Argentina's Quarter Century Experiment with Neoliberalism: From Dictatorship to Depression

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Resumen em português:

Experimento de um quarto de século de Neoliberalismo na Argentina - da ditadura à depressão (Paul Cooney)

Depois de experimentar a pior crise econômica na sua história com a hiperinflação e a recessão de 1989, a Argentina atingiu um novo marco histórico em 2002, experimentando o maior *default* da dívida, não somente pela sua própria história, mas também pela do mundo. A experiência da Argentina traz uma avaliação relevante sobre as políticas neoliberais por duas razões. Primeiro, comparado com outros países da América Latina, só Argentina e Chile começaram experimentos neoliberais nos anos 70, ambos sob ditaduras, em vez de iniciar sua trajetória neoliberal nos anos 80.

Segundo, a Argentina foi reconhecida como um país com o mais alto padrão de vida e renda per capita da América Latina por várias décadas. Porém, depois das transformações econômicas durante um quarto de século, entrou numa crise e depressão até que mais de 50% da população esteve abaixo da linha de pobreza e 25% esteve na indigência. Durante este período e inclusive na transição para a ditadura militar em 1976, o FMI desempenhou um papel chave, apesar de apresentar-se como neutro. Para entender como a Argentina poderia mudar de um país mais desenvolvido de 'terceiro mundo' até chegar a crise de 2001 e depois entrar numa depressão em 2002, precisamos avaliar a política econômica na Argentina.durante o último quarto de século. Este trabalho tentará identificar porque a crise ocorreu naquele momento, e também comprender as mudanças subjacentes na política econômica da Argentina, que desencadearam duas ondas de desindustrialização e uma deteriorização no padrão de vida para a maioria dos argentinos.

Para interpretar a mudança para o modelo neoliberal temos que reconhecer o papel do FMI e da elite argentina e seus interesses de classe. A Argentina não só diminuiu em termos de renda ou riqueza per capita, como também, agora, tem uma classe média muita reduzida e com muito mais desigualdade do que já existiu em toda história da Argentina.

Este trabalho avaliará primeiro o período que precedeu a explosão da crise no fim de dezembro de 2001. Segundo, o trabalho considera o período anterior da ditadura de 1976 e as exigências doFMI com a junta militar, para a implementação das políticas neoliberais. Depois disso, as políticas econômicas mais heterodoxas de Alfonsín são avaliadas, seguindo para a análise da hiperinflação, a qual levou a aumento de apoio a Menem e o eventual Plano de Conversibilidade, estabelecendo a paridade entre o dólar e o peso argentino.Depois, avaliamos o período dos anos 90 com as administrações de Menem e De la Rua, e como chegou à crise de 2001. Durante todo o trabalho analisei criticamente o papel da elite argentina e o FMI durante o último quarto de século, como também, os resultados dos anos mais recentes. Por último, estão apresentados e avaliados os últimos desenvolvimentos econômicos e políticos desde a crise de 2001.

Argentina's Quarter Century Experiment with Neoliberalism:
From Dictatorship to Depression (Paul Cooney)

After experiencing the worst economic crisis in its history with the hyperinflation and recession of 1989, Argentina has now set a new historical mark not only for its own history but for the world's, having experienced the largest debt default by any country ever in 2002. The experience of Argentina provides a rather sobering and relevant evaluation of neoliberal policies for two reasons. In Latin America, only Argentina and Chile began the neoliberal experiment in the 1970s, both under military dictatorships, compared to many other countries that did not embark on the neoliberal trajectory till the 1980s. Secondly, Argentina was recognized as having the highest standard of living and income per capita in Latin America for several decades but through the economic transformations of the last quarter century it entered a crisis and a depression such that over 50% of the population was living below the official poverty line and over 25% in a state of indigence. Throughout this period, and including the transition to the military dictatorship of 1976, the IMF has been instrumental, despite attempts to appear neutral or accomodating.

In order to understand how Argentina could go from one of the most 'developed' countries of the 'Thrid World', and a poster child for neoliberalism, to reach the crisis of 2001 and enter a depression in 2002 requires an evaluation of the last quarter century of economic policies in Argentina. This paper will attempt to identify why the crisis occurred when it did, but also to understand how the underlying shifts in the political economy of Argentina over more than two decades led to two waves of deindustrialization and a decline in the standard of living for the majority of Argentines. In order to understand the shift toward a neoliberal model the role of the Argentine elite and the IMF, and their class interests need to be recognized. Not only has Argentina declined in terms of income or wealth per capita, it has a much smaller 'middle class' and much greater inequality than previously in its history.

This paper will first evaluate the period preceding the outbreak of the crisis at the end of December 2001. Secondly the paper looks back to the period of the dictatorship of 1976 and the drive by the IMF and the military junta for the implementation of neoliberal policies. After this, the more heterodox economic policies of Alfonsín are considered, followed by the crisis of hyperinflation. The latter led to the support for Menem and the eventual 'Convertibility Plan', pegging the peso to the US dollar. The period of the 1990s under the Menem and De la Rua administrations are then examined as they led up to the crisis of 2001. Throughout the paper, the role of the Argentine elite and the IMF over the last quarter century are critically assessed, but the track record of the latter in recent years is also considered. Lastly, the recent economic and political developments since the crisis are presented and evaluated.

Sub-área: Economia Política, Capitalismo e Socialismo
08. Capitalsimo Contemporaneo e Socialismo

I. INTRODUCTION

After experiencing the worst economic crisis in its history with the hyperinflation and recession of 1989, Argentina has now set a new historical mark not only for its own history but for the world's, having experienced the largest debt default by any country ever in 2002.[1] The experience of Argentina provides a rather sobering evaluation of neoliberal policies for two reasons. In Latin America, only Argentina and Chile began the neoliberal experiment in the 1970s, both under military dictatorships, compared to many other countries that did not embark on the neoliberal trajectory until the 1980s. Secondly, Argentina was recognized as having the highest standard of living and income per capita in Latin America for several decades but as a result of neoliberal policies implemented through the last quarter century, it entered a depression such that over 50% of the population was living below the official poverty line, and almost one quarter of all Argentines were in a state of indigence.

In order to understand how Argentina could go from one of the most 'developed' countries of the 'Third World', and a poster child for neoliberalism, to reach the crisis of 2001 and enter a depression in 2002 requires an historical perspective of the last quarter century in Argentina. This paper will attempt to identify why the crisis occurred when it did, but also to understand how the underlying shifts in the political economy of Argentina over more than two decades led to the possibility of such a crisis.

Despite mainstream economists being in denial, the drive toward a neoliberal economic model, as advocated by both the Argentine elite and the IMF, has had a clear class bias and thus led to a marked decline in the standard of living for the majority of Argentines. The particular type of neoliberalism which Argentina pursued, one which promoted agro-industry and finance at the expense of manufacturing, produced two waves of deindustrialization and therefore a greater vulnerability of the Argentine economy to globalization in the 1990s.

This paper will first evaluate the period preceding the outbreak of the crisis at the end of December 2001. Second, the paper then looks back to the period of the dictatorship of 1976 and the drive by the IMF and the military junta for the implementation of neoliberal policies. Third, the transition to democracy and the more heterodox economic policies of Alfonsín are considered, followed by the crisis of

hyperinflation. The latter led to the support for Menem and the eventual 'Convertibility Plan', pegging the peso to the US dollar. The period of the 1990s under the Menem and De la Rua administrations are then examined as they led up to the crisis of 2001. The paper then evaluates the overall impact of a quarter century of neoliberal policies on Argentine workers. This is followed by an examination of how the foreign debt doubled in just eight years, leading to the fiscal crisis of 2001, and in particular the role of the IMF. Throughout the paper, the role of the Argentine elite and the IMF over the last quarter century is addressed but the track record of the latter in recent years is evaluated given the string of financial crises worldwide. Lastly, the recent economic and political developments in Argentina as it struggles out of the depression of 2002 are presented and evaluated.

II. ARGENTINA AT THE ABYSS

When Fernando De la Rúa took office as president in December 1999, Argentina had already been experiencing a recession for more than a year. Within his first year, he was confronted with an even more difficult task of staving off the impending economic crisis due to a range of factors including a growing trade deficit, in part caused by the currency board[2] but also the declining prices in world markets for agricultural goods, and the foreign debt which was spiraling out of control.

There had been problems in the 3rd Quarter of 2000 as bond rates soared. For better or for worse, the IMF stepped in with an aid package. In early 2001, President De la Rúa reshuffled his cabinet, bringing back Domingo Cavallo[3] as economy minister. The arrival of Mr. Cavallo at first cheered investors, given his pro-business stance. However, he tried a range of 'unorthodox' policies but to no avail. Through 2001, Argentina's reserves continued to decline as the recession reached its third year.

By the middle of 2001, unemployment was approaching 20% and this was a major factor in the continued expansion of the movement of unemployed workers or *piqueteros*[4], in the provinces and also in Buenos Aires. The *piqueteros* were blocking highways in order to prevent goods from getting to Buenos Aires, be it for local consumption or exports. They were demanding jobs, as many had been laid off due to privatizations, but also due to the recession. There had also been several incidents of

government office buildings being burned down in provinces where public employees had been laid off or not paid for months. As the year advanced, the pending crisis loomed, much of industry was shut down, unemployment was over 25% and over half of the population was below the poverty line (INDEC, 2003). Then came a run on the banks, the declining reserves took another drop and so Cavallo became desperate and instituted the *corralito*[5], restricting people's access to their bank accounts and thus alienating almost everyone, but especially the Argentine middle class. The last straw was when the IMF reneged on a payment of US $1.3 billion at the beginning of December 2001. This state of affairs led to the spontaneous street protests of the *cacerolazos* (the banging of pots and pans) and an increase in the highway blockades of the *piquetero* movement in Buenos Aires and across the country. By mid December, there had been a general strike and rioting had occurred throughout Argentina as popular anger mounted against both Cavallo and President De la Rúa. On December 19th, in spite of the declared state of siege, the Plaza de Mayo in Buenos Aires was the culmination of the popular insurrection and after just ten hours both Cavallo and De la Rúa were forced to resign, and escaping in a helicopter in the wee hours of December 20th. The first interim president, Rodriguez Saa, tried to go back on a promise not to run in the next Presidential election, thus alienating many in the Peronist party. The combination of street protests and infighting within the Peronist party led to his quick demise. After a crazy two weeks of rioting, looting and protest, there were a total of 32 people killed, and five different presidents.

When the dust cleared, Eduardo Duhalde was the provisional president and despite some initial populist promises about breaking from the neoliberal model, he effectively served as the caretaker while Argentina defaulted on its foreign debt, devalued the peso to a fourth of its previous value and entered into a full-fledged depression. During 2002, GNP declined by over 11 % and at one point sixty percent of the population was living below the official poverty line (INDEC, 2003). Duhalde succeeded in weathering the storm and preventing another acute social crisis and thus keeping the peace until Argentina signed an 'interim' agreement with the IMF in January 2003 and lasted until Nestor Kirchner became president in May of 2003.

This has been a brief summary of the unfolding of events during the period leading up to the crisis of December 2001 and the depression that ensued in 2002. In

order to explain this crisis one must look beyond its specific details and take an historical view, especially regarding the economic policies that have been pursued during the last quarter century in Argentina.

III. THE DICTATORSHIP OF THE 70S, THE IMF AND THE SHIFT TO NEOLIBERALISM

In 1975-76, as Argentina was enduring a period of chaos and uncertainty, the government of Isabel Perón was negotiating for an IMF payment as reserves were in need of replenishment given the country's economic crisis. The IMF would not come through with a previously arranged tranche despite efforts and several trips by her economic team to Washington. However, just one week after the military coup of March 1976, and without having to negotiate or send a delegation, the Argentine junta was able to obtain over US $100 million dollars from the IMF. In addition to this show of support for a government willing to implement and impose neoliberal policies, the IMF came through with the largest loan (US $260 million dollars) ever to a Latin American country, just five months later (Schvarzer, 1986: 45-46).

During the period between 1930 and 1976, Argentina, as a number of other countries, pursued the economic policies known as import substitution industrialization (ISI). This approach is associated with policies designed to protect nascent industry through tariffs, and other trade or investment regulations, and diversifying into both light and heavy manufacturing, as opposed to just exporting agricultural products. From the middle of the 1960s, Argentina was experiencing a new phenomena- the growth of industrial manufacturing exports. In fact they had reached over two thirds of all exports in 1973 (Kosacoff and Azpiazu, 1989: 109). However, when the military junta came to power in March of 1976, the new government had a change of plans and the importance of Argentine industry would never be the same. This was evident in the economic policies implemented by the junta with its new Economics Minister, Martinez de Hoz. The dictatorship carried out a transformation called the Process of National Reorganization (*El Proceso de Reorganización Nacional*), which was a reactionary political and economic agenda.

The junta intended to make a shift away from manufacturing industry and towards agro-industry. They argued that the rent from agriculture, primarily beef and grains, was no longer going to be used as a subsidy for industry, but rather for the development of other value-added agro-industry. There are three key factors which explain this approach by the junta. One represented a shift toward agro-industry as opposed to industrial manufacturing. The junta was being more supportive of the landowning oligarchy as opposed to manufacturing industry. At an institutional level, this was reflected in the government allying itself more with the Argentine Rural Society (*Sociedad Rural Argentina*, SRA), which represents the landowning oligarchy, than with the Industrial Union of Argentina (*Union Industrial de Argentina*, UIA), which represents the industrialists.

The second factor reflected the junta's obsession with stamping out dissent in general, but especially among organized workers. Most notably was the memory of strikes in Rosario and Cordoba in the late 1960s and early 1970s and especially, the *Cordobazo* in 1969.[6] The junta was committed to eliminating the industrial park in Argentina because it was seen as facilitating labor unrest.

The third factor is accommodating multinational capital, since transnational corporations (TNCs) would benefit if Argentina concentrated on producing primary products and agro-industry, thus leaving automobile, steel and heavy manufacturing to imports or from local production by the TNCs.[7]

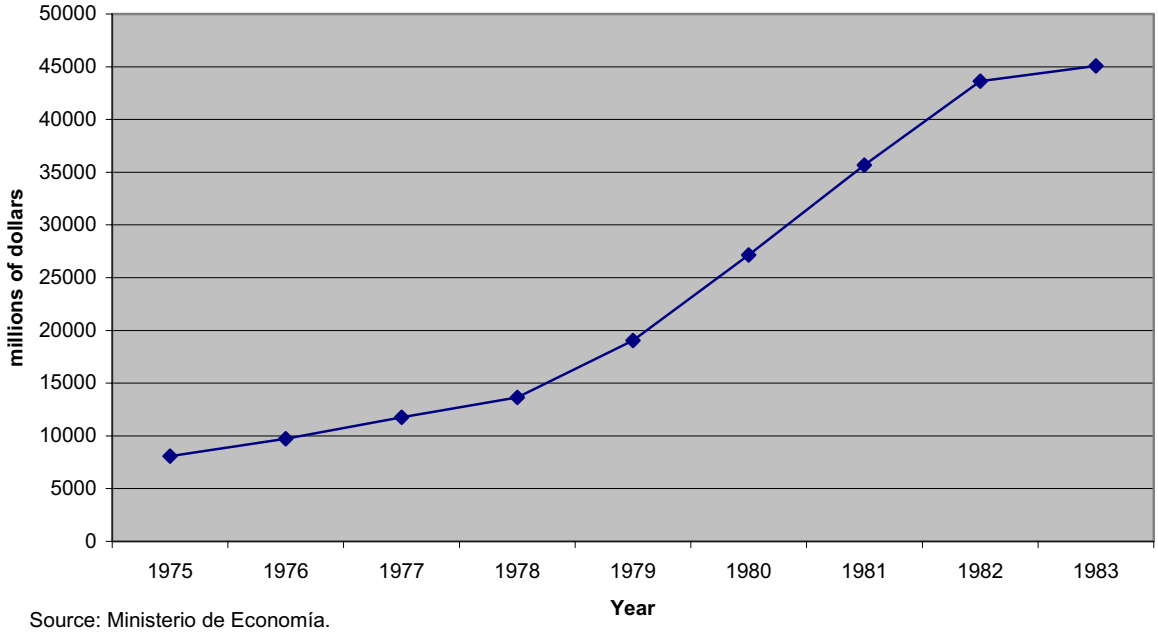
The economic and social policies pursued by the military government had a very negative impact on Argentine industry, especially manufacturing. Between 1975 and 1981, the manufacturing share of the GDP declined from 29 to 22%, industrial employment declined by more than 36% and industrial production as a whole went down by 17% (See Smith, 1989: 251-253). The result of the neoliberal policies of the junta clearly began the first wave of deindustrialization in Argentina, which would not seem to be in the best interests of the Argentine bourgeoisie. However, that is based on the idea that the interests of the Argentine bourgeoisie should be tied to the expansion of Argentine industrial capital, not only financial and agro-industrial capital. The reality of Argentina, is that all three of these interests often coincide at an individual level among the most powerful elite, e.g., Bunge & Born, Macri, Perez Companc, etc.[8]

One of the most important neoliberal policies that Martinez de Hoz implemented was the Financial Reform of 1977 (*Reforma Financiera de 1977*) which abolished control of interest rates, and removed many financial regulations regarding credit and investment. This had been strongly pushed by Argentina's financial elite, referred to in Argentina as *la patria financiera*[9] and also supported by the IMF. This financial reform greatly facilitated the shift from industry to finance, promoted financial speculation and created an atmosphere conducive to lax financial controls and capital flight. In fact, during the military dictatorship there was an estimated $US 28 billion in capital flight (Minsburg, 1987: 102). Another telling example of both the lack of financial controls and the impunity on the part of the junta, was when during the negotiations with the IMF for a standby agreement, $US 10 billion simply vanished from the records out of a total of $US 40 billion debt (Smith, 1989: 249). This is also revealing with regards to the IMF's willingness to look the other way with a military government pursuing the neoliberal model, however corrupt they may be. Such an oversight would have produced a scandal with the Alfonsín government, just a couple of years later.

During the mid to late 1970s, the IMF and other international financial institutions were promoting countries to take on debt due to excess petrodollars on the world market. It is not surprising that this is the period when Argentina's debt first began to increase significantly, from $US 9.7 billion dollars in 1976 to $US 45 billion dollars in 1983. In Figure 1 below, one can see a sharp increase in the growth of debt around 1978, resulting in a 363% increase of foreign debt between 1976 and 1983, the years of the military dictatorship. Although both Brazil and Mexico, like Argentina, saw their foreign debt jump up, increasing by 3.5 and 4 times respectively, this debt led to a growth and expansion of manufacturing in contrast to Argentina's deindustrialization. Though all three countries had crises in the early 1980s, Brazil and Mexico had crises of growth and expansion, while Argentina had a crisis of shrinkage. It should be pointed out that part of Argentina's debt increase was due to a drastic financial reform implemented by Domingo Cavallo, then president of the Central Bank. Within just six months, 40% of the private sector's debt (~$US 6 billion dollars) was converted to public debt (Smith, 1989: 247).

In addition to the process of deindustrialization and the negative impact on manufacturing, the financial reform and other neoliberal economic policies of the

Figure 1: Argentina's Foreign Debt (1975-1983)



Source: Ministerio de Economía.

dictatorship led to much greater economic instability and three-digit inflation in 1982. At a more concrete level, just as in 2001, Argentina was experiencing a fiscal crisis of the state, but from a long term view, this crisis reflected the problems associated with a shift from ISI to a neoliberal accumulation strategy, an economy more dependent on finance and agro-industry than on the manufacturing base of the past. In addition, the working classes of Argentina anticipated a clear improvement economically, regaining some of the ground lost during the repressive military regime, however, the capitalist class and the *patria financiera* had no intention on relinquishing their gains of recent years. This is the context that Alfonsín inherited as Argentina transitioned to democracy.

IV. THE TRANSITION TO DEMOCRACY AND HYPERINFLATION- THE ALFONSÍN PERIOD

Thus Alfonsín was expected to help right the wrongs of the previous military government and improve Argentina's ailing economy. A major problem was the different expectations by competing social classes regarding the future of the economy. After years of social exclusion, the working classes were demanding an improvement of real wages

having experienced a major decline in their purchasing power, such that it was below that of the decade of the 1960s Although GDP in 1983 was roughly equivalent to that of 1970, Argentina's population had grown by 22%, implying a significant deterioration in per capita income. From capital's viewpoint, fixed investment had fallen more than 30 percent compared to the average of the 1970s, ironically much of this was due to the neoliberal model, which many of them advocated.

The Alfonsín government, feeling confident after the elections, attempted to be more independent from both domestic and outside forces and to forge ahead with an economic solution without having to make concessions to the Peronists or other political parties, or other established institutions, such as the SRA, UIA or CGT.[10] Thus, Alfonsín and his economics' minister, Ricardo Grinspun chose to break from the strict neoliberal orthodox approach and pursue an heterodox variant which would reinvigorate the economy and also allow for a more equitable distribution of income. This was in spite of and counter to the IMF's calls for economic orthodoxy- growth first, followed by redistribution.

In 1984, Alfonsín took the bold step of suspending all debt payments on the principal and systematically delaying interest payments. The battle of economic policy with the IMF continued through the year, but given the balance of payments crisis, the new government was forced to shift from brinkmanship to conciliation and sign a traditional orthodox adjustment plan with the IMF in September 1984. The resulting IMF austerity plan proscribed real wage increases, eliminated price controls and forced Argentina to liberalize trade restrictions.

In 1985, the annual inflation rate had reached 1000%, but after introducing the Austral Plan with the new economics minister, Juan Sourrouille, Argentina finally had a reprieve, as monthly inflation rates dropped from 30 to below 5%. Nevertheless, over the next couple of years, inflation continued to be a growing problem and eventually escalated into the crisis of hyperinflation of 1989. Throughout Alfonsín's tenure, there had been a rocky relationship with the IMF, as his administration was more willing to assert their preferred set of policies. However, given the continued problems of a growing debt burden and galloping inflation, time after time, the Alfonsín government had to succumb to the demands of the IMF for neoliberal auesterity plans. Although, Argentina

often did not follow these plans to the letter, the net result was more a set of orthodox policies, rather than heterodox ones, as the government originally advocated.

This resulted in a greater continuity of neoliberal economic policies as pursued by the dictatorship and Menem. The Alfonsín administration began with the intention of pursuing economic growth with a more equitable distribution of income. However, through the course of the 1980s, due to pressure from both the local elites, such as the SRA and UIA, as well as the IMF, they came to pursue 'anti-inflationary' poliices that prevented increases in real wages, not just nominal wages. Alfonsín also attempted to control workers wage demands using the discourse of democratization of the unions as a means of weakening unions. On the one hand, there is an economic incentive related to wage demands, but there were also political motivations, given the strong association between the CGT and the Peronist party.[11]

Dinerstein presents an analysis of how economic policies even under a democratic government can constitute a weapon of repression against the working classes of a country. She argues that

"The transition to democracy was only the political expression of the *other* transition: from economic instability to the legitimisation of the terrorism of money in the form of *stability* in the 1990s. The struggle for and against the legitimisation of the terrorism of money over the political took the form of hyperinflation. Hyperinflation became the means of both the valorisation of capital and the repression of labour. Faced with the burden of the interests of the external debt, in 1989 the government's impossible aim of simultaneously satisfying social demands and subjugating itself to the mandate of the IMF, the World Bank and its creditors asserted itself as 'distrust' in the national currency and produced a financial crises" (Dinerstein, 2003a: 12-13).

At the height of the crisis in 1989 the rate of inflation reached 4-digits (4923%), the percentage of Argentines living below the poverty line was approaching 50% and there was overall instability (INDEC, 2003). The result was a period of chaos, with looting, police repression, and fear of a social rebellion. Instead of accommodating Alfonsín with an interim loan till the president-elect, Carlos Menem took office, the IMF pushed for Alfonsín to resign before completing his term in office. The climate of

economic instability and particularly, hyperinflation, produced an atmosphere that allowed Menem to gain the support to further and deepen the neoliberal process of economic transformation begun in 1976.

V. NEOLIBERALISM UNDER MENEM AND THE IMPACT OF GLOBALIZATION[12]

In March 1991, the Menem administration implemented an economic plan known as the *Plan Cavallo*, named after the economics minister, Domingo Cavallo. This plan bore striking resemblance to that of the economic policies pursued by the dictatorship and Martinez de Hoz back in the 1970s. This is because they were both fundamentally neoliberal, as reflected by the three main elements being: financial deregulation, reform of the state, and trade liberalization, and the general pro-capital bias. The Menem administration was committed to an accumulation model with its base in finance and agroindustry, sacrificing manufacturing and thus producing a second wave of deindustrialization.

Convertibility and Financial Reforms

The one aspect of the *Plan Cavallo* which was not based on neoliberal ideology was the pegging of the peso to the dollar at a rate of one-to-one, commonly referred to as *convertibilidad* or convertibility.[13] Although inconsistent with the perspective of *laissez-faire* orthodoxy, convertibility was nevertheless accepted, if not supported by the IMF and Washington, right up until 1998.[14] This was seen as a shrewd and successful ploy, by encouraging Argentines to bring their US dollars 'out of the mattresses' and to trust the national currency and banks again. Though risky, it turned out to be extremely effective in ending the hyperinflation of the late 80s and early 90s. There was finally a sense of stability which had great psychological appeal after the country had endured a period of hyperinflation, as discussed above. The country was desperate for some level of economic stability and thus willing to see if the neoliberal *Plan Cavallo* could work.

The pegging of the peso to the dollar, also known as a currency board, was a clear advantage for foreign investors that did not have to worry about instability or sudden devaluations causing major losses. There was an increased confidence in the Argentine bond market, as well as in the economy as a whole. The down side of convertibility was

that Argentine goods were more expensive on the world market and imports were cheaper for Argentines, and thus contributed to a worsening trade deficit. The impact of convertibility on imports and exports is further discussed in the section on trade liberalization below.

One of the three main neoliberal policies is financial deregulation, implying the elimination of restrictions on foreign investment, and also on the outflow or repatriation of profits, royalties, etc. This clearly facilitated the flight of capital, be it foreign or domestic. Basualdo and Kulfas have estimated total capital flight to be US$ 115 billion since 1980 and in a graph they show a very clear correlation with the expansion of the foreign debt and interest payments (Basualdo, 2001: 37). The problem of capital flight is a clear example of how financial deregulation leads to insufficient control of capital movement for many countries, not just Argentina. Financial deregulation produces an environment, which is much more prone to crisis when a certain degree of confidence by international investors is lost.

Privatizations of Public Enterprises

Another of the three pillars of neoliberalism, privatizations, or the selling off of public enterprises, played a significant economic role during the 1990s in Argentina. Between 1991-1998, Argentina sold off a total of US $23 billion worth of public enterprises (Sevares, 2002: 229), though the majority of which was sold off between 1991-1994. Although this improved the fiscal balance for those years, this was partially offset due to the debt equity swaps agreed to by the Menem administration. However, this meant that after 1994 there was not only nothing left to sell, but also these resources that could have been a steady source of revenue, such as, the national oil company (YPF)[15], would be providing no future income, other than taxes.[16] Besides YPF, the Argentine government had sold off the national airline, the electric and gas utilities, water, the railroads and many other public enterprises.

Another major concern was the manner in which the privatization process took place, often lacking transparency and clearly favoring the transnational corporations and local conglomerates, as evidenced by the majority of the state enterprises being sold below their worth or involving debt equity swaps (Azpiazu and Schorr, 2004). Although the drive toward privatizations was coming from the Justicialista or Peronist party, the

IMF provided a significant external push by strongly advocating these policies and supporting TNCs in subsequent negotiations.[17]

It was during the military dictatorship of 1976, when public enterprises were deliberately undermined, being disproportionately impacted by budget cuts. There had been a growing need for the renovation of physical capital that did not take place, 'arguably' because of the level of the State's indebtedness. Changes in management occurred on a regular basis because of political shifts causing a lack of continuity in terms of management and leadership and therefore their ability to serve the public declined and the quality of service worsened. Such an impact is independent of being a public or private enterprise. Instead of privatizing public enterprises, the junta or the Menem government could have made their functioning a greater priority, and given them the infrastructure necessary to perform well, as with any private firm providing services.

Privatizations of state enterprises had a rather significant impact on unemployment in Argentina, especially in the provinces. A total of over 100,000 workers were laid off in 1991-92 (Azpiazu, 2002). This increase in unemployment had the greatest impact in the poorer provinces. It should come as no surprise that after the wave of privatizations, these provinces were having greater problems with their budgets. Additional impacts of neoliberal policies on workers is discussed below in section VI.

Privatization of Social Security

Another neoliberal policy supported by, but not as strongly demanded by the IMF, is the privatization of social security programs. Unfortunately for Argentina, the Menem administration, with strong support from the World Bank, partially privatized its Social Security system in 1994. Payroll taxes that had previously gone to the government to support the Social Security system were instead diverted to private accounts. This resulted in a significant reduction in tax revenue. According to the IMF (IMF, 1998) the reduction of revenues corresponded to roughly 1.0 percent of annual GDP, which would result in a total of roughly US$ 18 billion for the years 1994-2000.[18] However, other research has included additional revenue shifts and therefore generate estimates of approximately US$ 52 billion for the lack of revenue received by the government between 1994 and 2000 (See Basualdo, 2000: 22 and Damill, Frenkel, Juvenal, 2004: 303).

At the time, the Menem administration tried to ameliorate concerns for the lack of revenue by arguing that the revenues obtained by the privatization of public enterprises would help out the transition period of privatizing Social Security. The reality was that much of the revenue anticipated by the privatizations was lost through debt equity swaps and thus Argentina had to borrow in order to make up for the lost revenue. This was not an ideal time to have to increase borrowing as the US Federal Reserve increased interest rates in February 1994, and after that was the string of financial crises- Mexico, South East Asia, Russia, and Brazil.

It is ironic that one of the policies pushed by the IMF, namely privatization of Social Security, was one of the contirubuting factors to the fiscal crisis Argentina was experiencing during 2001, and when needing a loan, the IMF forced them to cut the benefits in its traditional Social Security program by 13 percent in September of 2001. It is yet another example of how the neoliberal policies pushed by the IMF continue to be against the interests of the country they are imposed upon.

Trade Liberalization

Since the military junta came to power in 1976, there has been a drive for trade liberalization, through the reduction of tariffs, and elimination of non-tariff barriers. These tendencies were extended and deepened as of 1990 under the Menem administration. The tariff structure established as of 1991 was 22% for consumer goods, 15% for inputs and 5% for capital or intermediate goods not produced in Argentina. The goals were initially 20, 10 and 0, respectively in 1991, as advocated by the IMF and GATT (General Agreement on Trade and Tariffs). The objective of reducing the maximum tariff in a period of 4 years to 20% and eliminating non-tariff barriers, such as quotas, licenses and import restrictions, was practically achieved around the beginning of 1991. Other trade barriers were completely removed with the exception of restrictions on auto imports, which not coincidentally, was by far the most dynamic sector during the 1990s[19].

The result of these trade policies meant more problems for local industry, which now had to compete with much cheaper imports, and no longer with the protection of tariffs, etc. The lowering of tariffs and elimination of trade regulations made the Argentine economy more vulnerable to the cold shock of global competition. Between 1992 and 1999, Argentina had a trade deficit in every year except for 1995 and 1996, when the 'tequila effect' of the Mexican peso crisis forced Argentina to keep imports in line with exports, as shown in Table 1 below

Table 1- Argentina's Trade Balance (millions of US$)

Year	Exports	Imports	Net Exports
1991	11,978	8,275	3,703
1992	12,235	14,872	-2,637
1993	13,118	16,784	-3,666
1994	15,839	21,590	-5,751
1995	20,963	20,122	841
1996	23,811	23,762	49
1997	26,431	30,450	-4,019
1998	26,434	31,377	-4,944
1999	23,309	25,508	-2,200
Total	**174,117**	**192,740**	**-18,623**

Source: INDEC, 2005

Despite the frequently used argument that the currency board prevented Argentina's exports from growing, they basically doubled between the early 1990s and late 1990s. The problem had more to do with the increase of imports, which grew from 4 to 8 billion in the early 1990s to over 30 billion by 1997-1998. This consistent and substantial imbalance between exports and imports resulted in an accumulated trade deficit of over $US 18 billion between 1991 and 1999 as seen above (INDEC, 2005). This is arguably due to the combination of trade liberalization and the currency board, not just convertibility. In the section below it becomes evident how the shift away from manufacturing toward agro-industry through two waves of deindustrialization led to the increasing vulnerability of the Argentine economy.

Deindustrialization Revisited

As mentioned above, prior to 1976, industrial manufacturing exports had reached over two thirds of all Argentine exports. However, with the two waves of deindustrialization, one under the military junta and the other under Menem the role of manufacturing in the Argentine economy experienced a significant decline. For example, during the Menem years, goods production declined from 52% of GDP in 1989 to 32.3% in 1998, and services grew from 48.8% in 1989 to 62.2% in 1998. Even more significant, manufacturing as a share of GDP went from 30.9% in 1989 down to 17.1% in 1998 (Rapoport, 2000: 1026).

These statistics constitute evidence of the second wave of deindustrialization in Argentina, which had slowed under the Alfonsín government. However, since 1976 there continued to be the emphasis on agro-industry and the lack of a national industrial policy to promote technological change within Argentina. The Menem government, just as the military government, claimed that it was committed to trade liberalization through tariff reduction and the elimination of tariff barriers, in order to force Argentine industry to be able to compete internationally. This fairy tale formula rooted in the myth of 'free trade' unfortunately held sway during the 1990s in Argentina. The reality is that a few large firms, such as Perez Companc and Bunge y Born were able to weather the storm of imports, but for the majority of Argentina's manufacturing firms this meant hardships and in some instances disaster. For firms trying to export, convertibility only exacerbated the problem.

For a quarter century, there has been a serious disarticulation of Argentine industry, increasing the difficulty for manufacturing to compete in an ever more globalized world market. This is both reflected in the growing dependence on consumer and capital goods imports, and the extent to which Argentina's exports are dominated by raw materials and agricultural products.

A key problem with an overdependence on agricultural products is they experience more frequent and greater price variations. For example, Argentine agricultural exports benefited until 1996 with a gradual increase of prices in international markets, which was some compensation for the overvalued peso. However, this tendency began to reverse in 1997, as there was a decline in the prices of agricultural products on

world markets, since the global economy was entering a recession. From that point on, sales of Argentine products began to stagnate in value terms, although they continued to grow in physical terms (Rapoport, 2000: 999).

In recent years, agricultural production has grown in general, due to a series of transformations for various crops, resulting in increased yields and total area cultivated. In general, the crops that grew the most were destined for export and also those that introduced technological innovations in production. Such changes have often been employed in order to maintain competitiveness on the world market. It is worth noting that as of 2003, Argentina was only second to the US with respect to producing genetically modified crops**,** primarily corn, cotton and soybeans.

Since the early 1980s, seed oils[20] and cereals have been the most important crops in terms of their value of production and export share. In fact, by the end of the twentieth century they constituted 20% of Argentina's exports (INDEC, 2003)**.** In recent years, wheat, corn, sorghum, soybeans and sunflowers have all increased their yields and area cultivated significantly, thus causing a reduction in the area cultivated for other crops. This expansion can be called the 'agriculturalization' of Argentina, since this is at the expense of livestock farming. In contrast to the growth and expansion in agriculture, livestock production experienced a general stagnation, with lower growth and a reduction in the number of heads of cattle or other livestock. In the case of beef, there has been a decline in domestic consumption which exports have not been able to incorporate.

Another area that deserves attention regarding the impacts of the second wave of deindustrialization is with respect to workers, both in industry as well as agriculture. Rather than consider the impact of deindustrialization separately, the next section will consider the general impact on workers due to neoliberal policies in Argentina during the 1990s.

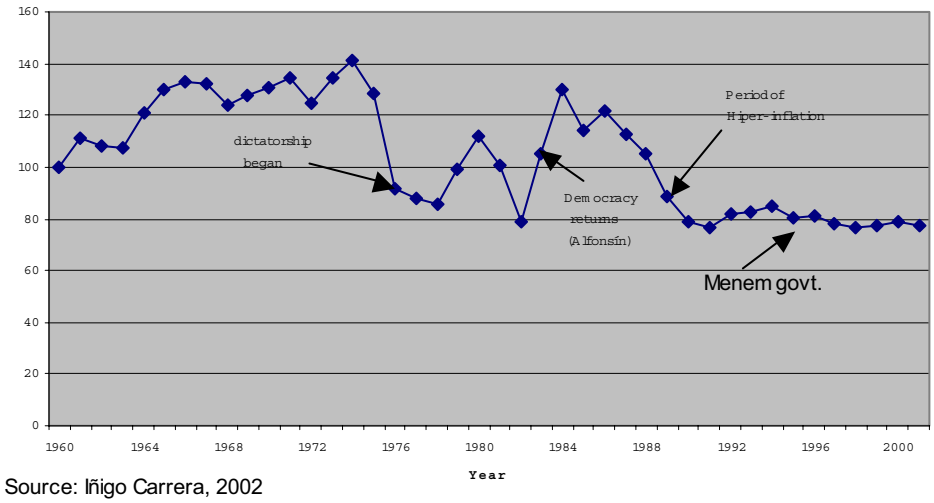
VI. NEOLIBERALISM'S IMPACT ON WORKERS

Given the class bias associated with neoliberal policies and the current process of corporate-dominated globalization, it is imperative to look at the overall impact on the Argentine working class, especially since Menem became president. First, as mentioned earlier, there were major layoffs, totally more than 100,000, as a result of the

privatizations that took place. Secondly, the decline in manufacturing led to a reduction of over 369,000 jobs from 1991-2001, a 33.9% loss in total manufacturing employment.[21] As a result of the two waves of deindustrialization, Argentina went from over 1.5 million manufacturing jobs in 1974 down to roughly 763 thousand jobs in 2001, a loss of 50%. Thirdly, the shift toward more efficient and technologically advanced techniques in agriculture during the 1990s also contributed to an increase in unemployment, although this was balanced out in part due to the increase in agricultural production.

Throughout the decade of the 1990s, as manufacturing jobs were declining, the growth of informal jobs grew significantly. For example, informal work in Buenos Aires and surroundings (*Gran Buenos Aires*) grew to reach 38% of all employment by 1999 and such jobs are estimated to have incomes 45% less than formal employment (Rapoport, 2000: 1021). As increased numbers of people competed for fewer jobs and the better-paid manufacturing jobs were being lost, the growth of the informal sector resulted in a decline in salaries or real wages for the majority of the Argentine 'working' class. The clearly negative impact on industrial real wages over the last forty years can be seen in Figure 2. Nevertheless, the level to which real wages overall have declined has been even more significant for the reasons just mentioned.[22]

Figure 2: Industrial Real Wages 1960-2002 (1960=100)



Source: Iñigo Carrera, 2002

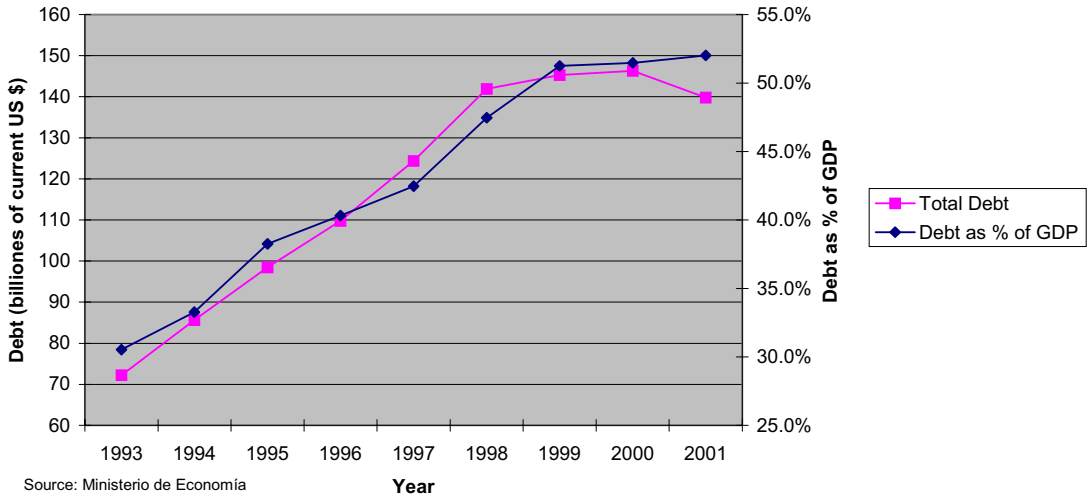
For the decade of the 90s as a whole, unemployment grew from 6 to 25%, according to the government's definition, and 30% or higher once underemployment was included. Although real wages dropped in half in the late 1970s, during the 1990s they dropped by 10% but were still not even 70% of their level of 1976 in 2001. At the nadir of the depression, unemployment was at 30% or more, and real wages had declined at least another 18% through 2002. The level of poverty had reached over 53% of the population and the level of indigence was more than a quarter of the population (INDEC, 2005). Such statistics provide some sense of just how bad things were in Argentina, but they still don't capture the suffering experienced by the people living through this depression. These statistics are all the more shocking if one is familiar with Argentina, having had one of the highest standards of living within the 'Third World'. Unfortunately, one of the characteristics of many Third World countries is that economic crises that lead to depressions, not just recessions, are all too common.[23] Although the underlying cause of such economic crises is rooted in the capitalist system, the more immediate problem has been the growth of foreign debt. The next section examines the incredible increase of foreign debt during the last quarter century that Argentina has been pursuing the neoliberal model and in particular, the role of the IMF throughout.

VII. FOREIGN DEBT AND THE ROLE OF THE IMF

Foreign debt is the component of Argentina's fiscal budget that has been the most out of control, and the immediate cause of the economic crisis in 2001. It grew at an incredible rate, having been less than US$ 10 billion in 1976 (See Figure 1 above) to balloon to US$ 141 billion in 2001. Most significantly, it doubled from 1993 to 2001, going from US$ 70 billion to US$ 141 billion (See Figure 3 below). The extent to which this was a growing problem for Argentina is further illustrated by considering the public debt as a percentage of GDP, which grew from 30.5% to 52%, between 1993 and 2001, also shown in Figure 3 below.

This debt spiral was caused in part by the increase in US interest rates, especially after the US Federal Reserve raised short-term rates in February 1994, doubling from 3 to

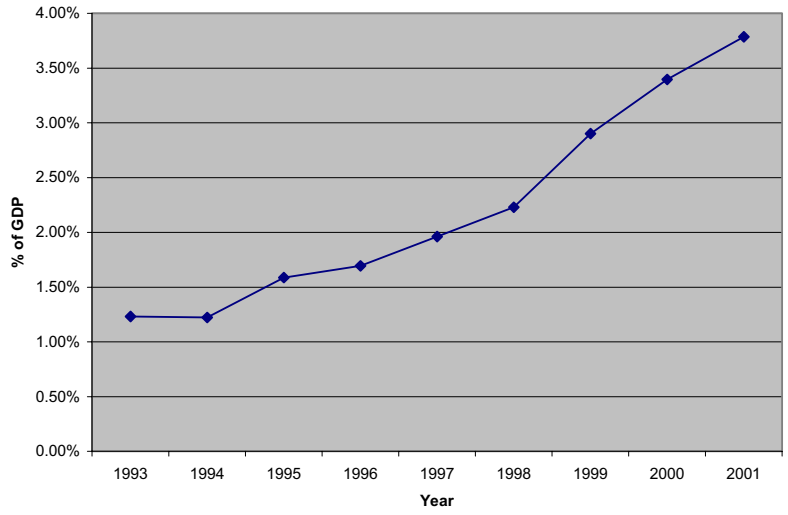
Figure 3: Argentina's Foreign Debt 1993-2001 (billions of US$)



6% over the following year. This also affected Argentina's risk premium, exacerbating the impact of the increase in interest rates. A second major factor in increasing interest rates worldwide and subsequently Argentina's debt was the result of the impact of the Mexican, Asian, Russian and Brazilian financial crises between 1995 and 1999. (Cibils et. al., 2002: 1-2). In fact, the interest payments that Argentina made during the 1990s total over US$ 60 billion and in 2000 alone was almost US$ 10 billion dollars (Weisbrot and Baker, 2002: 4). As seen in Figure 4 below, interest payments as a share of the GDP more than doubled, growing from 1.23% in 1993 to 3.4% in 2000. In contrast, government primary spending excluding interest payments as a share of the GDP tended to decline or stay steady through the 1990s, oscillating around 18.5% (See Figure 5).

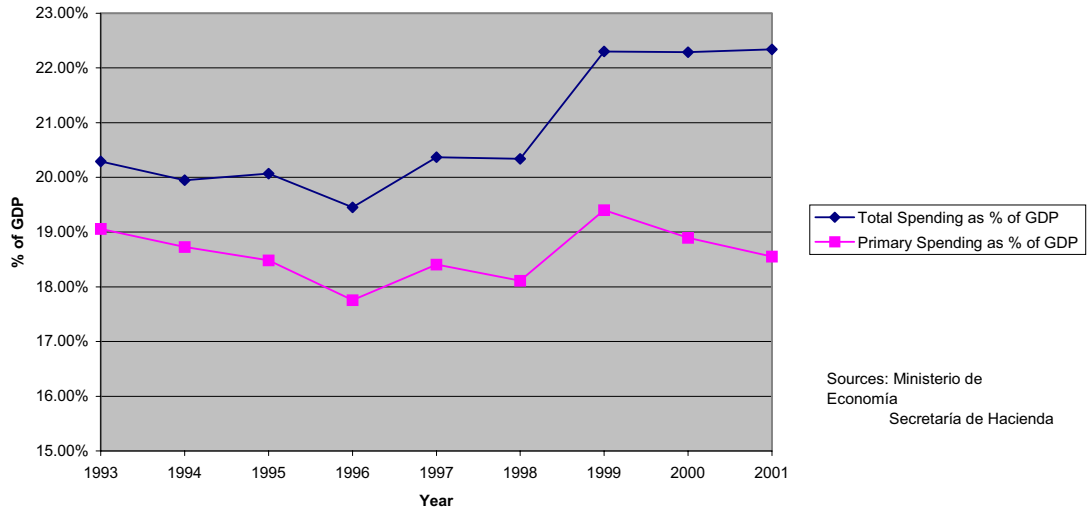
Thus the IMF argument that Argentina was being fiscally irresponsible is not supported by the facts, unless fiscally irresponsible corresponds to making good on its debt payments for the IMF. Consider the claim on April 10, 2002 by Anoop Singh (IMF Director of Special Operations, Buenos Aires)- "In our view, failures in fiscal policy constitute the root cause of the current crisis." (Cibils et al., 2002: 3). Consider Figure 5

Figure 4: Interest Payments as % of GDP (1993-2001)



Sources: Ministerio de Economía
Secretaría de Hacienda

Figure 5: Government Spending as % of GDP (1993-2001)



Sources: Ministerio de Economía
Secretaría de Hacienda

where one can see that primary spending is going up and down with definitely no trend upwards at the end of the 1990s, compared to total spending which does. The gap that is growing between primary spending and total spending is by definition due to increases in interest payments on the debt, which has a very marked increase throughout the 1990s as seen in Figure 4. It is rather amazing how the IMF portrays the situation despite such clear evidence to the contrary.

In Section III above, it was seen how the IMF, by not coming through for Isabel Perón, played a key role in bringing about the end of her administration. The junta had to struggle less with the IMF because they were strongly committed to implementing neoliberal policies supported by the IMF and they had no problem using repression to do so. However, once Alfonsín was president in 1983, there was a displeasure expressed regarding his economic strategies, which were introducing some variants on the orthodox neoliberal model. Once Alfonsín did the unthinkable and suspended all debt payments on the principal, the IMF flexed its muscles and was able to force Argentina to 'return to its senses' and get back on the neoliberal track. At the point where hyperinflation was peaking at almost 5000 % and the country was enveloped in crisis, the IMF was one of the strongest advocates for Alfonsín to resign and let Menem take over. They did not try to accommodate Argentina with an interim loan and wait a couple of months so as to have a smooth democratic transition to the next president . Instead they played a clear role in fomenting the chaos and fear to force the Argentine people to support Menem's more orthodox neoliberal approach. The IMF also gave full support for the Menem administration and the currency board through 2001 despite their attempt to deny any responsibility for the current crisis (Cibils et.al., 2002: 6).

Despite his campaign claims advocating a shift from neoliberal policies, De la Rúa was following an orthodox economic plan as well from when he took office in 1999 . Even though the De la Rúa government brought back the neoliberal guru, Domingo Cavallo, the IMF still let them down at the end of 2001, by reneging on a payment and thus forcing the immanent crisis. As Argentina was at the abyss, ready to fall into a depression and even deeper crisis, the lender of last resort, namely, the IMF, instead of offering a hand, gave Argentina a push.

As Argentina's foreign debt was spiraling out of control, shouldn't the IMF have been saying no to further loans or suggesting some other policies so that they didn't have to keep coming up with bailouts. It appears that the IMF, just like a good loan shark, is quite content to just keep collecting the interest even if none of the principal ever gets paid off. The IMF was conceived as the lender of last resort, to help countries avoid financial crises. Based on this criteria, in recent years, the IMF has a poor track record – a string of financial crises which they have not been able to prevent. Mexico had its worst

economic crisis in 1994-95, then there was the Southeast Asia Financial Crisis of 1996-97, then Russia in 1998, Brazil in 1999, Ecuador in 2000, and now Argentina in 2001-2002- the largest debt default in world history!

This demonstrates that the IMF model is not working for the countries that depend on it for financial support and that something needs to change internationally. Evidently, despite the rhetoric of the IMF to improve the lives of the majority of the world's population, it operates in the interest of global capital, predominantly 'first world' banks and multinational corporations, and in that regard the IMF model is working. Unfortunately, for the rest of the world, this model is not working and as Argentina has gone from a dictatorship to a depression, it is clear that the neoliberal model has been a failure.

VIII. Conclusions

The economic and social crisis that Argentina has been experiencing has a number of causes. Most significant has been the pursuit of neoliberal economic policies for over a quarter century, combined with the impact of globalization. Throughout this period, the Argentine elite and the IMF have been proactive in pushing this project and thus bear the greatest responsibility for the negative impacts caused by it. It was during the dictatorship of the late 1970s, when Argentina began a process of deindustrialization due to both the neoliberal economic programme and the clear shift away from manufacturing toward agro-industry. It is evident that Argentina has become much more vulnerable to the threat of global competition and the oscillations of world market prices, having eliminated the majority of its controls for trade. Similarly, financial deregulation, combined with the pegging of the peso to the dollar, led to a wave of foreign investment, capital flight and an increasingly speculative and unstable environment. These changes caused Argentina to be more susceptible to the ripple effects of financial shocks, such as the Mexican Peso crisis, and more prone toward financial crises itself.

The impact of deindustrialization over 25 years combined with the more recent agriculturization, was seen as contributing to a worsening trade balance as imports were growing increasingly more than exports. By the mid to late 1990s, the growing trade deficit had been identified as significantly contributing to balance of payments problems.

In order to maintain reserves, and keep paying the interest on foreign debt, loans from the IMF were increasing and combined with US interest rate hikes, resulted in Argentina's debt doubling from US$ 70 billion to US$ 140 billion between 1993 and 2001.[24]

Despite there being other factors than the trade deficit which caused Argentina to borrow more, as well as other causes of the trade deficit, many emphasized the currency board as the principle cause of the crisis. It has been argued that Argentina should have delinked the peso from the dollar years earlier, but this is more easily said than done, given the memory and fear of hyperinflation and a lack of confidence in the national currency. Menem did not wish to delink the dollar from the peso because the fear of devaluation would have produced a political crisis while he was still in power. Instead he was able to postpone the inevitable and the crisis hit when the opposition, the *Radicales* were in power. This reflects Menem's support inside and outside the country, as he was able to shift the burden to the next administration, and the rest is history.

The rebellion of December 19-20th, 2001 reflected a general dissatisfaction with almost all established political parties, as expressed in the popular slogan: "Get Rid of them all!" (*¡Que se Vayan Todos!*). During 2002 there was hope for significant political change in the air, between the street protests of the *cacerolazos*, the organized unemployed workers or *piqueteros*, and the birth of popular assemblies seeking to redefine politics in a new way. There was an increasing level of economic autonomy, between the wave of occupied factories, the growth of barter clubs and the increased role of local and regional currencies, not to mention at the national level, Argentina had broken its pact with the IMF.

Nevertheless, Argentina came out of default by signing an interim agreement with the IMF in January 2003, despite a brief (roughly 9 hours) default in September 2003. Having hit bottom in 2002, Argentina's economy inevitably saw improvements thereafter, achieving 9% GNP growth in 2003. The growth that has occurred since the nadir of the depression is still not enough to resolve the serious problems of unemployment and poverty, as they are only improving slowly, and the Argentine middle class appears permanently reduced.

Although Kirchner has provided a certain amount of hope for Argentines, his set of economic policies have been a mixed bag. Kirchner has been quite confrontational

with the IMF at times and recently with TNCs, but when it comes to economic fundamentals, he has accommodated their interests by agreeing to a 3% or greater budget surplus. As Argentina is coming out of a depression, it makes no sense to generate a budget surplus, instead it is the time that you expect to have a budget deficit in order to bolster the economy through government spending. No First World country would agree to have a budget surplus in such a period. This is not just an issue or problem for Argentina, it is an international issue, and if other countries were more supportive, the IMF's hand could be forced. There had been much hope that the Lula administration would be a clear ally in challenging the IMF, but so far Brazil does not want to rock the boat and is staying on the neoliberal track.

In the political arena, Kirchner has made several positive changes reflecting the sentiment of the population, such as regards to the military and police abuses. However, one would hope that the failures of a quarter century of the neoliberal model would resonate among leaders in government, not just among *piqueteros*. Unfortunately, the role of the Argentine elite and the IMF is still active in attempting to keep this failed model going. The possibility of change resides in the continued strengthening of the new movements of the socially excluded in Argentina and will probably require serious mobilizations in the street in order to bring a proper end to a failed quarter century experiment with neoliberalism that has enriched the few, both foreign and domestic elites at the expense of the majority of Argentines.

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Notes

[1] It is interesting to note that this is not the first time that Argentina suspended payment on its foreign debt; the first time was in 1891, during another period of globalization (see footnote 12 below).

[2] A currency board refers to pegging a local currency, such as the Argentine peso to the US dollar, which was one-to-one for most of the 1990s.

[3] Domingo Cavallo served as Central Bank President under the dictatorship in the early 1980s and as Economics Minister through most of the 1990s when Menem was in power, and briefly with De la Rua.

[4] There are several different *piquetero* organizations, but they prefer to be referred to as unemployed workers rather than just a reference to a specific strategy they employ, namely, picketing or blockading of highways. For more information of the different organizations see Dinerstein (2003a, 2003b).

[5] The *corralito* was a measure which prevented people from withdrawing more than $250 a week or $1000 month from their bank accounts.

[6] The *Cordobazo* was a working class-led rebellion which lasted roughly a week in the major city of Cordoba.

[7] Examples of TNCs producing in Argentina during this period are Ford, Renault, Warner Lambert, Philips, Siemmens and Brown Boveri.

[8] For example, Martinez de Hoz was a member of more than 10 directorates of agrobusiness and industry and put into place the plan which had been devised by major companies months before in planning for the coup (Sevares, 2002: 32).

[9] *Patria financiera* (literally translated as financial fatherland) represents the significant links between the grain giants and financial interests.

[10] SRA (*Sociedad Rural Argentina*), UIA (*Union Industrial Argentina*) and the CGT (*Confederación General de Trabajadores*) General Workers' Federation.

[11] Alfonsín's push for the democratization of the Peronist-dominated CGT, reflected a political rivalry and not just a concern for transparency within the CGT, which was and still is something necessary for Argentine workers' interests.

[12] When using the term globalization I am referring to the current historical process, more aptly termed neoliberal globalization, in which investment and trade is conducted in an increasingly pro-capital and *laissez-faire* atmosphere, resulting in a more intense level of global competition, such that the 'first world' TNCs gain an even greater advantage competing against 'third world' firms, despite the rhetoric about an even playing field. A fuller and necessary discussion of globalization, imperialism, and development lie outside the scope of this paper.

[13] Initially it was 10,000 australes = 1 dollar, and after Argentina changed its currency it was 1 peso = 1 dollar.

[14] In fact, Domingo Cavallo, the economics minister who implemented the Convertibility Plan was chosen by The Economist as Economist of the year during the mid-1990s.

[15] YPF-*Yacimientos Petroleros Fiscales*; 'National Oil Company'.

[16] Although it can be argued that taxes paid by the privatized companies provide a source of revenue, it is almost certainly a smaller amount than the potential net revenue generated by a public enterprise.

[17] Even in 2005, we see the pressure by Rodrigo Rato of the IMF on the Kirchner government regarding privatized firms and TNCs operating in Argentina.

[18] Using the estimation of percentages in Table 1 of Baker and Weisbrot, 2002 and the series for GDP from INDEC, I generated an estimate just over US $ 18 billion.

[19] There were also other factors related to industrial strategy within the context of Mercosur.

[20] Seed oils (*oleaginosas*) include corn, sorghum, soybean, and sunflower oils.

[21] This is based on a calculation using data from INDEC, 2005 and Basualdo, 2002.

[22] At present, INDEC does not have real wage data earlier than 2001 on their web site.

[23] The term depression is avoided by mainstrealm economists, and unfortunately many on the left follow suit, however, it is a distrortion of the facts to describe what took place in Argentina in 2002 as merely a recession.

[24] As referred to above, increases in US interest rates were also due to the financial crises in Mexico, Asia, Russia, and Brazil and secondly, Argentina's country risk was subsequently impacted, further exacerbating the growth of Argentina's debt.