

“In 2014, the currency devaluation and inflationary spike dented the president’s popularity and eroded perceptions of her government’s economic competence.”

## Curtains for Argentina’s Kirchner Era

M. VICTORIA MURILLO

**C**ristina Fernández de Kirchner, the third Peronist to be elected president of Argentina since the democratic transition of 1983, is approaching the end of her second term. Her presidency followed that of her husband Néstor Kirchner (2003–7). After a dozen years with one Kirchner or the other at the helm, Argentina is facing a presidential election in October with considerably more uncertainty than the past two, which Fernández de Kirchner won in overwhelming landslides.

There is no clear front-runner this time. However, any of the three candidates with a higher probability of winning is likely to steer the next administration toward more moderate economic policies, including some kind of fiscal adjustment, and a stronger emphasis on controlling crime. The Kirchners have often been classified as part of a shift to the left in Latin America, though the application of that ideological category to them has been questioned, given their own pragmatism and that of their party, the Peronist party. Yet there is no doubt that none of the three most likely successors to Fernández de Kirchner can be identified with the left.

The challenges ahead are difficult. The commodity boom that allowed the Kirchners to expand public spending and redistribute through social policy seems to be reaching an end. If resources dwindle, the legacy of a fiscal deficit and a two-tier exchange rate will most likely bring the next administration toward retrenchment, especially given the failure of price controls to restrain inflation. Thus, the next president is likely to face more limited room for action in economic policy making, and will have a more difficult time trying to

please voters. Deteriorating economic conditions will make it harder for any successor to Fernández de Kirchner to adopt left-wing policies, even if he or she wanted to.

The surprise of this final act is that she has managed to keep the political initiative, moving to regulate the oil sector, reform telecommunications, and revise the civil and criminal codes. A lame-duck president in the last year of her mandate could easily have lost that capacity for action, especially in the context of an economic slowdown, increasing unemployment, and high inflation. Additionally, she lacks a loyal successor—a candidate with a good chance of winning the next election and sustaining her brand of politics, known as Kirchnerism, into the future.

### REMAKING PERONISM

Néstor Kirchner was inaugurated in 2003, when Argentina was starting to emerge from its deepest economic crisis since the Great Depression. During their dozen years in power, the Kirchners built a coalition with dramatic actions that reshaped the political scene. In economic policy, these included debt restructuring, the expansion of redistributive social policies (such as noncontributory pensions and cash transfers for children whose parents do not have formal employment), and the nationalization of the country’s largest oil company, YPF, which was expropriated from the Spanish company Repsol. The Kirchners also oversaw the prosecution of those responsible for human rights violations that occurred during the military dictatorship, procedural changes for Supreme Court appointments, and the expansion of rights for citizens of different sexual orientations, including gay marriage. A major change to media laws expanded public access but also introduced new regulations against concentrated holdings, particularly affecting a major media conglomerate that opposed Fernández de Kirchner’s administration.

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The Kirchners' bold policy initiatives were accompanied by similarly striking rhetoric and symbolism: the national bicentenary celebrations, free television access for all soccer matches including the World Cup, the first Argentine satellite sent to space, and more. They inspired a renewed belief in the capacity of politics to change the status quo after Argentines had taken to the streets in 2001 and 2002 demanding that politicians resign en masse amid economic turmoil. Moreover, the government has been responsive to public opinion shifts even while pursuing its radical policy agenda. For instance, as concern over crime increased in 2014, the government sent a bill for a new criminal code to Congress. It was announced on national television that the measure would require the expulsion of foreigners caught committing crimes, reversing a previously liberal immigration policy.

The branding of Kirchnerism is not unique in Argentina, whose politics has a tradition of personal brands. Peronism has long survived Juan Domingo Perón, who was ousted in 1955 by a military coup and came back from exile to serve again as president for less than a year before his death in 1974. The party has adopted different names over the years, but the Peronist brand is the most valuable one. Peronism rebranded itself in the 1990s when it shifted to the right under Menemism, led by President Carlos S. Menem, and then again in the new millennium when it shifted back to the left under the Kirchners. Many of the same Peronist politicians played roles in both acts, even defending contradictory policies.

It is difficult to believe that Kirchnerism has replaced Peronism as the valuable brand. It seems more likely that if another Peronist is elected as president, a new Peronist coalition is likely to be formed, and many Kirchnerist politicians will join it. Given those expectations and the fact that electoral results in the 2013 midterm elections were not so favorable to the government, it is even more surprising that Fernández de Kirchner has retained so much political initiative in the waning months of her administration without an anointed successor.

## ECONOMIC CLOUDS

Fernández de Kirchner was reelected in October 2011, a year after the death of her husband, with

54 percent of the vote. Argentina had experienced high levels of economic growth in the seven years before that election, with the exception of 2009, when it was hit by the global recession. Growth produced higher fiscal revenue, which allowed for policies of social redistribution that reduced poverty and inequality while fostering a consumption boom that benefited large swaths of the population. Although the Kirchners' support had eroded in the 2009 midterm elections due to a decline in economic performance and a long conflict with agricultural producers over taxation levels, her reelection in 2011 was overwhelming: The runner-up, Socialist Hermes Binner, received only 17 percent of the vote.

By 2014, though, spotty clouds marred the sky. The economy had been slowing down in the past two years, but growth in 2014 turned negative, and at the end of the year even the official statistics (known for being unreliable) announced a decline in economic activity and a rise in unemployment. The fiscal accounts were also in the red. The

surplus achieved during the prior two administrations had turned into a deficit by Fernández de Kirchner's second term. The high cost of energy and transportation subsidies, which the government had unsuccessfully

tried to reduce by cutting some subsidies for richer users at the beginning of her second administration, was a leading culprit in this development.

Meanwhile, the continuous improvement in Argentina's terms of trade since 2003 seems to be over, putting more pressure on economic policy making and limiting any future administration's capacity for further redistribution. Commodity prices started to decline in 2014; a record US soybean harvest, along with a slowdown of the Chinese economy, brought down the world soybean price from \$550 to \$350 a ton between March and October 2014. Soybeans are the main Argentine export staple and an important source of fiscal revenue and dollar reserves. A similar combination of factors was behind the decline in the world price of oil. Lower oil prices have reduced the attractiveness of shale reserves in Patagonia, which the government seeks to exploit in association with Chevron and a Chinese oil company, hoping to develop an alternative revenue source.

Printing currency to cover government expenditures had inflationary consequences in a coun-

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try where the consumer price index has risen at a double-digit rate since 2007 (the initial response of the government was to tamper with its statistics). The limits of economic policies based on price controls, trade restrictions, and a dual exchange rate led the government to seek access to credit in international markets, which had been closed to it since the 2001 default on the external debt.

By early 2014, Argentina had already paid its debt to international financial institutions and negotiated a deal to pay compensation for nationalizing the Argentine operations of the Spanish oil company Repsol. The finance minister was in discussions with the creditors of the Club of Paris, and the government, to increase the credibility of official statistics, had introduced a new consumer price index whose numbers were closer to those of private-sector indexes. In January 2014, the official exchange rate had been allowed to devalue by 20 percent, closing much of the gap between the official exchange rate and the black-market rate. Subsequently, the government drafted a bill to reregulate the oil sector, seeking to attract foreign investors to exploit the shale-oil reserves discovered in Patagonia.

## ATTACK OF THE VULTURES

The government's strategy to regain access to international credit was derailed by an unexpected series of events in the US courts, which drove Argentina into an unintended default on its external debt in 2014. After his inauguration as president in 2003, Néstor Kirchner responded to the default by initiating a process of debt restructuring with bondholders that included their acceptance of substantial losses on the face value of their holdings, and a swap of old debt for new bonds adjusted for inflation (based on the dubious consumer price index) as well as bonds tied to GDP growth—which produced higher returns than expected, given the economy's strong recovery. More than 90 percent of creditors accepted the restructuring agreements in 2005 and 2010. Yet a minority of holdouts did not, including the so-called vulture hedge funds that bought Argentine debt in secondary markets at fire-sale prices, betting on bigger profits through litigation. To persuade bondholders to accept the deal, the restructuring agreement included a provision stipulating that creditors who had not participated

could not receive better terms than those who did: the Right Upon Future Offers (RUFO) clause, which expired at the end of 2014.

To allay fears of default arising from the weakness of Argentine institutions, the government had issued bonds in different legal jurisdictions (Europe, the United States, Japan) during the 1990s. Since 7 percent of creditors had not accepted the restructuring offers, the door to litigation in foreign courts remained open. In 2012, Judge Thomas Griesa of US District Court in New York City ruled in favor of one of the holdouts, NML Capital (a subsidiary of US hedge fund Elliott Management), which had demanded full payment of the original bonds plus interest. The Argentine government appealed the verdict up to the US Supreme Court. In June 2014, however, it refused to take the case, forcing Argentina to accept Griesa's verdict.

The New York district court ruled not only that Argentina had to pay NML Capital in full, given Griesa's interpretation of *pari passu*—a standard contractual clause that means equal treatment

among equals—but also that until it had done so, the government could not pay the bondholders who had accepted the restructuring plan. If it did pay them, it would be declared in contempt of court. When an interest payment on the debt

came due in midyear, the New York bank serving as paying agent received a deposit from the Argentine government, but did not pay the bondholders. Argentina found itself again in default. The government claimed that paying the holdouts as Griesa ordered would trigger the RUFO clause before its expiration at the end of the year, increasing the final bill exponentially. In the meantime, new litigants have joined the case, raising the bill from \$1.5 billion to \$3.5 billion.

The Argentine government tried to raise support internationally, pointing to the broader consequences of Griesa's ruling for sovereign debtors. On September 9, the United Nations General Assembly approved a resolution calling for a multilateral convention on debt restructuring by a vote of 124 to 11, with 41 abstentions. On September 26, the UN Human Rights Commission condemned the holdout investors in Argentine debt, citing the dire consequences of the ruling for the nation's economy. Meanwhile, the International Capital Market Association made a proposal for new bond contracts to include collective action

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clauses, which force restructuring on all creditors when a supermajority agrees to it. The group also proposed a clarified interpretation of the *pari passu* clause to prevent another ruling like Griesa's.

At home, the government started a “motherland or vultures” campaign, blaming economic deterioration on the hedge funds. The Argentine Congress passed a law shifting the bond payments to a domestic bank, but no bondholder would accept payments. As Central Bank reserves dwindled, domestic expectations for a currency devaluation increased, bringing the black-market price of the US dollar to almost 16 pesos, compared with the official exchange rate of about 8.5 pesos. In response, the government strengthened controls on imports and exports, which further hurt economic activity, and floated domestic debt linked to the official exchange rate, which paid very high interest rates and weakened the appetite for the black-market dollar. As a result, by November 2014 the black-market exchange rate had declined to 13 pesos, since larger buyers preferred dollar-linked bonds to black-market dollars.

## BRAND SURVIVAL

2014 was a difficult year for Argentines from the beginning. In late 2013, police strikes had led to riots in many cities of the hinterland. A heat wave—along with electricity price freezes—pushed energy demand beyond supply, generating shortages that lasted for days and provoked widespread protests in the metropolitan area of Buenos Aires. The 20 percent devaluation in the currency at the start of the year triggered a spike in inflation, which was forecast to reach 40 percent for the year, according to private-sector estimates. As the government sought to control inflation, it imposed wage ceilings for collective bargaining in the formal sector—so that real wages reversed their positive trend since the recovery of 2003. Workers in the informal sector, which constitutes up to 40 percent of the economy, fared worse. The public mood turned sour. Two-thirds of respondents disapproved of the government's management of the economy, and more than half expected their income to be eroded by inflation, according to surveys by the polling company Poliarquia.

Against this stormy background, the question of succession has become acute for the survival of Kirchnerism as a political brand. Néstor Kirchner could anoint his wife, a longtime senator, as his successor. By contrast, Fernández de Kirchner has no loyal successor with a large enough elec-

toral following to be a viable candidate in the next presidential election. Moreover, there is a legacy of difficult Peronist successions. When Perón died in office in 1974, he was succeeded by his wife and vice president, Isabel, who had no real political experience. The country descended into political unrest, which opened the door for a brutal military dictatorship that took over in 1976. After the return of democracy in 1983, the first Peronist president, Carlos Menem, was blocked in his attempt to run for a third term despite a constitutional ban on a second consecutive reelection. Menem did not trust his party's candidate, Eduardo Duhalde—his former vice president and political rival—who lost the election to Fernando de la Rúa of the Radical Civic Union (UCR), the traditional rival of the Peronist party.

De la Rúa would not be able to finish his term in office. He resigned by the end of 2001, as the country descended into a deep political and economic crisis. Since his vice president had resigned earlier, Congress selected Duhalde as provisional president in January 2002 to finish the end of the term. In the 2003 presidential election, Duhalde supported the candidacy of a little-known governor from Patagonia, Néstor Kirchner, seeking to prevent Menem from returning to power. Menem and Kirchner finished first and second, respectively, in the first round. With polls showing that he would lose a runoff decisively, Menem withdrew—leaving Kirchner the victor with less than a quarter of the vote.

Once in power, Kirchner built a strong coalition that twice elected his wife to the presidency without any need for a runoff—she obtained a plurality of more than 40 percent of the vote in 2007 and an outright majority in 2011—the two thresholds set by the constitution for avoiding a runoff. But now, facing the constitutional ban on a second consecutive reelection, Fernández de Kirchner does not have a loyal candidate to succeed her. Moreover, past experience—including Kirchner's political isolation of Duhalde after consolidating his power—underlines the importance of this choice. It is particularly meaningful if Fernández de Kirchner plans to return in 2019, following the example of her neighbors: Chile's Michelle Bachelet (who returned to the presidency in March 2014 at the head of a center-left coalition, succeeding a right-wing president) and Uruguay's Tabaré Vázquez (who won a November 2014 runoff to succeed José Mujica, a member of Vázquez's own Broad Front coalition).

Menem planned to stage a comeback for a third term in 2003. Yet not only did he fail to win the election—many of his followers climbed aboard Néstor Kirchner's bandwagon. Indeed, these Peronist politicians even supported a reversal of Menem's policies. Much like Menem at the end of his administration, Fernández de Kirchner is facing judicial investigations into her assets, part of a money-laundering case involving a millionaire businessman who once served as her husband's driver. After leaving office, both Menem and de la Rúa spent many hours testifying in court—a fate that the current president would prefer to avoid.

### JOCKEYING CONTENDERS

Within Fernández de Kirchner's political coalition—the Front for the Victory (FPV)—there are many politicians trying to position themselves for the open presidential primaries in August 2015. The strongest contender is Daniel Scioli, a former vice president under Néstor Kirchner and current governor of Buenos Aires province, which is home to almost 40 percent of the Argentine population, making it the largest electoral district. Scioli, a former powerboat racer, was introduced to politics by Menem, and is not trusted by Fernández de Kirchner. Yet he is the most popular of the potential candidates within her coalition, supported by around a quarter of the electorate. He has always been a moderate and is projecting a shift to the center-right, in contrast with the current discourse of the government. He seems the likely candidate for the FPV, though most analysts expect that he will be forced to accept many Fernández de Kirchner loyalists in the party's lists of legislative candidates (elected by closed list proportional representation), and may even have to accept one as his successor in the governorship.

The uncertainty of the next election is heightened by the fragmentation of the opposition. The UCR collapsed at the national level after the resignation of de la Rúa in 2001, though it remains a crucial electoral force at the provincial and municipal level. The vacuum created by its erosion has been occupied by many smaller parties, including a coalition of the UCR, the Socialists, and smaller center-left parties, called UNEN, which has several aspiring presidential candidates but none with a strong national following. The main focus of this coalition is on republican institutions. It denounc-

es the government for eroding the separation of powers and permissiveness toward corruption, but these slogans have not proved to be electorally effective.

Emerging from the 2001 crisis, a new party appeared on the center-right: the Republican Proposal. Its candidate, Mauricio Macri, has been the mayor of Buenos Aires since 2007. He is a former businessman who led Boca Juniors, one of the country's two dominant soccer clubs. He has tried to expand his organization beyond Buenos Aires, looking for popular candidates in the richest provinces of the hinterlands. At the national level, support for Macri's presidential candidacy has been growing to levels similar to Scioli's.

In 2013's midterm legislative elections, a new party called Renewal Front emerged around the candidacy of Sergio Massa in Buenos Aires province. Massa had served as Fernández de Kirchner's cabinet chief until 2009, when he became the FPV mayor of Tigre. However, in 2013 he broke ranks with the government and campaigned on a center-right platform for a list of legislative candidates in Buenos Aires, which won a plurality of the vote. At the time, support for his presidential candidacy in public opinion polls reached a third of respondents, but it had dropped to levels similar to those of Scioli and Macri by the end of 2014.

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*Argentine politics  
has a penchant for  
personal brands.*

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### VOTER ATTITUDES

As 2014 drew to a close, polls showed a three-way race between Massa, Macri, and Scioli, which may be decided in a runoff. Attitudes toward Kirchnerism are a good predictor of current voting intentions. Voters who support the government prefer Scioli, moderate voters who do not support or oppose the government are more inclined to vote for Massa, and those who dislike Fernández de Kirchner and her policies perceive Macri as the clearer alternative to her, according to surveys by Poliarquia.

Who are the voters supporting or opposing Kirchnerism? Support is higher among less educated voters and residents of the poor suburbs around the city of Buenos Aires, whereas opposition is more intense among older and more educated voters, and especially among those living within Buenos Aires. In other words, the traditional Peronist electoral base seems to be firmly behind Kirchnerism, thanks to social policies of

redistribution. Yet those votes are not enough to give Scioli a victory, since they amount to only a third of the electorate. Attracting independent voters is crucial for each of the three candidates.

Economic developments in the coming months will be key to the elections. Fear of new riots as the 2014 holiday season approached led the government to adopt preemptive policies, including the distribution of handouts and plans for more repressive measures—vacations for the security forces were canceled and a new law made it a crime for the police to go on strike. The government has also taken to denouncing labor unions, which started striking when real wages did not keep up with inflation.

In 2014, the currency devaluation and inflationary spike dented the president's popularity and eroded perceptions of her government's economic competence. Both inflation and crime are high on the list of voters' concerns, which explains Massa's campaign emphasis on crime and the government's proposal to revise the criminal code. However, a majority of voters prefers "change with continuity," and two-thirds still claim that their income is sufficient to meet their needs, according to Poliarquia surveys.

## UNCERTAIN LEGACY

Despite her lame-duck status and economic difficulties, Fernández de Kirchner has not lost her political creativity. In late 2014, Congress passed a new oil law and debated bills proposed by the president to regulate telecommunications and to revise the criminal and civil codes. During her years in power, Fernández de Kirchner was able to adopt ideas both from the opposition and from her own coalition in order to show her capacity to deliver effective policies. The obvious next challenge for her is to decide whether to negotiate with the "vulture" hedge funds now that

the RUFO clause has expired. She has denounced the funds, but she also denounced Repsol after nationalizing its oil assets, and later negotiated compensation with the company when seeking foreign investment for the exploitation of shale-oil deposits. She could make a similar concession on this occasion, hoping to change the mood of markets, since even a short-term credit euphoria can improve her chances of shaping the 2015 election. The opposition, so far, seems more responsive than proactive.

If Fernández de Kirchner gains the upper hand, how can she use a last spell of influence? If her goal is coming back, she may try to impose her loyalists on Scioli. Yet the Peronist ability to regroup around any Peronist in power might mean that she would be better off with a victory for the right-wing Macri. Leading the opposition against him could help her deal with an unruly Peronism, which can be both a legislative veto bloc and an instrument for social mobilization against a non-Peronist president. A Peronist such as Massa or Scioli would have an easier time winning a runoff and attracting her followers to join the bandwagon of a new Peronist coalition.

In any case, Fernández de Kirchner's economic legacy will be uncertain. Her successor will face a more difficult international and domestic environment. Declining terms of trade and a larger government debt could take a toll on the budget. Subsidies will continue to weigh on the deficit, and voters will not be happy to pay more for public services. The cost of unifying the exchange rate is likely to be a devaluation that will make exports more competitive, but will be unpopular with voters who face falling real incomes. If voters remember Fernández de Kirchner for better times, that will set a high bar for her successor—but perhaps not high enough to bring her back to power in 2019. ■