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Transcript

Realizing Argentina's Potential

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REALISING ARGENTINA'S POTENTIAL

Celia Szusterman:

Hello everybody, and welcome to Chatham House. My name is Celia Szusterman, I'm director of the Latin America Programme at the Institute for Statecraft. A few comments to make before I introduce today's speaker. The event is on the record, so though we're at Chatham House, the Chatham House Rule does not apply in this case. If you want to comment via Twitter, although I don't understand why anyone would want to do such a thing, but if you could use the hashtag #CHEvents.

Now it's my pleasure to introduce our speaker today. Dr Molano has a very long trajectory and a very important and distinguished one, both as an academic and as an analyst. He is now partner at BCP Securities – and still head of research? Right. He was telling me that he has gone back, or occasionally goes back, to the academic world, especially now at Duke University, from where he got his PhD. Dr Molano has published several books and today he is going to be talking about his latest book, *In the Land of Silver: 200 Years of Argentine Political-Economic Development* – in 196 pages and 25 minutes. Dr Molano, the floor is yours.

Walter Molano:

Thank you very much, Celia, and thank you very much, Chatham House. Thank you very much to all of you for coming on this very nice day in London to talk about Argentina, one of my favourite topics.

The book, *In the Land of Silver*, is really more of a labour of love than anything. I've been on Wall Street now for 20 years, and for the last 20 years one of the topics I've had – I've been chief economist for most of that time, with responsibilities for all of Latin America and nominally for all the emerging markets. But one of the countries I'd always get the most questions was Argentina, because it's a mystery, a quandary, this country. When you go to a place like Buenos Aires, it's so sophisticated. You see architecture like it belongs in Paris or Madrid, you see the population is also very sophisticated. I don't want to insult anybody by saying it's one of the more intelligent ones or cultured ones, but it is. It's a wonderful place. And yet at the same time it's such a dysfunctional country. So many crises and so many problems that are there – what makes it so dysfunctional?

Many Argentines have all sorts of theories for it. It's who colonized it, for example – had the British colonized Argentina, Argentina would be more like Canada and the United States and Australia, but instead they were colonized by the Spanish and so here they are. They make comments like that. They say it's because of the type of immigration – had the Anglo-Saxons and Germans gone to Argentina then it would be a completely different story, but it was the Italians, the Portuguese and the Spanish who went there. Those are all very incomplete explanations, to tell the truth.

One of the things I tried to get at is the dysfunctionality – what makes it such? To me, I think there's a new area of the social sciences that is really starting to make a lot of inroads, and that's the importance of geography. I wanted to take a look at Argentina's development from the geographical standpoint and perspective. The thing is, if we take a look at Argentina – and this is a PowerPoint presentation that I prepared, and I'm just going to highlight some of this stuff – the real objective of the Spanish colonies was the extraction of precious metals, mainly silver (although there was gold production as well). In North America it came out of the mines in Zacatecas, in Mexico, and in South America it came out of one mountain, Potosi, in what we call Bolivia today. Potosi was up here. The rest of the colonies were really a backwater, it wasn't really important. The unit of organization that was set up was the viceroyalty, with the aim and objective of increasing and maintaining control over these mines.

In order to try to get the maximum amount of rents (or income) out of the mines, in addition to charging a 20 per cent tax on the mining production, what the miners were forced to do is they had to buy all manufactured goods from registered agents. Therefore, there was embarkation of goods out of Seville, they were floated over to Cartagena, to the Isthmus of Panama, taken over by land and then re-embarked on ships. Then unloaded in either Lima or [indiscernible] or Arica and then brought by mule all the way up to Potosi. By the time they got up there the markup was about 30 times. But they had the money – they were the hedge fund managers of the 15th century, and they were more than willing to be able to spend that kind of money.

But you couldn't get everything from official agents. You also had to get things like consumable types of goods. Given the fact that Potosi is so arid and so dry and at such a high altitude, they had to get those goods from other places. Those other places became industrial farms that were set up, initially in northern Argentina and also in southern parts of Peru: Huhui, Salta, Catamarca, Tucuman, Santero – all of these really began to develop as industrial farms to provide goods to the miners.

When they saw that they were paying 30 times markup for things like books, tobacco, clothing (high-level types of clothing), then what they realized was that these producers down here also had access to a river system. This is the Parana river, that then emptied out into a huge estuary. Contraband ships, mainly English and Dutch and French, would float down the coast of South America and sell their wares. Therefore they could take those wares, float it up the river and then sell it to the miners. The markup then was only seven times, versus thirty times. So this became a win-win situation for everybody.

So much silver came down this river that this river down here became known as the River of Silver (the river Plate). So much silver came through Argentina that it became known as the Land of Silver, which is the name of Argentina. The thing is that over here there were two major rivers: the Parana and the Uruguay rivers. By putting a city right here at the entrance, you created a tollbooth. This was the birth of Buenos Aires.

Why is this important, besides some nice little fun facts? Argentina has always been a history of the struggle between Buenos Aires and the rest of the country. It is a country that is really insulated. I call it the Golden Triangle: most of the economic activity, even to this day, in Argentina is located from here – this line that goes from Buenos Aires to Mendoza – north. I think it represents something like 80 per cent of the country's population, 85 per cent of the country's GDP. This area, which really has all of the economic activity, all of the votes as well, is landlocked. On one side you have the Andes mountains, on the other side you have Brazil and Paraguay, and in the south you have the Pampas. We always think of the Pampas as being a very fertile, lush land, but the thing is it was like the American Midwest for the early colonists. It was really almost called a desert – it was arid, it was inhospitable type of territory. Plus you had a big indigenous population to the south as well. This makes the only exit of Argentina, Buenos Aires.

So therefore, this is the struggle that the country has. For the first 50 years, the country fights a civil war. At the confluence of the two rivers, you then place Buenos Aires. Buenos Aires is actually a very bad port. A much better port is Montevideo, but Montevideo is further away from the confluence of the two rivers and so wasn't as useful as a tollbooth. That tollbooth became the customs house. So for the first 50 years of the country's history, you have this fight, this ongoing struggle between the power of Buenos Aires and the power of the provinces. They fight these very vicious types of battles and wars. Each time the provinces would win but then what Buenos Aires would end up doing is picking off the individual provinces and regaining power again.

The final battle is the Battle of Pavon, where in 1853 Buenos Aires really wins the war and loses the war. What happens is you get this kind of equilibrium type situation where the provinces and Buenos Aires come up with a scheme called Co-Participation. What they agree is that all the money that comes in through the customs house is then redistributed among the provinces. Therefore, this became probably the most important and essential element for the political stability of the country. Every time you tried to play with that Co-Participation, it leads to social and political unrest.

If you take a look going forward, you still see the elements of the primacy of Buenos Aires. Here you have the railroad system – it all leads to Buenos Aires. It's an incredible situation, you see a country with such a long coastline and it has no other port. There is one other port, Bahia Blanca, which is an important industrial port but it's really not a port in the same sense as Buenos Aires. Buenos Aires has always been very jealous of that access to the sea. It's always kind of prevented the development of riverine ports in order to try to access the up market, because they always want to keep control over the customs.

I don't know if this shows it very well but again, the road system, the electricity grid. I had another one which showed the population. You always see this concentration of power in Buenos Aires. In the book I even make the argument that Peronism is just a variation of this. It's really a political reflection of the concentration of power in Buenos Aires. This is what still goes on today. Nobody exemplifies Peronism or the primacy of Buenos Aires over the rest of the provinces than the Kirchner family. Cristina Fernandez de Kirchner and her husband really did that to a very important degree. They concentrated more power – already because of the economic crisis in 2001-2002, a lot of the Co-Participation schemes had been watered down – and then centred more of the resources in Buenos Aires.

It's a very rapid introduction and presentation of the book but I wanted to lay out the scheme and see if you wanted to have more of a general discussion.