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CENTRAL INTELLIGENCE AGENCY

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ARGENTINA: PERON RETURNS

Since Peron's fall from power in 1955, no party, no leader, and no formula has succeeded in healing bitter political and social divisions, nor in raising Argentina anywhere near its very considerable economic potential. The resounding Peronist electoral victory under Hector Campora in March 1973, and Campora's resignation from office on 13 July, open the way for Peron to return to the presidency for a second effort at national reconstruction. Whether the Peronists of the seventies will rerun the mistakes and excesses of the forties and fifties, or whether they have learned from hard experience and can provide the peace and prosperity Argentines yearn for remains an open question. Argentine history almost requires a certain degree of pessimism, however.

True, the new regime possesses greater assets for success than did the string of failed governments -- especially its charismatic leader and broad popular support. But it will face a number of formidable problems. Peron must hold together the disparate and feuding elements of his movement; maintain his revolutionary mystique without becoming the captive of self-defeating xenophobia; contain both the terrorist extremists and the conservative military; and launch a belt-tightening development program in a self-indulgent society. Additionally, the 77-year old Peron adds special personal liabilities as well as strengths to the new regime.

The return of Peronism will in general have a negative effect on US-Argentine relations. The implications for the US are discussed in paragraphs 24-27.

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New Politics, Old Problems

1. The restoration of Peronism through a decisive electoral mandate changes the mold of Argentine politics -- a change now dramatized by the incipient return to the presidency of Peron himself. For a generation the military tried to forge a political system that would extinguish Peronism or at least exclude the Peronists from playing a leading role. The effort failed. Peronism, perhaps revised and matured yet symbolically intact, has returned to power and there is little the military or any other political force can do about it. The military and other traditional power brokers will try to accommodate the Peronists and will work at influencing them, but will see little prospect of controlling or overthrowing their government. In short, unless and until Peron and the Peronists manifest political bankruptcy, the ball is theirs.

2. This does not mean the Peronists will have an easy time of it. Argentina presents a challenging political arena for any government. The country is characterized by few of the problems generally associated with Latin America. The land is rich, there is sophisticated, European-oriented culture, and the society is relatively homogeneous and free of extreme economic inequities. But if spared stultifying backwardness, Argentina nonetheless suffers from accumulated frustration that gives rise to demands for governments to deliver dramatically to make up for

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past failures to achieve national greatness. And at the same time, the population is afflicted with a penchant for divisiveness and self-indulgence that induces governmental ineptitude.

3. The showing of Peron's handpicked candidate Hector Campora at the polls in March 1973, and even more, the enthusiasm expressed in July to have Peron restored to the presidency, demonstrate the public's hope that Peron and his movement will be able to perform some kind of political miracle and propel Argentina to domestic prosperity and international prestige. Can the Peronists deliver?

4. Their assets are impressive by the standards of recent Argentine governments. With their charismatic leader and their broad base of support, the Peronists could operate in a practical fashion to achieve the political peace and steady economic expansion that most Argentines seek. Still, if the climate is one of opportunity, the history is of opportunity lost. And Peron's personal rule will add special liabilities as well as strengths. Indeed, the signs of the first two months of Peronist rule point as much to negative as to positive tendencies.

Peron, Master Manipulator

5. The step-down from the presidency of Hector Campora, Peron's electoral stand-in, and the further legal maneuvering now in process make Peron in effect president-presumptive. Peron -- though 77 years

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old and in parlous health -- has the personal authority to manipulate his followers and define the course of his movement almost at will. Even with presidential power at his disposal, Campora was merely a political servant of Peron. Similarly, all important Peronist leaders -- cabinet members, agency chiefs, provincial bosses -- appear to hold positions solely at Peron's sufferance. So long as Peron is alive and reasonably effective in office there is almost no chance that any other leader can challenge him. In short, while he lives, Peron has the power to be either the salvation or the ruination of the second Peronist era.

6. Though Peron retains his ability to manipulate other leaders and to evoke mass support and energy, his 17 years of exile seem to have solidified certain negative characteristics to the point of caricature. His vanity comes across as megalomania, his opportunism appears unbridled, and he trades on unpredictability to keep everyone, including his own lieutenants, off balance. Perhaps his sense of history will motivate him to serve his country more honorably this time around, or at least to avoid past pitfalls and errors. But then his advanced age and long absence from the country are bound to cause a certain misreading of current problems and realities. For the most part he seems a weak reed against which Argentines are leaning their hopes of national renaissance.

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7. What about after Peron? Peron's death or incapacitation would launch a bitter, and perhaps bloody, power struggle for control of the movement, and by extension, of the political system. A Peronist leader who could maneuver his way to the presidency would stand a good chance to use his governmental position to take over titular control of the movement. To retain control, however, he would have to provide shrewd, even ruthless leadership in order to accommodate some challengers and quash others.

8. In any case, Peron's first choice is *not* to designate a Peronist crown prince. He wants to name Radical Party leader Ricardo Balbin as his vice president. If this option is played out, it contains a built-in constitutional crisis in the event of Peron's incapacity: Balbin would likely be unacceptable to many Peronists. Such a crisis could speed the re-emergence of the military as the country's political arbiters.

The New Government's Assets

9. Peron has the first majority government Argentina has known since the early days of his first presidency (1945-1955). The Peronists captured almost all the provincial governorships and a working majority in the legislature, a rarity not only for Argentina but for any of the multi-party systems of Latin America. Transcending the fact of party

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strength is the psychological lift that the Peronist victory brought with it. The prospect of a fresh start has broken the population's habitual cynicism and won for the new regime active public support. This palpable popular enthusiasm gives the Peronists the chance to secure and further enlarge the broad constituency they now hold.

10. The Peronists are no longer the brambles they were in the forties and fifties but rather a cross-sectional, respectable alliance in step with the national mood. Their basic cerebral impulses are moderate and pragmatic. Much of what was bold and controversial in Peronism twenty years ago now fits neatly with what has come to be expected of governments in developing countries. Peron's old third world theme and aspirant independence from the super powers, for example, constitute a widely accepted concept. Urban labor, always a main bulwark of Peronism, is no longer a revolutionary movement of the poor but an entrenched and potent interest bloc able to influence any Argentine government with or without Peron. The Peronists now include significant numbers from the middle class and from big business. Yet the Peronists also did very well among new young voters who are essentially anti-establishment in their political views. The rural and urban poor are still solidly with Peron.

11. The Peronists have the upper hand with the military, traditionally the arbiter of Argentine politics. Forced by public pressure

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to withdraw their stiff pre-inaugural conditions for stepping down, the armed forces now have little inclination to challenge the authority of the new government. . . . Despite lingering reluctance to see Peronism revived, the military leaders recognize the inescapability of the situation and are making an effort to adjust. The widespread popular disdain for the armed forces and their own sense of failure during seven years of direct rule -- to control terrorism, eliminate strikes, curb inflation, and ease economic uncertainty -- have subdued what little ambition remained within the military to hang onto the government. It will take a considerable accumulation of Peronist errors to give the military a taste for ruling again.

12. The Peronists have set out to disarm other old enemies as well. They were careful to patch old squabbles with the Roman Catholic Church and with the local Jewish community. They have sought to dissociate themselves from radical fringe elements that call themselves Peronist. They have seemed disposed to share the government with other political parties in order to minimize carping from the opposition and to spread around the responsibility for dealing with national problems.

13. Finally, Peron enjoys wide latitude on most issues, especially in the important areas of foreign and economic policies. This is partly because the vague Peronist platform of social justice, economic independence, and fraternal internationalism has pinned him to no specific

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course of action. Also, the Argentines have no set expectations about what Peron will come up with, but are disposed to give him a free hand. In foreign affairs a broad consensus seems to prevail for a more assertive Argentine projection into the international scene and there is no important group pressing for any particularist alignments. Similarly there is ample maneuvering room in economic matters as the country's economic cycle turns toward a highly favorable agricultural and export year. World food shortages offer privileged marketing opportunities similar to those Peron enjoyed in the immediate post-World War II period.

Liabilities and Uncertainties

14. The many fallen governments of the recent past are testimony to the difficulty of ruling the Argentines. Shifts in public mood are quick and frequent. The country's political and economic ills, while not debilitating, are many -- spawned by the Argentines' penchant for discord and by their small appetite for sacrifice. Various privileged groups, notably the pampered labor unions, are keenly sensitive to government policies that affect their interests and often let loose heavy pressures that undercut sensible measures before they can bear fruit. In short, Argentines have demanded much from government but have been willing to give little. Their rejection of corrective belt-tightening schemes has left a trail of meandering economic policy.

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15. Among the many uncertainties the country now faces, several are unique to Peronism. Even with Peron having stepped forward to relieve the early ambiguity of leadership, party unity remains fragile, as the groups united for electoral convenience in the Peronist Front now are vying to pull the movement in opposite directions. For one thing, the militant Peronist youth, upon whom the electoral victory was largely dependent, want to throw their weight around. Labor's expectation of a dominant role in the movement could pit it against the youth and other equally expectant and rival groups in the front. Even within the labor movement, rival Peronist factions are already at each others' throats in the important industrial city of Cordoba.

16. The competing policy requirements for consumption vs. development and for order vs. change will exacerbate factional divisions and jealousies among the sectors. In this regard, the excess symbolic baggage of Peronism could be a major source of trouble. Pragmatic instincts can be overwhelmed by the movement's visceral need to emphasize a special mystique and to create an aura of change. For example, policies aimed at placing Argentina's economic independence in bold relief could be costly, especially as the economic cycle rolls past its now favorable turn. Flashy social welfare programs and prickliness toward business could discourage domestic entrepreneurs as well as foreign investors.

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17. The most immediate problem facing the Peronists is the refusal of some terrorist groups to quit their commitment to revolutionary violence. The need rapidly to assert control over these rebels has produced an air of crisis that might prolong the government's shake-down period for an unsettling length of time. It has to cope with the revolutionary terrorists on the one side and with the conservative military -- their prime target -- on the other.* Initially, the Peronists seemed intent on dealing with the terrorists without recourse to the armed forces, through partisan commandos from their youth and labor ranks. But the military probably would field their own corps of counterterrorists in response to any softness toward the problem exhibited by the government, especially if active and retired officers continue to fall as victims. In these circumstances, a triangle of retributory violence among the Peronists, the military, and the terrorists could convert the present occasional chaotic disruptions into an endless cycle of vengeance and

* There are five major extremist groups. The People's Revolutionary Army (ERP), the most active and largest with about 500 militants, is split into several Marxist factions. The Armed Forces of Liberation (FAL) is a Marxist-Castroite group, has over 100 members. Three groups are nominally Peronist: The Peronist Armed Forces (FAP) with about 400 men; the Montoneros, a small (60-man) ultra-nationalist Catholic group; and the Revolutionary Armed Forces (FAR) (perhaps 50 members). Following the violence that attended Peron's homecoming on 20 June, the Montoneros indicated a willingness to lay down arms. The ERP and the FAP, however, signalled their intention to pursue a violent course.

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havoc. Perhaps envisioning this, Peron now appears to be making his peace with the armed forces, on whom he may call for increasing support in the battle against the terrorists.

A Clouded Perspective after Two Months of Peronist Rule

18. The first phase of the Peronist administration, with Campora as president and Peron as power behind the throne, developed in a manner that pointed up both the liabilities and assets that the Peronists have to contend with. The regime's opening moves showed a clever mixture of boldness and moderation and the Peronists seemed at first confident and united. The government dealt shrewdly with the armed forces, firmly tucking them back in the barracks while restructuring the military command in a manner that did not offend them. The Peronists read accurately the public desire for a libertarian era at home and for vigorous diplomatic activity abroad. First acts in office, though in good part a response to pressure, nevertheless served to dramatize the new politics: They moved swiftly to empty the prisons of political captives, to erase . . . limits on political freedom, and to declare an amnesty broad enough to cover wanted political criminals as well as Peron himself. They asserted a catholic diplomacy by establishing relations with Cuba, East Germany, and North Korea and promising closer links with South Africa and Arab countries.

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19. On the other hand, Campora was barely established in office before the problems associated with Peronism began to emerge. The President seemed unable or unwilling to discipline militant groups initiating actions on their own that were embarrassing to the government. Stories spread about Peron's dissatisfaction with Campora's deparment in office. The most negative development came when Peron's homecoming on 20 June degenerated into a bloody fray, apparently between Peronist factions. The obvious need for clear leadership and a strong hand probably contributed to the rapidity with which Peron has moved to formalize his *de facto* position of power.

20. Although the leadership, including Peron, feel compelled to tighten their control over dissidents and militants and probably intend to hold to a generally pragmatic, even conservative, course, they will face imposing obstacles. The way they apply their vague program for social justice, economic independence, and national reconciliation could come to depend more on the kinds of pressures and reactions each step produces at home and abroad than on any grand design. The Argentines' nationalist aspirations have many parallels with those in Mexico, and Argentina seems to want the same somewhat contradictory goals: closer control over business, but *more* business. Unlike Cuba, Peru, and Chile, Argentina has no particular foreign-owned devil affronting national dignity. (And the US, accounting for only about half the

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foreign investment, is a less conspicuous target.) The economy is already under heavy state control, with government primacy in communications, aircraft production, shipbuilding, railroads, steel, energy and petro-chemicals, and partial ownership in a wide range of other industrial and financial activities.

21. Nevertheless, the atmosphere is one of increasing nationalism. Indeed, the Peronists' first proposals indicate that the threat to the welfare of foreign investors -- despite their relative unobtrusiveness -- is real, not merely rhetorical. Legislation has been drafted to establish a system for tight control and direction of all foreign investment. Under the draft terms, certain areas are closed to foreign capital; strict limits for the repatriation of capital and remittance of profits are established; divestiture of majority foreign ownership and control is required in most cases; and management decisions for companies with only minority foreign ownership will be bound by new governmental requirements and controls. Contrary to Peron's expressed desire to attract new capital, especially from Europe, the basic principles of the draft laws are too restrictive to be attractive. Moreover, the detailed nature of the proposed regulations seems to leave little doubt that they were drawn so as to be applied vigorously, damaging though they would be to the investment climate and suicidal though they might prove for Argentina's own development aspirations.

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22. The initial emphasis on domestic programs is for austerity -- increased productivity, curbs on inflation, and a slowdown on the growth of consumption. In his first regime, however, Peron introduced the consumer bias into Argentine society, and it will be extremely difficult for him to hold the line for long against the demands from organized labor for *more*, and the pressures from the left for social programs to help the hardcore poor. It would be more in character for the Peronists to subordinate such concerns as monetary policy and the business climate to partisan social and political objectives, especially as resistance to the belt-tightening develops.

23. The kinds of pressures the government will be subjected to from the youth and other radicals are already visible. The more activist among the Peronists have occupied government offices, classrooms, hospitals, and radio stations demanding the rapid ouster of all remnants of the old regime and the imposition of Peronist directors. It is not hard to see this kind of militancy catching on and causing a series of complications for the sober efforts of the moderate Peronists. With Peron in personal command, the militants are likely to find it harder to convert the movement to their liking. Yet, even Peron will be hard pressed to effectively control and discipline all these disparate elements.

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Implications for US-Argentine Relations

24. US-Argentine relations are bound to suffer a series of setbacks under Peronism. Whether problems develop as minor or major will depend on which Peronist clique is favored by Peron in the foreign policymaking sphere. At a minimum, the US Government will be in for some oratorical buffeting as Argentina at times lines up with or tries to influence sibling "revolutionary" regimes in the hemisphere. Moreover, the course of US-Argentine relations will be sensitive to intercourse between Brazil and the US. The traditional rivalry between Argentina and Brazil, heightened in Buenos Aires by the economic boom in Brazil, has now sharpened in Brasilia because of Brazil's distrust of Peron. The Argentine dislike for what they call the US-Brazil axis has already led the Peronists to talk of a strengthened union of Spanish-American nations. Finally, US investors will suffer whichever of the new penalties Peron chooses to enforce against foreign firms in Argentina.

25. Possibly the Peronists interpret recent statements of US willingness to accept diversity in the hemisphere as meaning that Washington will tolerate a certain amount of flak from new Latin American governments in search of national identity. They may feel the need, during their early months in office, to project themselves as vigorous movers and shakers while they examine, behind the scenes, their own

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situation at home and their options abroad. In this case, they might try to signal the US that they intend to avoid extreme positions in bilateral affairs and delay implementation of the terms of nationalist legislation. Peron has already dropped hints of his own willingness to maintain cordial ties with the US as a means of helping the investment climate.

26. But even if Peron begins with friendly overtures, the US will have to be prepared for his aboutface at any time. Peron's capacity for holding to incompatible positions is legendary; indeed, inconsistency and surprise are his method of operating. Therefore, it is possible that sooner or later he will be willing to incur the costs of playing the complete antagonist to the US. He may conclude that, over time, contention in his own movement will so require, or that jumping on the anti-US bandwagon with both feet is necessary in order to stay ahead of other "independent" regimes in South America with aspirations for hemispheric and Third World leadership. In this instance, Peron might opt for full and rapid nationalization or trump up charges of US manipulation in Argentine political affairs. He might also attempt to lead other Latin American governments to oppose the US more vigorously in international forums.

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27. The US has only modest *direct* stakes in maintaining the relatively cordial relations with Argentina that characterized the period of military rule. There are no immediate national security concerns, no major official installations, no dependency on Argentine exports. But private investment, though highly diffuse, is considerable (\$1.4 billion). And the cost to our regional policies would be considerable if Buenos Aires, like Havana and Santiago, became hard-line antagonists. To a certain extent, the US can avoid contributing to an adversary relationship with Argentina over the new government's symbolic manifestation of independence. Along with forbearance, the US can also make it clear that Argentina too benefits from past bilateral ties. Peron's view of his interests vis-a-vis the US can make or break the continuance of a fruitful relationship.

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