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~~CONFIDENTIAL (entire text)~~REVIEW AUTHORITY: Richard Zorn, Senior
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INTELLIGENCE
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AND
RESEARCHARGENTINA: A NEW PRESIDENT AND OLD PROBLEMSSummary

Lt. Gen. (ret.) Roberto Eduardo Viola assumed the Presidency and a limited share of power on March 29. The three-man Junta of service commanders remains the primary policymaking body. Policy guidelines for Viola's three-year term have already been agreed to by the Junta and the new President.

Viola's task is complicated by his uneasy relationship with Army Commander and Junta member Lt. Gen. Leopoldo Fortunato Galtieri. Institutional pressures favoring a working accommodation between the two will probably prevent a seriously debilitating breakdown of intra-army or inter-service cohesion.

Viola has been intimately involved with policymaking for the military's National Reorganization Process since the ouster of the Peron government in March 1976. Teaming with former President Lt. Gen. (ret.) Jorge Rafael Videla, Viola has helped ensure moderate officers a predominant place in official councils. Viola is neither brilliant nor charismatic, but he is a clever, experienced politician who has proven his mettle in the difficult world of military politics.

His long-time practice of maintaining contacts with civilian political party and labor leaders has earned him a reputation as a "populist" in some military circles. He must move carefully to avoid the appearance of being too quick to make political and economic concessions to civilian pressure groups.

Continuity is the dominant note of the official line on Viola's elevation to the Presidency. There is no doubt, however, that the Process needs revitalization. In the face of growing public doubt, the armed forces need to project a sense of purpose and direction.

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Economically, the Viola team must engineer a recovery from the side effects of former Economy Minister Martinez de Hoz's anti-inflation strategy. Early indications point to maintenance of the general Martinez de Hoz economic philosophy but with shifts in emphasis. Most importantly, revitalizing domestic production will be accorded a higher priority than lowering the inflation rate.

Economic success is vital. Without it, much-advertised plans to accelerate political liberalization during Viola's term will come to naught. From the military's perspective, increasing unemployment and social discontent would provide a totally unacceptable context within which to loosen constraints on political activity.

Viola has appointed civilians to government posts, but it is not clear how the liberalization process will evolve or how rapidly. Much will depend on the role played by the Peronists, the country's largest political group.

Demands for an accounting for the thousands of disappearances that occurred during the government's anti-terrorist campaign present the military with an issue that it can neither duck nor resolve neatly. Military fears that the disclosure of information will lead to retribution against responsible officers and soldiers leave Viola little latitude on this issue.

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Viola accepted Argentina's Presidential sash on March 29 in a ceremony that received limited public attention and generated even less enthusiasm. Viola is the second occupant of the top spot since the armed forces ousted Maria Estela Martinez de Peron on March 24, 1976. Like his predecessor, President Videla, the 56-year-old Viola is a retired infantry officer and Army Commander.

The Job

Viola inherits the sash, but he will share authority with the three service commanders who constitute the Junta--Army Lt. Gen. Galtieri, Admiral Armando Lambruschini, and Air Force Brigadier Omar Domingo Rubens Graffigna. The Junta's composition changes with the expiration of a member's term as service commander.

The Junta is the primary policymaking body. Through its deliberations, the service chiefs establish broad policy guidelines within which the President is expected to conduct official business. According to one official in the President's office, the general "guidelines" for Viola's term were completed in April after six months of consultations that included Viola. On matters of extraordinary importance, especially national security issues, the Junta and the President meet in the "Military Committee."

Viola's ability to influence the Junta will depend largely upon the degree to which his policies reflect the views of the army, especially its general officers, and upon his relationship with Army Commander Galtieri. Former President Videla's success in several policy areas stemmed from the ability of his Army Commanders, Viola and Galtieri, to deliver strong service backing. When faced with a unified army position, the navy and air force may quibble, but eventually they fall into line.

Viola may not be so fortunate as Videla. Galtieri harbors political misgivings about Viola's allegedly "populist" tendencies and perhaps some personal resentment because Galtieri would like to have been designated President himself. Should Galtieri pursue a consistently obstructionist course with respect to Presidential initiatives, Viola will begin politicking amidst the army hierarchy where he retains significant support dating from the days when he controlled promotions. Intramural politics could intensify and possibly turn into a delicate and debilitating

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game with a potentially disastrous impact upon the military's ability to govern. The priority that the military attaches to maintaining the image of a coherent, if not always unified, tri-service government will discourage confrontations. So will the "guidelines" agreed to by Viola and the Junta. Nonetheless, a settling-in period featuring public disclosure of real or supposed differences is likely until Galtieri and Viola establish a mutually tolerable working relationship.

The Man

Viola has been intimately involved in both domestic and foreign policymaking since the 1976 coup, first as Army Chief of Staff and subsequently as Army Commander prior to his retirement in December 1979. The Videla-Viola tandem has been largely responsible for the predominance of the moderate or liberal-constitutionalist faction in the army and the armed forces. Its adherents generally prefer an open, pluralistic society, traditional forms of democratic, representative government, limited state intervention in the economy, identification with the West, and good, if not close, relations with the US. Through adroit manipulation of the army's retirement and assignments process to promote moderate officers, and judicious use of the army's clout as the senior service, Videla and Viola usually bested the so-called hardliners. That group includes the highly nationalistic, authoritarian military elements who make few apologies for their rejection of liberal democratic ways as anachronistic.

The hardline-moderate distinction is easily overdone. It often refers to differences of degree rather than kind on specific policy questions. Membership in the two groups varies from issue to issue. Perhaps as much as anything the labels highlight differences in temperament and approach. The Viola camp of moderates tends to be more rational and open to dialogue, less given to hypersensitive, nationalistic reactions in foreign policy matters, more aware of the difficulties inherent in moving the nation in preferred directions, and less inclined to rely upon the virtues of discipline and order and the military's ability to enforce compliance with its dictates as the keys to accomplishing the military's goals.

Viola's own record on human rights illustrates the tendency of officers to move from one camp to another depending upon the issue and circumstances. Since the 1976 coup, he has consistently preferred gradual improvement in Argentina's record of compliance with internationally accepted norms. However, as Army Chief of Staff and Commander, his human rights sensitivities were subordinated to the higher priorities that he placed upon winning the anti-terrorist struggle and maintaining armed forces unity. Furthermore, Viola has supported the continuing policy of secretly detaining and murdering known terrorist activists. Such cases now occur infrequently. Viola, however, shares the general military

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opinion that either such individuals do not deserve judicial processing or the court system remains too weak to deal adequately with terrorists.

Viola is not a charismatic figure. In the past, he has generally avoided media exposure, granting infrequent interviews and only under carefully controlled circumstances. He is, nonetheless, an accomplished politician. His manner is less rigid and formal than that of Videla, and he has already made an effort to create the image of a government more open and accessible to the public.

In his rise to become Argentina's top political general, Viola has been served well by:

- Videla's patronage: The critical step in this mutually supportive and beneficial relationship came in August 1978 when Videla pushed through Viola's appointment to succeed Videla as Army Commander. By taking the unusual step of appointing an officer who was probably opposed by the majority of the army's major generals, Videla placed Viola in a position to seek the Presidency.
- Viola's bureaucratic expertise: While Chief of Staff and Army Commander, Viola manipulated promotions, retirements, and assignments in order to ensure institutional support for both Videla's policies and his own Presidential ambitions. So successful was he that his support within the army held up during the long, 10-month (December 1979-October 1980) interim between his retirement and his designation as Videla's successor.
- His personal political style: Viola is neither flashy nor brilliant, but he has a disciplined intelligence and a moderate, rational approach to domestic and foreign policy issues. Although somewhat reserved in public, he is generally relaxed, reassuring, and convincing in personal and small group contacts. Thorough preparation, an avoidance of extreme positions, a tendency to maintain a wide range of contacts, and preference for compromise over confrontation are other hallmarks of a style that has helped Viola survive in the tough world of intra-army and inter-service politics.

The Politician

Viola's politicking throughout his military career has extended beyond his critical armed forces constituency to include a wide range of civilian political and labor leaders. Such contacts reflect both his personal style and an awareness that eventually civilian restoration will be simpler if the military receives cooperation from important civilian sectors.

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In practical political terms, Viola's contacts have provided the government with valuable informal channels of information and influence. His quiet dealings with labor leaders have helped secure short-term government successes. More importantly, they have been instrumental in inhibiting a reassertion of organized labor's traditional political and economic power under the leadership of orthodox Peronists strongly opposed to official economic policy.

Viola's military opponents view his civilian contacts as evidence of "populism"; i.e., an eagerness to curry public favor by responding to demands for changes in economic policy and rapidly restoring civilian rule. Deep suspicions about his "populist" tendencies seriously complicated Viola's designation as President. A number of army generals, supported by much of the navy's hierarchy, apparently acceded to Viola's ascendancy only after receiving guarantees that his "populist" inclinations would be held in check.

Status of the Process

Continuity has been the keynote in official characterizations of the transition to Viola. It is important to military leaders that changes at the top do not undermine the image of order and stability the armed forces are anxious to project. Emphasis has been placed upon the institutional nature of the National Reorganization Process and the continuing commitment of the armed forces to basic goals established in March 1976.

Officials have sometimes referred to Viola's Presidency as the "second stage" of the Reorganization Process. Other times, they refer to a "preinstitutional" phase, meaning a period during which the focus of attention will shift to rebuilding the nation's social and political institutions. Consistently, however, the emphasis is upon the fact that the Viola period will be simply a new stage in the same Process, and the Process will remain the responsibility of the armed forces and not of any individual.

Whatever the real or perceived value of continuity to the military, the Process unquestionably needs a shot in the arm. Major successes in eliminating the terrorist threat and recovering from the Peronist (1973-76) economic debacle are part of the past. They no longer suffice to legitimize the military's claim to power. Altered circumstances have prompted new public threat perceptions and new political and economic demands.

In a general sense, it is important for the government to convey a revitalized sense of purpose and direction. Over the short term, convincing the nation that the government knows where it is going and how to get there may be more important than satisfying the specific demands of various interest groups. To govern effectively, the military must dispel a sense of

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deja vu that appears to be spreading. The current government reminds more and more Argentines of previous military regimes that proved more adept at seizing than exercising power, more able to destroy what they did not like than to construct something new.

The public support and cooperation that would contribute to the success of official policies will not emerge if military rule is widely perceived as a bankrupt proposition unable to sustain itself over the medium term. Under such circumstances, continuity is perceived as stagnation, with the consequent forfeiture by the military of any claim to legitimacy.

Economic Health

Nowhere is the need to balance continuity with confidence-building innovation more pressing than in the economic area. In the absence of prompt decisive action to restore credibility to the military's economic strategy, major initiatives on other domestic fronts will founder, and Viola himself might be in severe trouble.

The problems facing Viola's new economic team are the legacy of former Economic Minister Martinez de Hoz's largely successful attack on inflation. In December 1978, Martinez de Hoz implemented steps that deliberately sacrificed growth to reducing a triple-digit inflation rate. The burden of the program fell upon the exchange rate, with a policy of crawling-peg devaluations that allowed devaluation to lag far behind domestic inflation. This tactic was supplemented by reductions in import duties.

The program dramatically reduced the inflation rate. From 140 percent in 1979, it fell to 87.6 percent last year. During the last half of 1980, the annualized rate was only 53 percent. The Martinez de Hoz plan, however, produced negative consequences with which Viola's advisers must deal:

--Stagnation: The combination of a drastically overvalued peso, high interest rates, and foreign import competition squeezed profit margins in industry and agriculture. GDP declined in 1980 by about 1.5 percent, capping a five-year period of virtually no growth in GDP or gross fixed investment. Official policy tried to weed out inefficient industries and promote modernization, but the Martinez de Hoz approach actually produced a transfer of resources and income away from sectors affected by the overvalued peso and foreign competition--industry (however efficient), agriculture, and agro-industry--and toward those not affected--services, the public sector, and activities protected by natural barriers and subsidies.

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- Balance of Payments: With an overvalued peso promoting a flood of imports, Argentina's external accounts deteriorated in 1980. The trade account was about \$2 billion in the red. The current account deficit reached \$4.8 billion, and for the first time since 1975, capital flows were not sufficiently positive to produce a balance-of-payments surplus. Intense pressure on exchange reserves in early 1981 reduced Central Bank holdings of gold and foreign exchange to the \$5 billion range. Although this profile is not especially alarming in a high-inflation context, the trend must be reversed.
- Fiscal Deficit: A combination of recession, faulty budget projections, and high public-sector wage increases sent the fiscal deficit soaring in 1980. Officially, it stood at 4.2 percent of GDP. Actually, it was probably over 5 percent. The problem was compounded when the desire to avoid pressure on already high interest rates led the government to finance the deficit through Treasury loans to the Central Bank; i.e., by printing more money. Prior to taking office, Viola's team had targeted the fiscal deficit as the primary problem area in the anti-inflation struggle.
- Banking: The crisis in the industrial sector and the resulting high bankruptcy rate have generated severe problems for banks with outstanding loans to troubled firms. Major Argentine firms and banks went bankrupt in 1980, and some of the nation's largest private banking and industrial concerns are in severe straits.

Upon assuming power, therefore, Viola faced intense pressure to adopt measures that would stimulate industrial and agricultural production. To the voices of these interest groups were added those of military officers wary of the potential for social unrest if continued recession produced increased unemployment. Counterpressures arose from those who argued that an expansionary course would doom the battle against inflation.

Economy and Finance Minister Lorenzo Sigaut revealed part of the new administration's economic plan in two speeches on April 1 and 24. The announced measures featured a 30 percent devaluation and pointed to:

- continuation of the 1976-81 preference for a free-market economy, with an emphasis upon opening the economy to international influences, diminishing the role of the state, and modernizing the industrial sector;
- the anti-inflation fight's subordination to the revitalization of domestic production; and

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--a shift from manipulation of the exchange rate to containment of public spending and the fiscal deficit as the chief anti-inflation tools.

The composition of Viola's economic team may be a plus for the government. With the former Economy Ministry divided into five ministries--Economy, Treasury, and Finance; Agriculture and Livestock; Trade and Maritime Affairs; Industry and Mining; and Public Works and Services--there will be no "super minister" in the Martinez de Hoz mold. Economy and Finance Minister Sigaut is philosophically close to Martinez de Hoz and will ensure continuity, with changes in emphasis. Jorge Aguado will be Minister of Agriculture, Eduardo Oxenford, Minister of Industry, and Diego Urricariet, Minister of Public Works. Aguado and Oxenford are well-known sectoral spokesmen who have roundly criticized Martinez de Hoz's policies. Urricariet can be expected to lobby for maintenance of widespread government participation in the industrial sector, something that both Martinez de Hoz and the Viola team oppose.

Clearly, there will be divided counsel within the economic cabinet. That liability, however, may be outweighed by the advantage of having recognized sectoral representatives participate in policymaking. Historically, both civilian and military governments in Argentina have received limited private sector support for their economic policies, in large part because policies are formulated without private sector consultation. With government, therefore, perceived as an adversary, interest groups frequently have undermined the implementation of policies that should have worked to their advantage. Viola's choice of economic ministers may help to undercut this syndrome.

Political Liberalization

The management of domestic politics will require another Viola balancing act. He faces, on the one hand, the expectations of civilian politicians who want to speed the process of restoration of civilian rule. They will press for evidence of Viola's reputed preference for liberalization, perhaps forcing an early test to probe for changes in the government's tolerance for political activity. On the other hand, Viola is confronted with sectors of the military who are not willing to countenance civilian rule in the foreseeable future. Many will be waiting, probably in vain, for Viola's alleged "populist" tendencies to manifest themselves through an effort to push a more liberal political climate too far, too fast.

Hesitancy, if not outright opposition, within the armed forces to liberalization and civilian restoration stems from various sources. The most authoritarian officers are simply opposed to the return of any form of civilian, democratic government. Most in this category have only vague notions of an

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alternative system and are content to perpetuate military rule indefinitely. Others accept the idea of eventual civilian rule but only after the nation's political system has been thoroughly revamped. To many this means developing guarantees against a Peronist restoration and possibly creating a political force that can be relied upon to continue policy lines established by the military. Finally, the view of many officers is strongly influenced by the pervasive fear that armed forces personnel will be forced to answer for abuses committed during the government's anti-terrorist campaign. It is highly doubtful that any serious movement toward restoration of civilian rule will occur until this possibility is neutralized to the satisfaction of the military.

More than any other factor, the role of Peronism clouds calculations about the country's political future. Although disorganized and virtually leaderless, the Peronist movement remains numerically the largest national political group.

Peronism in its pre-1976 guise is considered throughout the military as a demagogic force to be denied access to power at all costs. The most avid anti-Peronists entertain misguided notions about the demise of Peronism in the wake of its 1973-76 failure. They tend to focus upon ways in which the military government can further split and incapacitate the movement and perhaps lure former loyalists into a new party. The more practical-minded members of the military recognize that Peronism will survive both the Isabel Peron disaster and the designs of the professional Peronist baiters. This group hews to the official line, already restated by Viola, that Peronism will be treated the same as other political parties when it abandons its demagogic nature and reorganizes along lines to be prescribed in a promised political parties statute.

Assuming, therefore, that the government can control the pace of political liberalization and force compliance with the new parties law, the nation's future political panorama will depend on how Peronism is recast. Party leaders must marshal as many of the movement's disparate elements as possible in support of a redefined Peronist program. The degree to which they succeed and the political line that they carve out for Peronism will in large part determine the possibilities for other political contenders.

Early evidence of Viola's intentions with respect to political liberalization emerged with the appointment of civilians to posts in his administration. Seven of his 13 cabinet ministers and 6 new provincial governors are civilians. With one exception, these men are from minor parties that have consistently supported the military government. The exception is a former member of Argentina's second largest party, the Radical Party (Union Civica Radical--UCR), who was forced by his party to resign upon assuming his new office. Civilian politicians, including Peronists and

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Radicals, are also eagerly accepting lower level municipal and provincial appointments.

The question of whether to accept government positions is causing discord within Peronist and Radical Party leadership circles. Opponents fear that the presence of party members in official posts will lend credibility to official claims of liberalization and perhaps encourage desertions to the ranks of a new party that some military leaders envision.

How the liberalization process will unfold remains unclear. With both the armed forces and the civilian parties uncertain of how they want to proceed and economic conditions not sufficiently bright to encourage official experimentation, the likelihood is for continued reliance on ad hoc measures until the new political parties law is implemented. That may not occur until mid-1982. In the interim, the government will try to maintain the image of liberalization while concentrating on the economy and perhaps formulating a long-range political plan. The parties will probably maintain an aloof public stance while quietly talking with the military and assessing whether the government's grip on power is strong enough to necessitate a cooperative stance or weak enough to warrant a waiting posture.

In the absence of detailed official political plans, attention has been focused on the reported intentions of some military figures to create a center-right party that could inherit power from the armed forces through elections. The idea is to use the powers of incumbency to forge a coalition of small provincially based conservative parties and splinter groups that might be enticed away from the Radicals and Peronists. This is not a new idea in the annals of Argentine politics, nor is it one endowed with much potential for success.

Disappearances Issue Inhibits Liberalization

Human rights abuses no longer occur with the numbing frequency that marked the height of the anti-terrorist campaign from 1976 through 1978. The legacy of that period persists, however, particularly in the form of demands for information on the fate of the thousands who disappeared at the hands of official security personnel. Relatives and friends of the victims, working individually and through domestic and international organizations, keep the issue before the government and public.

The political parties tend to skirt the issue, contenting themselves with obligatory rhetorical statements but not pressing the government. That position is probably attributable less to callousness or cynicism than to a realization of how sensitive the matter is to the armed forces. Any attempt to render an accounting raises for the military the ominous prospect of demands that those responsible be punished. That possibility is so feared

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within the military and especially by the middle and lower level officers who had a direct hand in the counterterrorist war that Viola has no room for maneuver.

An effort at even a limited disclosure of information, perhaps through an intermediary such as the Catholic Church, would not receive Junta approval. If Viola pushed the matter, it could well cost him his job. Currently, some sort of amnesty appears to be the most likely solution. Whatever the formula, the military will not allow a return to civilian power until the issue is resolved to its satisfaction.

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