspaper groups as virtually a thing of the past. Everyone's gaze is now fixed on events in the economy.

### GOVERNMENT CONCERNS ABOUT THE PESO

**In view of the rapid dwindling of the Argentine central bank's foreign currency reserves stringent restrictions have been imposed on the exchange of Pesos for U.S. dollars.**

In the weeks after the election the government threw itself into bringing some of the problems in the economy under control. In view of the rapid dwindling of the Argentine central bank's foreign currency reserves – around ten billion of the bank's 52 billion Dollar reserves have been lost since June – stringent restrictions have been imposed on the exchange of Pesos for U.S. dollars. Under the new rules banks and bureaux de change must obtain permission from the finance authority AFIP for each transaction. On the basis of the information submitted the AFIP decides whether the customer can buy Dollars, and if so how many. In addition, the relevant AFIP resolution stipulates that the customer must state the purpose (*destino*) for which the Dollars will be used. Some 4,400 AFIP personnel were despatched to banks and bureaux de change to "advise" them on implementation of the new rules.

This move was preceded by a presidential decree obliging all mining and oil companies to repatriate to Argentina all their foreign currency revenue derived from exports.

Insurance companies were instructed to sell and repatriate assets held abroad. Now the word is that the central bank has turned to the major industrial producers. They are said to have been instructed to cancel imports for a period of 20 days, relying instead on goods held in stock. A number of observers conclude that the government is attempting to get by until the next harvest once again brings in vast quantities of foreign currency.

The government is probably seeking to calm the Dollar market without having to devalue the Peso. Devaluation would further undermine confidence in the country's currency. The attempt to maintain the stability of the Peso in relation to the Dollar despite high inflation was one of the reasons behind the government's consumption-oriented economic policy, but it has resulted in an increase in imports with the associated loss of foreign currency. Above all, though, because Argentines were for months changing ever-larger quantities of Pesos into Dollars and the exchange rate fell to 4.29 Pesos, the central bank shored up the value of the Peso by selling large quantities of Dollars. In October alone the central bank put 1.5 billion Dollars on the market. At present one Dollar officially costs around 4.70 Pesos.

Greater calm has now been restored to the foreign exchange market. The restrictions have had an effect but have also had adverse consequences. At times the *dólar blue* was worth up to five Pesos on the black market.

Anyone who still had Pesos under the mattress was now keen to exchange them; many holders of Dollar accounts withdrew their savings. According to newspaper reports the government was so determined to intervene that the state secretary for internal trade, Guillermo Moreno, telephoned the owners of the bureaux de change in order to get the price of the Dollar on the black market reduced.

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Sceptical voices suspect that Argentina may be moving towards a splintered Dollar market and that the state – as well as the black market – will in future lay down different exchange rates for the export and import of foreign currency. For example, travellers using a credit card to make

purchases abroad could be quoted a particularly high exchange rate for *dólares turísticos*. The government emphatically rejects ideas of this sort.

With considerably more political caution, but with the same regulatory rigour, the Argentine government is also tackling the problem of rampant subsidies for the use of electricity, gas and water and for public transport. In 2011 these subsidies totalled 16 billion U.S. dollars, or six per cent of GDP. They place a severe strain on the national budget without improving the service provided by suppliers. As a first step gas, electricity and water subsidies are to be removed for all consumers in the wealthy districts of Buenos Aires and all Argentina's "country clubs" (gated residential estates). In a second step all consumers will be asked to renounce their subsidies voluntarily or to affirm in lieu of oath that their income is such that they are dependent on the subsidy. Suppliers are not yet prepared for a shift of this sort. It is difficult both to define the boundaries of city districts and to distinguish between poor and wealthy electricity customers. Subsidies for particular sectors of the economy – banks, ports, airports, casinos, mobile phone companies, mining companies, energy companies – are also being cut. All the affected users are facing at least a doubling of their utility costs.

In view of the fact that the national budget is now in deficit, the restricting of subsidies was necessary. Even now debts are often serviced from central bank reserves

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and some public expenditure is met from the social insurance fund ANSES. Maintaining low energy, water and transport prices was frequently regarded as putting a brake on inflation. It remains to be seen what effect the dismantling of price subsidies will have on the rate of inflation. If things go badly, the removal of subsidies could further fuel expected inflation.

Private institutes currently put inflation in 2011 at 23.5 per cent. The official figures from the state statistics authority INDEC show prices rising at about ten per cent, but these are regarded as manipulated. That inflation at a rate of over 20 per cent is not a good advertisement for the government is plain for all to see. In view of the

government's impregnable position, however, it is hard to understand why the government has for some time been putting pressure on the twelve private economic institutes that produce their own figures on inflation. Fines of around 120,000 U.S. dollars have been imposed on the institutes. Four of them have now stopped measuring inflation. Eight are continuing, but they no longer pass their figures to the press; instead the opposition-led "Parliamentary Commission for the Freedom of the Word" publishes the average of the figures calculated by the eight institutes. With the changed majority situation, it is likely that from now on a group of opposition deputies will announce the inflation statistics. The economic institutes now fear that they could get caught up in disputes between the government and the trade unions when the tussle over the next pay rises commences.

## OUTLOOK: FAVOURABLE CONDITIONS

Quite a stir was caused recently when the President used the word "inflation" for the first time ever in a public speech. It seemed as though she was announcing a phase of economic rationality. After the events of recent weeks there can be no doubt that the will to solve the country's economic problems is there. But the first steps that have been taken appear distinctly improvised. Some Argentines will tell you that this is how things have always been. But it is uncertain whether the method of command and control that has all too often characterised the government's actions to date will result in an orderly process of adjustment in the Argentine economy.

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Experts are calling for clear rules, coordinated action and transparent economic figures. What is lacking, they say, is faith in the stability of the domestic economy. For thirty years Argentine capital has been flowing abroad – in sharply rising quantities. Argentina is in effect a lender to other countries. In view of the budget deficit and falling growth figures, the Argentine government's ability to get the economy moving is limited. But private capital would be available in abundance. The means to improve competitiveness and create more jobs are available. Boosting

confidence through a rigorous fiscal and monetary policy, greater independence of the central bank and reform of INDEC is not an impossible task.

There are dangers lurking in the possible devaluation of the Brazilian currency real and the impacts of the economic and financial crisis. But never in the country's history have the wider conditions been so favourable for Argentina. India and China are buying more and more of the goods that Argentina produces. World market prices for agricultural commodities such as soya are reaching record levels. Neighbouring Brazil is becoming a major oil producer, providing a lucrative market for Argentine industry. The challenges are minor in relation to the opportunities.