



Devils and Princes

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Thank heaven for little girls. So said the late Maurice Chevalier, French entertainer and no stranger to South America. But I wonder what he would have had to say about the current La Niña (“the little girl!” in Spanish) which has had a profound global effect on both the production and trade of important commodities. Certainly this is not a little girl who, as the English nursery rhyme suggests, is made of sugar and spice. La Niña is a recurring weather event that manifests itself when the water temperature in the tropical Pacific ocean decreases; this has been the worst La Niña in three decades and its main effects have been felt in Africa, India, South East Asia, Australia, the United States of America and South America (mainly Colombia, Argentina and Brazil). La Niña causes either too much or too little rain to fall as a result of which the recent price of commodities such as iron ore, rubber, coal, wheat, sugar and soya beans have been affected. Year-on-year price increases in January of this year, for example, saw marked price rises for rubber (78.8%), thermal coal (42%), and iron ore (43.4%).

All of this comes at a time when demand for commodities is high. Worries persist that the phenomenon, which has brought floods in its wake (Australia and Indonesia, for example) might linger for some time. Colombia experienced the wettest rainy season on record, causing delays in the transport of coffee beans (Arabica coffee went up in price by 61.9% in the 12 months to January) and even shipping traffic through Panama’s canal was impeded earlier in the year because of exceptionally heavy rains (believed to be the country’s wettest rainy season in 200 years) and flooding.

La Niña is sister of El Niño (“the little boy”) which is produced by the same phenomenon, but in reverse; rather than decreasing, the tropical Pacific Ocean’s temperature increases, and this event usually occurs every three to seven years. It was Peruvian fishermen who originally used the term, El Niño, which is a reference to the Christ child and describes the appearance, usually about Christmas time, of a warm ocean current off the South American coast. The effects of the last El Niño were still being felt last year and the present La Niña is bringing back memories of the one between 1973-6 when severe droughts saw the world suffer its worst food crisis since the Second World War.

In Latin America, the resulting dry spells in Argentina and Southern Brazil are threatening soya bean and corn crops which account respectively for 45% and 26% of global exports. It is the last thing that Argentina needs at the moment with presidential elections taking place in October. Until his sudden death at the age of 60, following a heart attack, many assumed that former president Nestor Kirchner would be the government’s candidate to replace his widow and the current president, Cristina Fernández de Kirchner. His death could create significant problems in a fragmented political system where opposing parties each claim to be the true representatives of General Juan Peron’s legacy and his widow may face a battle for votes; but not over control of the economy because Argentine deputies have failed to pass a 2011 budget, enabling the president to rule by decree. Might La Mujer have the same disruptive effect as La Niña on Argentina’s political climate? The president must hope that her declining popularity will improve if she decides to run for a second term. Economic indicators suggest that growth will slow at a time when investor trust could not be lower even although the stock market ended last year more than 50% up on the last day of 2009.

According to a 2008 book authored by the Inter-American Development Bank entitled “Policymaking in Latin America: How Politics Shapes Policies”, Argentina suffers from a dysfunctional culture, resulting in myopic, weakly enforced – but very volatile –

policies. Paradoxically, in 1912 it became the first country in South America to introduce universal male suffrage (immigrants, however, were excluded) and it was where the cry went up “que se vayan todos” (“kick all the politicians out”) back in 2001-2002 when the economy collapsed and both the unemployed and middle-class savers came together in protest. We have seen similar disillusionment this year spreading across parts of North Africa and the Middle East.

At the beginning of the last century Argentina was one of the world's richest countries, benefiting from the demand for raw materials from Europe and the US, a period which began around 1870 and lasted right up to the First World War when the US dollar assumed the Great British Pound's former dominant position. One hundred years later it is now the US dollar which is under threat and the main driving industrial force is China, not the West, that is rapacious in its search for commodities. The concern, however, for Latin American central bankers, is currencies rather than commodities (the world's two largest economies, China and the US, readily understand this problem).

Brazil has imposed controls to staunch the inflow of capital which has pushed up its currency to the detriment of its manufacturers and has put jobs at risk. Chile, too, has done battle in the currency markets to help its exporters and Argentina's central bank is trying to keep interest rates down in an effort to sustain economic growth. Increasing the amount of money in the economy has caused a shortage of high-denomination bank notes in Argentina fuelled by the demand for them because of runaway inflation according to critics. Perhaps the US Federal Reserve can help with some paper for bank notes; it must have plenty as it perfects the art of what I call quantitative appeasing. Brazil, rather than Ben Bernanke, however, has come to the rescue and its mint is delivering a supply of 100 peso notes.

Commodity prices and their effect on currencies in the region, from a long-term perspective, is a very difficult thing to gauge considering the number of imponderables. Measures such as capital controls are short-term solutions and what the region fears most is

the boom and bust periods it has suffered from previously. But this time, with the tectonic plates of economic power moving eastward, is the demand for commodities more sustainable? It is not like the exceptional oil crisis of the 1970s which, mistakenly, gave the Mexicans and the Venezuelans a moment of distorted wealth but which in the end wreaked havoc on their economies causing Juan Pablo Pérez Alfonzo, Venezuela's oil minister in the 1960s, to declare oil “the devil's excrement”. Might the devil's work be blamed in the future over misguided faith in other commodities too?

The Devil and Niccolò Machiavelli are often spoken of in the same breath but be that as it may Brazilians ordered 18,000 copies of a new Portuguese translation of his “The Prince” in advance of a book launch last August promoting a new range of classic publications. I don't know if Brazil's Ministry of External Relations ordered any copies, but Machiavelli, born in Florence in 1469, produced his treatise on statecraft as a guide to long-lasting government at a time when Italy comprised different states suffering frequently from brutal warfare.

If she hasn't read it, The Prince is a book I would recommend to Argentina's president in this year of presidential elections. Even so, at this stage it is probably too late for her to effectively apply Machiavelli's rule that princes should be sure to delegate to others the execution of any unpopular measures and “keep in their own hands the distribution of favours”. And while her farmers could aptly plead “don't dry for me Argentina” (apologies to Sir Tim Rice) as La Niña affects crops, there are things, as the Florentine suggests, that Argentina can do to oppose fortune.

Increasing government savings (compared with imposing capital controls) can be used to build up reserves for spending on education and other forms of long term productivity, besides building a buffer for hard times too; consider Chile's copper cash cushion. It is a lesson Argentina and many countries in the region should learn if they wish to mitigate what Machiavelli described in a letter written to Lorenzo De Medici, Duke of Urbino, as the “unremitting malice of fortune”.

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