

Argentina's Lesson On How Not To Beat The Crisis

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BUENOS AIRES (Dow Jones)--Argentines, who are visited by financial meltdown more or less every 10 years, have been joking lately about a new business opportunity: crisis survival classes for Americans.

But Argentina's spiral into yet another homegrown crisis this week reminds us that the most important lesson for confronting the bigger one in the rest of the world lies in how not to commit its errors. The prospects for a sustained recovery will be undermined if the sociopolitical malaise at the heart of this country's repeated failures is allowed to take root.

Resource-blessed Argentina cannot blame misfortune for its slide from having ranked as the seventh-richest nation at the outset of the last century to 70th at the start of this one. Nor can it fault a particular policy bias - neither leftist nor conservative regimes have a monopoly on crises. Rather, Argentina's curse stems from the lack of a basic covenant between its people and their government.

As a friend in Buenos Aires once explained, "We do not view the state in the way that Americans or Europeans do - as a moral representation of society - we see the state as a mafia from which we must protect ourselves."

Ironically, this cynical view of the institution of government limits opposition leaders in their bid to rally the population against the current government's suicidal plan to nationalize \$30 billion in private pension funds. When the leader of the opposition Coalicion Civica party Elisa Carrio calls President Cristina Fernandez's move an act of looting or plunder, millions of people sincerely believe her. But the problem is that they don't expect any less.

Fernandez's pension fund announcement was the political equivalent of pulling a rabbit out a hat, a magical solution to the government's short-term fiscal challenges.

Even Argentines know magic doesn't exist, that societies must pay a cost to sustain growth. But if no one believes the state will act in their interests, everyone will seek to control the mechanism for parceling out that cost. Politics becomes a zero-sum struggle between interest groups. The result: wage-price spirals, strikes, public unrest, institutionalized tax dodging and investments with time horizons no longer than a year.

Markets inherently look beyond the individual's narrow interest, however. And in the pension funds' extermination, they see disaster: the departure of a key source of domestic liquidity and, ultimately, the death of Argentina's capital markets. In three days, the large-cap Merval index has shed 23% and the government's bonds have reached default-predicting levels last seen in the crisis of 2001-2002, which ended with the largest sovereign debt default in history.

The only hope now is that mostly government-loyalist legislators see this financial wreckage as a warning to vote down the bill. Even then, however, enormous damage will have been done.

What's worrying is that the turmoil in world markets points to a similar problem, with signs of an Argentine-like loss of confidence in governments. And it is not a run-of-the-mill disdain for politicians and taxes, but rather a more profound mistrust in the institution itself.

It is fear that's now ruling our dysfunctional markets - not just the jitters of Wall Street brokers but a society-wide fear in which the thing that terrifies us is our neighbor's fear. Driven by it, we try to beat each other into the safety of cash only to produce the worst outcome for all.

A government can halt this process, not because no other entity can raise the cash but because it is the only player in the game not facing a prisoner's dilemma. It should never be tempted by an action other than that which best protects the common interest.

But here's the catch: our government cannot convince us to stop running for the exits if we don't trust that its officers are motivated by our shared interest. This is how Argentines think.

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