



Home Director Foreign and Commonwealth Office

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Dear John,

You might be interested to have the enclosed copy of an article in New Society of 12 January entitled "Argentina and Democracy", together with our comments. The author, David Stephen, was Special Adviser to Dr Owen when Foreign Secretary and has good contacts in Argentina, including with President Alfonsin and other leading members of the Argentine Radical Party whom he met when he worked, in the 70s, for the Latin American branch of the International Universities Exchange Fund. He has kept up his links with them and was the only Briton to receive an official invitation to the inauguration ceremonies in Buenos Aires on 10 December. He has been in touch with the Department on a number of occasions and gave his impressions from the inauguration, many of them on the lines recorded in the enclosed article.

The article is, in our view, a perceptive piece. Argentina has something of a manic depressive record: the current political euphoria is consistent with this. Another important point is that Argentina has belatedly (and unwillingly) discovered its Latin American identity instead of trying to remain pseudo-European. Towards the end of the article, Stephen mentions the Radicals' wish to cite progress over the Falklands as well as the Beagle Channel as grounds for continued cuts in military expenditure: this has become a familiar theme, but he was one of the first observers to draw attention to it.

The Foreign Secretary has read this article with interest, and suggested that you might consider showing it to the Prime Minister.

Yours ever,

Peter Ricketts

(P F Ricketts)  
Private Secretary

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# ARGENTINA AND DEMOCRACY

DAVID STEPHEN

**B**EING British in Argentina has always been hazardous. Even years before the war, a visit to a shoe-shop, and a confession that you were British, would bring the assembled shop assistants round to raise questions about the sovereignty of the Falklands or, even more ominously for the soccer-illiterate, about England's World Cup prospects.

Today any casual social contact involves instant decisions about how to play your Britishness. "Perhaps I could pretend to be Dutch," I say to myself—but then even my swarthy Latin-looking interlocutor could turn out to be of Dutch extraction and might speak the language perfectly and find me out. So, except with dangerously nationalistic-looking drunken revellers, to whom I might be prepared to pretend to be French, I take the line that I am British; that unfortunate things have happened, etcetera; but that now that the fascist junta has gone, everything is different.

Everyone agrees with that. Things *are* different now. On the night of President Alfonsín's inauguration last month, crowds thronged the streets all night. Bars and restaurants stayed open. People wished each other "Happy Democracy!" The faintly menacing character of Argentine crowds I had known in the past had gone.

My Argentine friends—who are at least as well informed on the Falklands war as any "specialist" in Britain—wanted to talk dispassionately about past events. Three Argentine journalists have just published a detailed account, collected from Argentine and American sources, of how the war and the talks were conducted at the Argentine end. The sailor in the junta, Admiral Anaya, is revealed as a pathetically narrow-minded and bigoted nationalist; the Foreign Minister, Costa Méndez, and President Galtieri as far out of their depth in high-level world power politics. The air force man, Lami Dozo, comes out as realistic and balanced; the British almost invariably—in diplomacy as in military affairs—as "professional." "A third-rate country with a first-rate diplomatic service" is one comment about Britain in the book.

Argentines want to know about Francis Pym and his relations as Foreign Secretary with the Prime Minister, about Tam Dalyell MP and his attempts to reconstruct the events (including the sinking of the *Belgrano*), which followed the launching of the Peruvian peace plan. They ask me what nuclear weapons Britain plans to install on the islands. They repeatedly ask why a few hundred families on the islands should apparently count more than 40,000 Anglo-Argentines or the Welsh-speaking sheepfarmers of Patagonia.

I try to point out that Mrs Thatcher does not head a fascist junta, and that she did not start the war. I echo President Alfonsín's brilliantly laconic reply to Mrs Thatcher's goodwill message: "Where there's a will, there's a way." "Mrs Thatcher's got a will all right," replies one Argentine friend.

What was staggering about the Alfonsín in-

auguration was the high-level presence from western Europe. Before the Falklands war, Argentina was already a member of the "Fourth World"—one of the pariah nations like Chile, South Africa, Taiwan and (to some) Israel. Other countries, like the United States under President Carter, or the French or Italians, wanted good relations. But they found it impossible to deal normally with a country with such an appalling human rights record.

Because the generals who led the 1976 coup had been careful to secure the tacit support of the Communist Party (which supported the "war against subversion" to smash the urban guerrillas), and because the Soviet Union is a major customer for Argentine grain, meat and wine exports, the communist world always softpedalled on Argentine human rights abuses. The Soviet Union and Argentina often supported each other at the United Nations Human Rights Commission. Chile's General Pinochet decided to emulate his hero, Franco, and declare a world crusade against communism. His human rights violations are better known and publicised; in fact, they are less horrendous than those of the Argentine junta.

During the war, the EEC countries supported Britain's call for economic sanctions against Argentina. France, in particular, gave important logistic help as the Task Force steamed south. Yet the French and Italian Prime Ministers came to Buenos Aires in December to welcome the return of democracy. There were high-level delegations from all other EEC countries, as well as the Prime Ministers of the two applicant nations, Spain and Portugal. From the United States, Vice-President Bush was there. There was no one from the British government at all.

Argentines are almost wholly European-descended. They care passionately about relations with Europe. Apart from the ever-present joy at the return of democracy, there was joy at this evidence of return to respectability, and above all to a European democratic fold.

But the atmosphere generally was different from the atmosphere of the Argentina I knew some years ago. Raúl Alfonsín's speeches are clear and simple. They seem to lack the bragging accent, the theatrical nationalism, which Perón brought to Argentine politics, and which a long line of would-be emulators, all the way down to Galtieri, have tried to imitate. There were no extravagant promises. Only the promise to be honest and work within the law. There was an acceptance that Argentina is a nation on its back. But the blame is located fairly and squarely with the country's political incompetence, with un-democratic juntas making a fool of the people and of the nation.

Alfonsín has grappled with the fact that—like Britain, though in a different league—Argentina is a downwardly mobile nation. "Fifth in the world in 1920—equal with Canada—fiftieth today" was one of Alfonsín's campaign themes. One of his key aims is to set Argentines thinking about the reasons

David Stephen was the only British guest at President Alfonsín's inauguration. He was invited by the President on a personal basis, having worked in Argentina on human rights in 1975-76. He is currently director of the UK Immigrants Advisory Service



Poverty in a country that should be rich. Above: Soup kitchen in the suburbs of Buenos Aires

for this extraordinary plight in a country so well-endowed with natural resources.

Until Alfonsín, much of Argentina had been mesmerised by the loss of power and prestige which took place around 1930. In that year, the great era of the Radical Party came to an end. The military marched in and began the cycle of civilian populism and authoritarian reaction which prevailed until Alfonsín's election last year. The Radical Party itself remained stunned by 1930. Until Alfonsín became its leader in 1982 and woke it up, it was largely a nostalgic party of provincial worthies seeking a return to their previous glory. (There was a Radical President for three years from 1963, but only because the main party, the Peronists, were banned by the military in that election.) For its part, Peronism offered the solutions of the Italy of the thirties for the Argentina of the forties and fifties; and, finally and disastrously, for Argentina in the seventies.

The Falklands defeat has decisively defeated the military as actors in Argentine politics. It revealed them not only to be politically inept (as everyone knew) but professionally incompetent as well. Alfonsín is quickly seizing the opportunity to recast the army in a modern professional mould, and to channel public resentment constructively into legal moves against corrupt and brutal officers.

The depth of military penetration into civilian life is constantly being revealed. There were rackets of one sort or another, involving death squads doubling as security firms with lucrative contracts, or the sale of goods removed as "booty" from the homes of subversives after raids. One of the most macabre scandals—and Alfonsín is pledged to bring everything out into the open—involves a child

adoption racket, whereby childless police and service families were given for adoption the orphan children of subversives who were "disappeared."

Argentina is a nation that loves children. Tales abound of police torturers forming loving relationships with children whose mothers and fathers they tortured to death. The new, democratic government has hinted that such children may have to be returned to their families, and the legality of their adoption re-examined.

Alfonsín took 52 per cent of the popular vote, far higher than anything his party had ever achieved in the past. To score such a vote, he must have had the support of large numbers of the traditionally Peronist working class and of many conservatives. His mandate is to re-form the political regime.

Will he be able to do so? The obstacles he faces are not the traditional military ones. There seems little doubt that the military are well and truly broken politically. The obstacles are economic.

The figures here are staggering. It is shocking enough to discover that the £1 of ten years ago is now worth about 25p. But the statistics in Argentina are of an altogether different magnitude. An Argentine economist calculated recently that the Argentine peso has been devalued by seven million per cent since 1970. Most Argentine banknotes are still leftovers from the last overhaul of the currency. You have to take four noughts off to get the right sum in today's money—so 1,000,000 pesos in the old notes is now 100 pesos, or about £3.

The fastest fall in the value of the Argentine peso (which was maintained at an artificially high value against the dollar under the military junta) took place between the end of the South Atlantic war and the coming to power of the democratic

government—in other words, in about 18 months from June 1982 until December 1983. The total devaluation in this period was about 1,700 per cent. Inflation is now running at an annual rate of about 400 per cent, though some economists are working on an estimated 600 per cent for 1983-84. As *Panorama* once said, "This is one country where it is literally cheaper to paper your walls with banknotes than with wallpaper."

The foreign debt is about 30 billion pounds—a staggering amount for a population of 28 million people, of whom about ten million are economically active. The true figure may be more, or it may be less. The Treasury minister, when asked by reporters what the exact total of Argentina's foreign debt was, replied, "I wish I knew."

Anything that responsible leader-writers said in Britain in the mid-seventies (when inflation was topping the 25 per cent mark) about the socially corrosive effect of inflation, needs to be magnified and multiplied when considering the plight of Argentina.

The question is whether, despite the overwhelming political consensus for a democratic revolution, the economy can be managed in such a way as to stabilise ordinary economic relations and transactions. Hyperinflation *à la* Weimar means that, to ordinary people, the economy seems to be simply out of control. Nothing is stable. Wage and salary earners find it totally impossible to plan or even to think ahead. The gains of a bitter labour dispute can be wiped out by inflation in less than two months. Contrived delays in the signing or payment of contracts can turn profits into losses within days.

No one doubts that it will be immensely difficult for the democratic government to bring the economy under control, and to re-establish confidence in the currency. In theory, the politics ought to come first. It should be possible, given a large measure of political consensus, to secure the con-

ditions for agreement on tough measures of economic stabilisation. These will have to involve wage restraint. But this is not a popular concept where drops in real wages of over 50 per cent were secured by the junta at the barrels of machine guns.

The international debt problem is probably more manageable. Argentines greatly dislike being in hock to the international bankers. They blame the juntas for buying too many arms. They hate being in the company of Brazil and Chile as Latin American debtor nations.

But therein may also lie a solution. Under Alfonsín, the supercilious Argentina of the past, making racist jokes against Brazil's blacks or Bolivia's Indians, has gone. The Argentines, proud of their "whiteness" and their European descent, don't like to be thought of as Latin Americans. But they now realise that they *are* Latin Americans. Alfonsín is building a foreign policy based on a new identification with the issues of Latin America.

One of his most popular campaign themes emphasised this. Europe, he said, united to defend its economic interests, and keeps out our agricultural produce. The only way to deal with the Europeans is to come together ourselves. Re-negotiation of the foreign debt, for example, would be much easier if Argentina cooperated closely with Brazil. An agreement with Chile on the disputed islands in the Beagle Channel, or with Britain on the Falklands, would help to cut the massive military budget. Resources could then go into useful and much-needed social and economic projects.

It might, just, all slip into place. A recent international opinion poll revealed that Argentina is the only country in the world where most people think 1984 will be better than 1983. Argentina is a fascinating, rich, spoilt, self-hating, generous, idealistic and manic-depressive country. It may at last have exorcised its demons (through the Falklands war), and have found a mature and sensitive leader who can cure its neurosis.

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# THE REAL WORRY ABOUT PUBLIC EXPENDITURE

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MICHAEL STEWART

A reply to Sir Douglas Hague's article last week

**L**ET me begin by agreeing with the point which Sir Douglas Hague spends the first half of his article establishing. Sir Douglas propounds "what I presumptuously call Hague's Law." The word "presumptuous" does indeed seem appropriate. Twenty-five years ago, economic forecasters in the Treasury were familiar with a concept called the "relative price effect."

Because public sector productivity, as measured, rises more slowly than private sector productivity, for any given overall rate of inflation the price of public sector output will rise relative to the price of private sector output. It follows that if the output of the public sector, in real terms, is to rise in line with the national income, public expenditure, at current prices, must rise as a proportion of the national income. Assuming that there is not to be increasing resort to deficit financing, this must

mean that taxation as a share of the national income will rise.

Thus Hague's Law is simply the relative price effect, and I hope that Sir Douglas will forgive me if I continue to refer to it as such.

Before coming on to the two major difficulties I have with Sir Douglas's article, it may be worth mentioning a minor one. This relates to the lack of ideological bias which Sir Douglas claims for himself ("Most of those to whom I put these arguments imagine that I am making an ideological point, but I am not"). There is a revealing sentence early in the article which must raise some doubts about this: "Some would put the public sector five to ten years behind the private in, for example, the use of word processors." The notion that word processors were in widespread use in the private sector five to ten years ago strikes me as pretty fanciful.