



RACKING ARGENTINA

POPULAR PROTEST ERUPTED on the streets of Argentina through the hot December nights of 2001.¹ Crowds from the shanty towns attacked stores and supermarkets; banging their pots and pans, huge demonstrations of mainly middle-class women—*cacerolazos*—marched on the city centre; the *piqueteros*, organized groups of the unemployed, threw up road-blocks on highways and bridges. Twenty-seven demonstrators died, including five shot down by the police beneath the grand baroque façades of Buenos Aires' Plaza de Mayo. The trigger for the fury had been the IMF's suspension of loans to Argentina, on the grounds that President Fernando De la Rúa's government had failed to meet its conditions on public-spending cuts. There was a run on the banks, as depositors rushed to get their money out and their pesos converted into dollars. De la Rúa's Economy Minister Domingo Cavallo slapped on a *corralito*, a 'little fence', to limit the amount of cash that could be withdrawn—leaving many people's savings trapped in failing banks. On December 20, as the protests intensified, De la Rúa resigned, his helicopter roaring up over the Rosada palace and the clouds of tear gas below.

The fall of the De la Rúa administration—unlike so many unscheduled changes of government in Argentina's history—did not result in a military coup. Although the country went through five nominal heads of state in ten days, the transitions observed legal norms. At the end of December, the three-day-long Rodríguez Saá administration abandoned the fixed exchange rate of one peso to the dollar, to which Cavallo had clung—the currency collapsing to 4 pesos to the dollar, before stabilizing around 3.60—and formally repudiated the country's debt, totalling over \$130 billion. It was the largest default in history.² The economy contracted steeply, with GDP falling by a record 16.3 per cent in the first quarter of 2002, and manufacturing output by almost 20 per cent.

Of Argentina's population of 37 million, 52 per cent—some 19 million people—now fell below the official poverty line, while 20 per cent, 7.5 million, could no longer afford sufficient food. There were reports of children starving in the impoverished rural province of Tucumán. Unemployment soared to 23 per cent of the workforce, with a further 22 per cent 'under-employed'—in part-time jobs and seeking further work. Public services disintegrated: hospitals could no longer treat the sick; schools closed, or gave up any attempt to teach. State pensions and public-sector workers' salaries went unpaid. The construction industry came to a halt. Faced with declining revenues, the federal government had started to issue 'Lecop' bonds in lieu of wages. The provinces followed suit, led by Buenos Aires with its *patacones*, and by early 2002 there were some 4 billion pesos' worth of local bonds in circulation.

On January 1, Congress appointed Senator Eduardo Duhalde of Buenos Aires to serve the remainder of De la Rúa's term. Rule thus passed back to the Peronist Justicialista party, which had been in power throughout the 1990s under the double presidency of Carlos Menem. Opinion polls gave Duhalde only 10 per cent of popular support. His reputation as an old-time provincial boss—allegedly tied to crime, graft and drug trafficking in the sprawling slum-belt of Gran Buenos Aires—did him no favours. The electorate had already rejected him when he ran against De la Rúa two years before. As caretaker president, Duhalde was now faced with the task of steering the country through an unparalleled economic depression, grappling with the demands of the IMF and heading off widespread revolt.

In the end, the violent protests that had rocked the country in December diminished after the fall of De la Rúa; but discontent has simmered on. In Buenos Aires, the *cacerolazos* evolved into *asambleas populares*—open meetings, often held on Sunday afternoons, to organize local services, schools and food co-operatives. The Bloque Piquetero Nacional co-ordinates highway blockades in different parts of the country, working with other groups including the radical trade unions of the

¹ I would like to acknowledge the assistance of colleagues at the Universidad Torcuato Di Tella in Buenos Aires, who bear no responsibility for the views expressed in this article.

² For colourful details of Rodríguez Saá's career—including his kidnap, in a plot connived at by his mistress—see Miguel Wiñazki, *El último feudo. San Luis y el caudillismo de los Rodríguez Saá*, Buenos Aires 1995.

Confederación de Trabajadores Argentinos. In May 2002, trade unions called a one-day general strike. In late June, the provincial police killed two *piqueteros* in Avellaneda, one of the old industrial centres of Gran Buenos Aires. The administration there tried to head off the protests that erupted with the promise of emergency cash. Similarly, the federal government granted an emergency loan of 12 million pesos—some \$3.5 million—to the small western province of San Juan: 25 per cent of the working population was unemployed, and public funds supported 30 per cent of those still clinging to some sort of job. In May 2002, it instituted an emergency dole for the poor—150 pesos per month (by now worth less than \$50), paid in federal bonds to unemployed heads of household. Within two months, over 3 million people had applied for the grant and 1.75 million were receiving it. Frequently the government allowed local *piquetero* organizations to take charge of the funds, in an effort to blunt their activities.³

Duhalde's pleas to the IMF for financial support and a bail-out for the banking system met with stern rebuff. The Fund insisted that his government had first to end subsidies to the provinces; to protect private businesses from the allegedly corrupt judiciary; and to repeal the Economic Subversion Law—under which senior bank officials were being prosecuted for smuggling dollars abroad—and other emergency legislation, which obstructed the sale of bankrupt Argentine firms to foreigners. When Duhalde succeeded in pushing these measures through Congress, the IMF tightened the conditions. It now demanded the compulsory conversion of blocked bank accounts into long-term bonds—a plan which met with almost total opposition from the Argentine middle class, since it effectively deprived account holders of access to their money. Still further cuts had to be made in government spending—entailing even higher levels of unemployment.

Belle-époque fortunes

Yet as late as 1997, the *Economist* could write that the country's prosperity 'reminds some of the golden era, a century ago, when the pampas supplied imperial Britain with wheat, beef and wool, and Argentina

³ In parts of Gran Buenos Aires, 'the subsidies fell into the hands of non-governmental organizations directly controlled by a political party or *piquetero* group': *La Nación*, 2 April 2002. See also *Clarín*, 18 April 2002 and 18 July 2002.

was one of the ten richest countries'.⁴ In subsequent, less successful periods, Argentines have never forgotten that they once stood high above the rest of Latin America as creators and consumers of wealth. In the half-century before the First World War some three million emigrants from Mediterranean Europe settled in Argentina as farmers, urban labourers and shopkeepers. Investors, bankers and railway engineers, mainly from Britain, helped to fund and build the infrastructure of an extraordinarily wealthy agrarian-export economy. For decades, Argentina emulated the prosperity of Canada and Australia; Buenos Aires became one of the richest cities of the Americas. The country seemed destined to fulfil the dreams of mid-nineteenth-century liberal visionaries such as Domingo Sarmiento, whose campaigns for development, education and European immigration sought to forge Argentina into a second United States. Liberalism, both political and economic, enjoyed an influence here as strong as anywhere in the world—apparent in the near-consensus on free trade and support for federal representative institutions. Argentina, as historian Tulio Halperín Donghi once declared, was 'born liberal'.

Political and social change accompanied economic development. The *caudillaje* system of regional warlords that had emerged from the 1810 revolution against Spanish rule began to decline with the adoption of the federal constitution of 1853 and the emergence of a new national government in 1862. From the start, the country was marked by strong regional disparities—the province of Buenos Aires outshining all the rest in wealth and population, due to its access to the Atlantic economy. In 1880, a coalition of governors and gentry from the provinces, united in the Partido Autonomista Nacional, finally succeeded in subordinating Buenos Aires to majority control. A central feature of the PAN compromise was the reciprocal relationship between the president and the provincial governors, in which the former disseminated patronage and the latter supplied political support. Typically, the presidents were *provincianos*—supplied by the interior provinces, led by Córdoba—while the vice-presidents would be from Buenos Aires: *porteños*, or *bonaerenses*. It was a formula that would be challenged by the two popular movements of the twentieth century, *radicalismo* and *peronismo*, both led by *bonaerenses*—Hipólito Yrigoyen and Juan Perón.

⁴ *Economist*, 14 June 1997.

Only the Baring Crisis of 1890 disrupted the development of the export economy. Attracted by investment-friendly government policies, the London firm had funnelled vast sums to the Argentine Republic and guaranteed the return. When British interest rates rose, the situation proved unsustainable. The Bank of England organized a rescue package for Baring Brothers, but disinvestment brought about the collapse of the Argentine economy, a suspension of foreign-debt payments and severe depression. If the similarities to the crisis of 2002 are striking, the differences are perhaps more instructive. Three conditions facilitated the recovery of the 1890s: the Argentine government succeeded in negotiating a moratorium on the foreign debt with British creditors; a swiftly devalued peso restored the balance of payments, by stimulating exports and curbing imports; most important of all, external market conditions created a foreign demand for Argentine goods that quickly revived export-led growth. Finally, a non-convertible currency had prevailed.

The Baring Crisis had a further effect. The debacle of the old political class provided the spur to campaigns for popular democracy, and led to the rise of *radicalismo*—an entirely new movement.⁵ The economic expansion of the belle époque had created powerful middle- and working-class constituencies in Buenos Aires, among the largest in Latin America. The *porteño* middle class retained a strong *rentier* and state-dependent character, reflecting the underdevelopment of manufacturing and the salience of commercial, professional and bureaucratic occupations typical of peripheral societies. The working class, initially composed of migrants from Southern Europe, was also largely concentrated in transport and services rather than industry. Highly exploitative working conditions and poor housing fuelled frequent outbreaks of unrest—including the anarchist-led general strike of 1902—that were met with violent repression.

Emerging from the economic upheavals of the Baring Crisis, the nascent Radical party recruited strong middle-class support in its campaigns for popular democracy. Its leader, Yrigoyen, was swept into the presidency in the first broad-suffrage elections of 1916. The Radicals diverted the stream of state patronage that had hitherto flowed to the provincial governors towards their metropolitan base. Rising federal-government

⁵ So far, despite the *piqueteros* and the *asambleas populares*, the political momentum appears much weaker in 2002.

expenditure funded the expansion of university education and a massive growth of administrative jobs (for Radical supporters). Yrigoyen's government also established a tradition of working with co-operative trade unions—repression giving way, in some degree, to co-optation, patronage and machine politics; although it retained a readiness to deploy state violence against less docile working-class movements, as in the strike wave of January 1919, broken in the course of the *Semana Trágica*. Overthrown by the military in 1930—subsequent to the shocks of the Wall Street Crash—Radicalism remained, down to the time of De la Rúa, synonymous with the defence of a large, heterogeneous Argentine middle class that has never fully shed its *rentier* antecedents.

During the liberal-export era capitalist agrarianism had largely displaced the traditional *estancieros* and *gauchos* on the pampas. Up until the First World War, thousands of Italians sailed to Argentina every year to work as harvest labourers, and the eastern province of Santa Fe had developed a rural middle class comparable to that of the US or Canada. European immigration also had a significant effect in western and southern areas such as Mendoza and Río Negro. In the interior, especially the north-west, conditions remained more typical of Latin America: enclaves such as the sugar province of Tucumán produced for the internal market, while the *haciendas* and *campesino* communities of the colonial era still survived elsewhere. As an agrarian society, Argentina developed a dual character, containing both the high-wage capitalist system of the pampas and the indigenous peasant structure of the *interior*.

Stagnation and instability

Export-led development came to an end with the 1930s. The fall in commodity prices during the Great Depression led to a steep decline in earnings, and the naval blockades of the Second World War shut off access to the traditional European markets—to the extent that Argentine railways started burning maize as fuel. In the postwar period, the protectionism, agricultural subsidies and soaring farm productivity of the Common Market effectively excluded Argentine imports. The once dynamic rural economy lapsed into decline; exports, the great engine of economic growth, stagnated. For decades Argentina had flourished as an informal component of the British Empire—smirkingly referred to as the 'sixth dominion' by British diplomats. United States predominance from the 1940s onwards had a disastrous impact on

Argentina, which lacked the access to North American markets it had once enjoyed in Europe.

What was the solution to the decades-long stagnation that ensued? From the mid-1930s, an import-substitution programme created numerous light consumer-goods industries which exported to neighbouring Latin American markets during the War. After 1945, under Perón, the focus switched to the domestic market and to supplying wage goods to the rapidly expanding urban working class. For a brief period, Argentina appeared to have made a successful, painless transition from an agrarian to an industrial economy. Millions streamed from the land into the cities—above all to Buenos Aires, and thence Gran Buenos Aires, the great conurbation that surrounded and soon dwarfed the core city of the federal capital. The working class and trade unions emerged as major political actors, buttressed by urbanization and incipient industrialization. A vast layer—many of them internal migrants—saw substantial improvements in their living standards, as the high-wage economy of the export era expanded to include Peronist social benefits.

By the 1950s, however, manufacturing followed the agrarian-export sector into stagnation. Although the population flow continued, migrants to the city no longer found work in the factories, but formed part of a rapidly expanding marginal population, mostly located in the shantytowns of Gran Buenos Aires. Periodic efforts to re-capture export markets through devaluation launched an inflationary spiral and led to a long-term social stalemate. Political trends reinforced the deadlock. Brought to power through an officers' coup in 1943, Perón's unique blend of authoritarian rule and plebeian support effected a more thorough-going social change than any other regime since the nineteenth century. Proclaiming the colonel's ideals of 'economic independence' and 'social justice', the state took over foreign trade, strategic industries and public services, redistributing income to workers and the urban poor. Trade-union support was secured through wage rises and social expenditure. Perón consummated the (temporary) liquidation of both political and economic liberalism, creating a new form of 'corporatist' society based on membership of state-controlled associations—the 'organized community'.

The near-totalitarian forms of this movement collapsed with Perón's overthrow in 1955, but the system otherwise remained impervious to every attempt to supersede it. Corporatist institutions encompassed not only

the relatively new proletariat, formed by import substitution, but also Argentina's proliferating urban middle class. Peronism, backed by the trade unions, the military and a host of other associations, became more akin to an organic mass movement than a party. The Radicals, who had once commanded massive popular adherence, languished in decline.

Corporatist dictatorship

For two decades after the fall of Perón, short-lived military juntas alternated with weak constitutional governments, while competing Peronist factions continued to struggle for state power. Inflation and instability prevailed. The military's aim was the depoliticization of the powerful trade unions, and an anti-inflation wage freeze as a prelude to growth. By the late 1960s its repressive policies, threatening middle and working classes alike, instead provoked a radicalized resistance. In May 1969, workers and students in Córdoba led the mass insurrection that became known as the *cordobazo*. Thereafter, popular mobilization escalated into armed struggle, led by the Peronist Montoneros and other guerrilla groups. Right-wing death squads targeted students and radical workers—paving the ground for the 'Dirty War'.

In 1976, military dictatorship resumed in its most murderous form. The 'Process of National Reorganization' claimed thousands of *desaparecidos* as its victims, and developed into a prolonged assault on civil society. But if it succeeded in destroying the guerrillas, in economic terms the blood-soaked Process built nothing new. Dominated by hard-line reactionaries, organically linked to the corporatist complex, the junta blocked any reform attempts by Economy Minister Martínez de Hoz that contradicted their own interests. As a result, waste and corruption thrived. Unemployment remained low, but inflation rampant. The contrast with 1970s Chile was stark. The Pinochet regime shattered working-class resistance, forced through root-and-branch reform in every sphere and eventually succeeded in completely restructuring labour relations and the economy. The Argentine military signally failed to push through any such programme. Despite the battering they received, corporate institutions and practices survived intact. Hyperinflation of 344 per cent, de-industrialization, negative growth and a \$45 billion foreign debt were the legacies of the seven-year tyranny when it finally collapsed, following defeat in the Malvinas War.

Such was the disastrous context in which Raúl Alfonsín, the new Radical President, proclaimed the rebirth of democracy in 1983. Initial attempts to prime-pump the economy—a return to Peronist methods, although now applied in the interests of the Radicals' middle-class constituencies—produced a short-lived consumer boom, followed by spiralling inflation—up from 627 per cent in 1984 to 1,000 per cent in 1985. Changing tack, Alfonsín now imposed a stabilization package, the Austral Plan, combining conservative monetary policy with a price and wage freeze, which provoked a wave of general strikes from the Peronist trade unions. Within two years the Plan had collapsed under the burden of ballooning debt payments. Faced with rapidly falling revenues, exacerbated by widespread tax evasion, the government could only print money and devalue the currency. Hyperinflation loomed again.

Alfonsín also faced intractable political problems. The military threatened revolt against defence-budget cuts—force levels were reduced from 175,000 to 95,000 between 1983 and 1989—and against the trial of Process leaders for human-rights abuses. Alfonsín tried to trim, introducing a 1986 cut-off date for further prosecutions; the Mothers of the Plaza de Mayo responded with a mass campaign, producing documentary evidence of hundreds more murder and torture cases. In 1987 dissident commanders organized an Easter mutiny which Alfonsín succeeded in facing down. Meanwhile, the Peronist majority in Congress sabotaged the government's legislative programme, while middle-class groups clamoured for greater economic security. In late 1988, the administration introduced a further stabilization plan, but it too collapsed. Another acute crisis ensued, with capital flight, the draining of foreign reserves and waves of hyperinflation.

Between 1981 and 1988, GDP had shrunk by over 5 per cent, or 15 per cent per capita. Efforts to control inflation by borrowing and temporary freezes had ceased to be viable. Neo-conservative policymakers—soon to be relabelled neoliberals—called for permanent reductions in government spending and the privatization of state-run corporations. Alfonsín's government did attempt to sell off ENTel, the phone company, and Aerolíneas Argentinas, only to suffer defeat at the hands of the Peronist unions and Congress. In May 1989, desperate for basic provisions, crowds of poor people sacked supermarkets throughout Gran Buenos Aires. Elections the same month saw the Radicals

swept from office; under the leadership of Carlos Menem, the Peronists were back in power.

Following Menem

Menem's origins lay in the petty merchant class of La Rioja, a small western province on the Chilean border.⁶ Like many of its members, he was descended from Ottoman immigrants, locally known as *turcos*. Although his wife was a Muslim, Menem renounced Islam, apparently in order to pursue a political career as a Peronist. He became a leading figure in La Rioja, serving several terms as governor during the 1970s and 1980s, and was well known in Buenos Aires—although lacking close connexions with the so-called vertebral column of Peronism among the metropolitan trade unions. Like many of his colleagues, he was interned and ill-treated under the military dictatorship. As a governor in the 1980s Menem posed as a latterday *caudillo*, wielding paternalistic authority over his large local constituency and exploiting Alfonsín's weak authority over the provinces to boost his own standing by expanding public employment. His populist reputation won him the nomination as Peronist candidate to fight the 1989 presidential election.

Despite the collapsing economy and monthly inflation rate of 200 per cent, Menem's campaign pledge was for a *salario*—a major increase in living standards. He courted the electorate with the slogan, 'Follow Me!', hinting he might default on the foreign debt. At the news of his landslide election victory, however, Menem's views underwent a dramatic conversion. 'We're pragmatists,' he declared. 'State enterprises will be privatized to the extent that such action meets the government's interests'.⁷ Elsewhere he spoke of the need for a 'shock of hyper-credibility'. World Bank and IMF policies would be adopted. Menem forged close links with the local elite, staffing his first cabinet with

⁶ In the 19th century, La Rioja had been famous as the bastion of two of Argentina's most colourful *caudillos*, Juan Facundo Quiroga and Angel Vicente Peñaloza. Opposing forces of Liberals killed Peñaloza and defeated the last of the *gaucho* cavalry forces, the Montonera, in the 1860s. The province then lapsed into obscurity, remote and largely forgotten. Arid and undeveloped, it remains one of the poorest in Argentina.

⁷ *Latinamerica Press*, 25 May 1989. On the context of Menem's policies, see María Victoria Murillo, *Labor Unions, Partisan Coalitions and Market Reforms in Latin America*, New York 2001.

executive members of the powerful Bunge y Born conglomerate, with much power resting in the hands of its president, Jorge Born III. He embraced the ultra-conservative *liberales* who, as doctrinaire supporters of the free market and opponents of state interventionism, had always been arch-enemies of the Peronists. Congress—Menem had majorities in both houses—was persuaded to grant him emergency powers to conduct economic policy by decree.

This was, of course, the moment of the Washington Consensus: the removal of tariffs and barriers to capital flow, privatization of nationalized industries, flexibilization of the labour market, cutbacks on social-welfare provision and all the rest were proclaimed as the new global programme for Latin America. In Argentina, these goals were presented as the only way to save the country from hyperinflationary chaos.⁸ For the first two years of his presidency, however, Menem's attempts to implement the programme met with little success. There was another bout of hyperinflation in early 1990, opposition from radical trade-union leaders and problems with the military. His government was accused of corruption, and harshly criticized for granting early remission to the imprisoned junta leaders. The president's popularity ratings sank low.

The apparently magical transition occurred in 1991, when the United States lapsed into recession and funds flew outwards to the 'emerging markets'; the foreign capital needed to carry out the neoliberal revolution in Argentina now miraculously appeared. US interest rates remained low until late 1994—demarcating exactly the duration of the Menem boom.⁹ The inflow of foreign investment coincided with the stabilization of government expenditures and the resultant quashing of inflation. In the early 1990s, Argentina became the fourth largest recipient of foreign funds throughout the world. The influx climbed from \$3.2 billion in 1991 to \$11 billion in 1992, and to \$10.7 billion in 1993. As the

⁸ See Felipe de la Balze, *Remaking the Argentine Economy*, New York 1995; Robert Solomon, *Money on the Move. The Revolution in International Finance since 1980*, Princeton 1999, p. 45; on trade unions, see María Victoria Murillo, 'Union Politics, Market-Oriented Reforms, and the Reshaping of Argentine Corporatism', in Douglas Chalmers et al., eds, *The New Politics of Inequality in Latin America*, New York 1997.

⁹ See Pablo Bustos, ed., *Más allá de la estabilidad. Argentina en la época de la globalización y la regionalización*, Buenos Aires 1995, p. 11.

economy turned, Menem's standing in the country underwent a decisive shift. There was now 'an overwhelming acceptance by the public of his drastic reform measures'; in addition, 'public opinion seems convinced there is no alternative.'¹⁰ Congressional and provincial elections reflected the same trend.

Henceforth, Argentina became a model of neoliberalism and a show-piece of globalization. In the early 1990s, annual growth rates that brushed 10 per cent appeared to dissipate the stagnation and instability of previous decades (see Figure 1 below).

FIGURE 1: *GDP per capita % growth, 1989–2002*



Source: IMF World Economic Outlook Database, 2002.

Imports reached unprecedented levels, financed by the inflow of foreign funds which offset a rising trade deficit. Exports grew, too. Through Mercosur, the government sought closer links with Brazil; the lower tariffs established under the 1991 Treaty of Asunción soon made this Argentina's largest foreign market. By 1994 exports to Mercosur, led by

¹⁰ Peter Waldmann, 'The Peronism of Perón and Menem: From Justicialism to Liberalism?', in Colin Lewis and Nissa Torrents, eds, *Argentina in the Crisis Years (1983–90)*, London 1993, p. 98.

automobiles, had risen by 70 per cent; they totalled 30 per cent of all exports.¹¹ The administration also pursued closer links with the leading western powers, shelving the dispute with Britain over the Malvinas in order to smooth relations with the European Union (during his election campaign, Menem had bragged about reinvading the islands). Foreign Minister Guido Di Tella pledged ‘carnal relations’ with the US, bluntly explaining as he quit the Non-Aligned Movement in 1991: ‘Our government’s exclusive centre of interest is the United States. As a complement to that interest we will maintain relations with Western Europe. The rest of the world does not exist.’

Decentralizing the state

Buoyed by economic growth and foreign investment, Menem embarked on his decade-long dominance of Argentine politics. Close relations with the mainly Peronist provincial governors enabled the president to cultivate support throughout the country, while giving him an easy ride in Congress. Menem’s diffusion of patronage from the centre to the provinces bore a strong resemblance to the political system of the liberal era under the PAN; the term ‘league of governors’, coined in the 1870s, returned to vogue. As in the late nineteenth century, the governors exercised a growing influence on Congress, through personal—and sometimes nepotistic—links. If Perón had once talked of creating an ‘Argentina Nueva’, ‘Old Argentina’ better characterized the aspirations of Menem.

The role of federal government was transformed. Instead of operating as an ‘interventionist state’, its main function now consisted of raising revenues and passing them on to the provinces through the system known as *coparticipación*. Responsibility for health and education was also decentralized—the reforms placed more than 180,000 teachers under provincial jurisdiction. In the process, the federal government shed more than 200,000 jobs between 1990 and 1992—although around 40 per cent of these were transferred to the provinces. Decentralization attracted little criticism at the time; the provinces had plentiful access to *coparticipación* funds and rediscounts from provincial banks. As a World Bank study reported in 1993: ‘Provinces now have most responsibility for . . . such social services as education, health, security and housing.

¹¹ ECLAC, *Economic Survey of Latin America and the Caribbean 1994*, Santiago 1995, p. 141.

Improving the efficiency of the delivery of these provincial social services could be one of the most effective ways to improve the standard of living in Argentina.¹²

Oligopoly buy-outs

Privatization dominated Menem's agenda. Since the Perón era, the federal government had operated a broad range of nationalized corporations and state utilities. Pressure to distribute these to private capital had begun under Martínez de Hoz but progressively increased under Alfonsín, strengthened by the claim that subsidies to state companies amounted to \$4 billion in 1989. Proponents claimed that privatization would lead to higher levels of investment, access to new technology and improved efficiency. In reducing the need for state subsidies, it would eliminate the main cause of inflationary fiscal deficits. A booming private sector would generate new sources of employment, as economic growth surged. Opponents, including right-wing nationalist remnants of the junta, stressed the need to protect Argentine assets from acquisition by foreigners, and the deleterious effects on jobs. But the instability, stagnation and hyperinflation of the 1980s had been so acute that Menem initially faced little opposition. He had the support of the Radicals and was, in any case, equipped with his emergency powers. The trade unions were mollified by early retirement schemes, generous by the standards of a developing country, and equity stakes in privatized companies.

Largely pushed through during Menem's first three years in office, the programme acquired vast scope, affecting the most basic sectors of the economy: oil, communications, power, utilities and the media. Between 1990 and 1994, it hugely stimulated the inflow of foreign investment, including the repatriation of some of the billions of dollars deposited abroad by Argentines. Many small savers, too, became stockholders in newly privatized enterprises. Pension reform, which introduced the option of a private or state social-security plan, also increased the number of micro-investors—while making a significant hole in state finances. Menem was garlanded with praise by the IMF and World Bank, who gave him much hands-on assistance. Privatizations eventually raised some \$31 billion, almost all of it before 1995.¹³ The revenue was largely

¹² World Bank, *Argentina. From Insolvency to Growth*, Washington, DC 1993, p. 128.

¹³ Luigi Manzetti, *Privatization South American Style*, London 1999, p. 93.

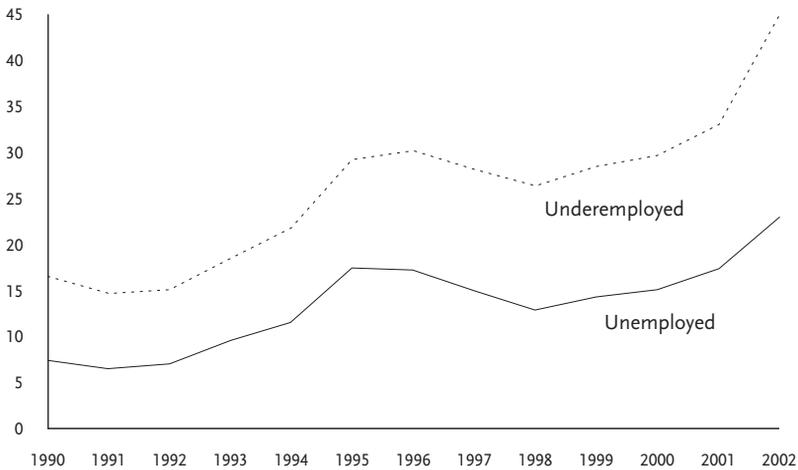
used to buy down the foreign debt and to eliminate the fiscal deficit; although both would prove only temporary achievements.

The programme's implementation, however, provoked fierce controversy. The complaints began when Menem used the emergency law to institute privatization by decree, and then exploited his powers of appointment to the Supreme Court to impede investigations of malfeasance. Government administrators of the sell-offs were accused of squandering national assets, and of ignoring criteria of efficiency or service. Public Works Minister Roberto Dromi made no effort to create regulatory bodies for the newly formed private monopolies. María Julia Alsogaray, the daughter of one of Argentina's leading liberal politicians of the postwar period, responsible for running the auction of ENTel, is still embroiled a decade later in court battles over allegedly misappropriated monies from the deal.

The beneficiaries of privatization included both foreign and domestic conglomerates. Typically, the overseas corporations provided most of the finance and technical expertise, while the Argentines contributed knowledge of local conditions and access to the government. Of the domestic groups, the most important were Pérez Companc, Techint, Astra and the Grupo Soldati—all targets of suspicion for their extensive dealings with the military dictatorship of the 1970s. Menem was widely believed to have offered them an oligopoly over the ex-state sector in return for their help during the crisis of 1989–91. Pérez Companc's acquisitions included stakes in the two major telephone companies that resulted from the ENTel sell-off, sections of the former oil company (YPF) and electricity industry (SEGBA), and shares in gas pipelines and distribution. The Grupo Soldati had similar interests in oil, gas and telecommunications, as well as water supply.¹⁴

The effect on employment was dramatic. Jobs on the railways—to take an extreme example—shrank from around 100,000 to a mere 10,000. Redundancies were less severe in other sectors, but the workforce of former national corporations was always reduced (see Figure 2 overleaf). For Argentines, the old state-ownership system, albeit inefficient, at least had the merit of preserving high levels of employment; new jobs in

¹⁴ Daniel Muchnik, *País archipiélago. Las consecuencias del modelo político-económico del gobierno de Menem*, Buenos Aires 1993, p. 54.

FIGURE 2: *Unemployment as % of active urban population, 1990–2002*

Source: National Institute of Statistics and Censuses, Argentina (INDEC).

high-tech, high-growth sectors failed to materialize. Even more, it meant the loss of institutions that had long insulated them against the shocks of the global economy. Under Menem's privatization *à toute outrance*, a World Bank study warned as early as 1993, 'public finances have little cushion in the event that favorable economic and policy assumptions do not materialize.'¹⁵

Neo-development

What of the boost to growth and the 'new economy', whose high-value exports would trigger wealth and jobs? By 1994 there had indeed been a recovery from the contraction of the previous decade, but only to around the levels of the early 1970s.¹⁶ There were some developments in fisheries, forestry and natural gas, but no major structural shift in the economy. Rising exports of automobiles, petrochemicals, steel and

¹⁵ World Bank, *Argentina*, 1993, p. xii; see also William Smith, 'Hyperinflation, Macroeconomic Instability, and Neoliberal Restructuring in Democratic Argentina', in E. Epstein, ed., *The New Argentine Democracy*, Westport 1992, p. 57. For a favourable view: World Bank, *Argentina's Privatization Program*, Washington, DC 1993.

¹⁶ ECLAC, *Economic Survey of Latin America and the Caribbean 1994*, p. 131.

wine largely comprised long-established products. Argentina remained highly dependent on agrarian exports—old products like beef and wheat, as well as newer ones such as sorghum. The influx of foreign capital contributed to higher consumption rather than increased production. Investment was targeted towards the large-scale, capital-intensive industries that featured in Menem's privatization programme. The so-called PYMES, the small and medium-sized firms, failed to surge; still lacking access to credit, technology, markets and skills, they could do little to mop up the rising surplus of labour. Productivity gains lagged behind international standards.¹⁷

There were some small exceptions to this rule. Tax exemptions from before Menem's time led to an intriguing outgrowth of modern manufacturing in the western province of San Luis, for example; but this type of transition bypassed most other regions. Dearth, indigence, unemployment and sharpening inequality characterized most of the Argentine provinces under Menem—an inequality intensified by the government's excessive reliance on Value Added Tax. On the land, the surviving peasantry subsisted on the small plots known as *minifundios*, or eked out a living picking fruit. Local economies lost important subsidies with the abolition of the price-fixing boards, established in the 1930s; many, such as sugar-producing Tucumán, endured continuing decline. In the poorest parts of Argentina—the northern provinces of Salta, Jujuy and Formosa—per capita income among the poor had fallen to the levels of Bangladesh and Nepal by the late 1990s. In several major provincial cities, among them Concordia (Entre Ríos), Resistencia (Chaco), Corrientes and San Salvador de Jujuy, almost three-quarters of the population lived in dire need.¹⁸

Investment came to Argentina in the 1990s under quite different conditions from those of the belle époque. In that halcyon era, bankers could point to the country's proven record as an agrarian exporter. During the

¹⁷ Bernardo Kosacoff, 'La industria argentina, un proceso de reestructuración desarticulada', in Bustos, ed., *Estabilidad*, pp. 93–128.

¹⁸ *Página 12*, 11 January 1999 shows the following figures for per capita income for the poorest 20 per cent of the population (Argentine jurisdictions in italics): United States \$6000; *Gran Buenos Aires* \$864; Bangladesh \$613; *Corrientes* \$510; *Salta* \$468; Nepal \$464; *Jujuy* \$400. For the provinces, see Alejandro Rofman, 'Las economías regionales: un proceso de decadencia estructural', in Bustos, ed., *Estabilidad*, pp. 159–89.

Menem years, investment potential remained largely in the imagination of the president's advertising team. Agricultural subsidies in Europe and the US ruled out fast growth through agrarian exports. The prospects of a new prosperity forged by manufacturing industry appeared equally slim. Developing nations were competing for markets by forcing wages down to the lowest possible levels, and Asia's nascent industrial giants ensured that Argentina stood little chance on the world stage. In the 1980s, Argentine industry had contracted by 24 per cent; in the early 1990s it regained some, although not all, of the lost ground. By 1994, employment in manufacturing remained at only around 75 per cent of the levels of 1980. Production of consumer durables increased, thanks to Mercosur; but capital-goods production contracted with the influx of imports. Most importantly, the chronic over-valuation of the peso through much of the period left Argentine goods at a competitive disadvantage in most export markets.¹⁹

Pegging the peso

Argentina's currency-convertibility system was not, strictly speaking, an element of the Washington Consensus, although it had been applied elsewhere—Chile in the late 1970s, for example. The measure, which became law in early 1991, signalled the adoption of a currency guaranteed to be convertible at a one-to-one rate to the US dollar. The architect of the system was Domingo Cavallo, a Harvard-trained economist who had previously been Menem's foreign minister. Tied to the *patria financiera*, Argentina's liberal financial elite, he combined a reputation for professional proficiency with a formidable personality.

Cavallo's system was similar to the long-defunct gold standard—used intermittently before 1930 in Argentina, as well as in Western Europe and the United States—in retaining a fixed exchange rate and matching money supply to foreign reserves. The 1991 law established the independence of the Central Bank, and stated that the elected government could never again order the printing of money. Cavallo argued that convertibility would encourage domestic savings, since every peso in the bank would always be worth the equivalent of a dollar; it would attract

¹⁹ Kosacoff, 'Industria', p. 109; ECLAC, *Economic Survey of Latin America and the Caribbean* 1996, Santiago 1997, p. 72. For a sceptical view, see Atilio Borón, 'Argentina's Neoliberal Reforms', in Leslie Armijo, ed., *Conversations on Democratization and Economic Reform*, Los Angeles 1994, p. 244.

foreign investment and help to repatriate Argentine funds from abroad, as holding money at home would be as safe as keeping it in the United States. It would thus help to create a durable credit system, enabling higher consumer spending to boost housing and manufacturing. Above all—and this was what gave the measure credibility—it would put an end to the nightmare of hyperinflation.

Cavallo's critics pointed out the dangers of guaranteeing peso-dollar equivalence. When the dollar appreciated against other currencies, Argentine exports would become less competitive; only 10 per cent of these went to the United States. The gold standard had worked well in periods of growth, amplifying domestic credit when the foreign-trade balance was in surplus, but by the same token it magnified the effects of a deficit—enhancing prosperity but intensifying recession. 'Core' nations were able to regulate and reconstitute their foreign reserves by raising interest rates or controlling their export earnings. During recessions, powerful central banks like the US Federal Reserve or, before World War Two, the Bank of England, could use attractively high interest rates to draw in funds from abroad. Debtor countries of the periphery like Argentina lacked any such control over short-term capital flows. When their foreign reserves fell, they were obliged to restrict credit; if they tried to keep to the gold standard, they would fall into a deflationary spiral—lower spending, economic contraction and rising unemployment. In 1914 and 1929, Argentina had abandoned the gold standard in order to pull out of just such downward cycles. That had been achieved by executive decree; the 1991 law was more rigid, requiring congressional legislation for the suspension or abolition of convertibility.²⁰

Cavallo brushed such warnings aside. He pointed out that the massive fiscal deficits of the 1980s had disappeared, although expenditure on health and education was increasing; unemployment was still less than 7 per cent. He failed to mention the low US interest rates that were the preconditions for his success.²¹ In any case, in political terms Cavallo

²⁰ The 1991 measure fell short of 'dollarization' by allowing a national currency—just as the gold standard did not require an exclusive use of gold coins. This one-step-below dollarization allowed the investment of dollar reserves, yielding the revenue known as seignorage. See also Alec Ford, *The Gold Standard 1880–1914: Britain and Argentina*, Oxford 1962.

²¹ Nissan Leviatan, ed., *Proceedings of a Conference on Currency Substitution and Currency Boards*, World Bank Discussion Papers 207, Washington, DC 1993, p. 9.

had by now become the prisoner of his creation, as he would eventually become its victim. Once established, convertibility had begun to command the support of powerful vested interests. The newly privatized corporations ran up large hard-currency debts abroad, confident they would be able to repay them. Middle-class Argentines kept their savings in local banks, or borrowed money to buy real estate and automobiles. Even the poor entered into small-scale hire-purchase deals. As credit and indebtedness expanded, no one wanted to end peso–dollar convertibility: it would mean slashing savings and increasing debts. This broad-based support endured even into the crisis of 2001. When one peso equalled one dollar, ‘many, many Argentines slept soundly. So strong was the consensus on convertibility that even today [July 2002], no one will take responsibility for having carried out the devaluation.’²²

Political transformations

As he reformed the economy, Menem redrew the political map of Argentina. The most striking changes of the 1990s lay in the eclipse of the military—a dominant force in the country since the nineteenth century—and the steep decline of the once powerful trade unions. The army’s standing had suffered an irreparable blow during the ‘Dirty War’ of the 1970s, compounded by humiliating defeat in the Malvinas; they had been ejected from government in disgrace in 1983. Throughout the Alfonsín years, hard-line military factions had fought against cuts in the defence budget and the trials of former junta leaders. Menem adopted a subtler policy. On the one hand, he proclaimed an era of ‘national reconciliation’—200 officers, sentenced for murder or torture on the basis of irrefutable evidence, walked free in his amnesty of October 1989. On the other, he cracked down on the resistance of the extreme-right *carapintados*, or ‘painted faces’. The last barracks rebellion occurred in December 1990, following Menem’s restoration of relations with Britain. The army command was ordered to crush it, and complied. The ringleader Colonel Mohamed Seineldín, another *turco*, was sentenced to life imprisonment.

Compulsory military service was abolished. With strong IMF support, the administration set about privatizing key sections of the military-industrial complex, including the arms producer Fabricaciones Militares,

²² Juan Carlos Torre, 24 July 2002 (personal communication).

and selling off some of the army's vast real-estate holdings. By 1993, force levels had been further reduced to 65,000, with the number of generals falling from seventy in 1989 to thirty-two in 1995. Morale was maintained by energetic participation in UN/US 'peacekeeping' operations. Since Menem's personal decision to send two ships, airforce transport planes and 600 commissioned and non-commissioned officers to join the blockade of Iraq in September 1990, Argentine forces have taken part in operations in Croatia, Somalia, Cyprus, Kuwait, Haiti and Angola. 'Marching alongside US troops in a Gulf War welcome-home parade—a much reported event back home in Argentina—was a dramatic change of profile for Argentine troops', a local paper noted at the time.²³ In terms of domestic politics, however, the military became invisible. In December 2001, De la Rúa called for armed intervention against the rioters in Buenos Aires. The commanders refused to obey until instructed to do so by Congress. That order never came.

Since the 1940s, the trade unions had been a key component of the populist coalition. Their influence—embodied in the '62 Organizations' of the General Confederation of Labour (CGT)—reached a peak in 1973, when Perón began a brief third term as president. Subjected to brutal repression by the military dictatorship, organized labour was further undermined by deep recessions from 1975 onwards, sapping manufacturing industry. Nevertheless, by the 1980s the unions seemed to have regained their vitality. Thirteen short general strikes contributed to the fall of Alfonsín in mid-1989. Menem's post-victory *volte-face* caused consternation among the labour bosses that had supported his election campaign, but they took no counter-action. The result was a split in the CGT in October 1989, between public-sector workers and others who would bear the brunt of the promised austerity measures, and the bulk of private-sector unions who still favoured 'dialogue' with the government. Attempts at reunification in 1992 finally resulted in a permanent break, with the dissident unions forming the Confederación de Trabajadores Argentinos (CTA).

Menem commonly suborned support, and union leaders who endorsed privatization received generous rewards. *Dialoguistas* Luis Barrionuevo of

²³ 'Argentina en el Desfile de la Victoria', *Cronista Comercial*, 11 June 1991, cited in Wendy Hunter, 'State and Soldier in Latin America', Chapter 2, United States Institute of Peace, October 1996: www.usip.org

the food workers' union and Jorge Triaca, the plastic workers' head, were respectively put in charge of the Social Works Administration and the national steel company SOMISA; although the scale of the corruption charges brought against them eventually obliged Menem to sack them both. The changes wrought by privatization, trade liberalization and the contraction of public works had a more profound impact on the position of labour. The unprecedented levels of unemployment they created— noted in an ECLAC survey as early as 1994, on the crest of economic expansion—diminished the negotiating power of the unions.²⁴ The long-term trend from factory work to *cuentalpropismo*—underemployment, marginality and inequality—accelerated through the 1990s. Argentine workers had once enjoyed standards of living comparable to those of Western Europeans. By the end of the century, the resemblance was rather to the once much poorer nations of Latin America.

Nevertheless—testament to organized labour's continued public role—Menem failed in his attempt to push through legislation on 'flexibilization' that would have facilitated the hire of temporary workers, sub-par wage payments and the abandonment of traditional collective-bargaining methods in favour of decentralized or plant-by-plant negotiations.²⁵ Meanwhile Argentina's long tradition of militant trade unionism was continued by the minority CTA, organizing state employees, teachers, radical metalworkers and others. Under the leadership of the public-sector workers' Víctor De Gennaro, it has played a prominent role in the highway barricades organized by the *piqueteros* during 2002. The teachers' union CTERA has been one of the most active groups within the CTA, reflecting its members' opposition to the decentralization of the Argentine education system and the grotesque inadequacy of provincial funding.²⁶

But if the mainstays of the old Peronist bloc had been dissolved or neutralized, Menem proved adroit at manipulating new forms of populism which by-passed the traditional corporate groups.²⁷ The Peronists re-invented machine politics during the 1990s, using local party networks

²⁴ ECLAC, *Economic Survey 1994*, p. 68.

²⁵ Balze, *Remaking the Argentine Economy*, p. 109; Murillo, *Labor Unions*, pp. 131, 170. In September 2002, the IMF is still waiting for *flexibilización* measures it would consider adequate.

²⁶ Murillo, *Labor Unions*, p. 164.

²⁷ Jeremy Adelman, 'Post-Peronist Argentina', NLR 1/203, January–February 1994.

to create webs of patron-client relations reminiscent of the Radical party *comités* of the early twentieth century (also designed to blunt the effects of liberal economics). Rather than organizing through the unions, they now approached people as individuals, householders or consumers. Women have played an important role in this latest generation of party bosses, working the *unidades básicas* or Justicialista party cells at the level of the *manzana*, the city block. Loyalty was shored up by providing goods for the poor—paid for out of public funds, but dispensed by the party. Operating in the shantytowns of Gran Buenos Aires, ‘Chiche’ Duhalde, the wife of Eduardo, became a leading practitioner of the new approach. The neopopulists resurrected Yrigoyen’s methods of trafficking in public appointments: party loyalists flocked into the bureaucracy, seeking the rewards of office. Menemist decentralization added a further dimension to the process, with provincial leaders exploiting their expanded role as providers of health and education to create new forms of patronage.²⁸

While the neoliberal programme called for a reduction in government expenditure, neo-populism and the *clientelismo* it entailed somewhat mitigated this trend. In Buenos Aires Province—by far the largest, with a population of 9 million—spending rose fairly consistently throughout the decade, as shown in Table 1 overleaf (a significant proportion of this was locally raised). The same pattern prevailed in the next most populous provinces, Córdoba and Santa Fe. Governors here pushed for a greater share of *coparticipación* funds. As unemployment worsened, they would also come under intense pressure from below. The federal government, shackled by the convertibility system, fought to restrict revenue-sharing and reduce the fiscal deficit. The stage was set for a clash that would erupt the moment the economy turned down.

For the time being, however, political stability was preserved. Menem succeeded in reconciling neoliberalism with the forms of representative democracy, minimizing—although not altogether avoiding—resort to authoritarian means. He became the first president since Perón to

²⁸ In 2002, a reported 1.36 million officials served in provincial and national administrations (*Buenos Aires Herald*, 31 May 2002). Javier Auyero, *Poor People’s Politics: Peronist Survival Networks and the Legacy of Evita*, Durham, NC 2000; Steven Levitsky, ‘Organization and Labor-based Party Adaptation. The Transformation of Argentine Peronism in Comparative Perspective’, *World Politics* 54 (October 2001), pp. 21–56.

TABLE I: *Buenos Aires provincial spending, in millions of pesos*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Administration	1,146	1,654	1,990	2,369	2,223	2,375	2,179	2,448	2,492	2,588
Security services	545	618	712	726	839	811	1,036	1,227	1,288	1,262
Social services	2,219	2,818	3,650	4,035	3,970	4,418	5,536	5,901	6,283	6,205
- Health	537	639	788	758	818	912	946	1,042	1,183	1,087
- Social work	70	147	288	445	330	416	600	627	620	533
- Social security	250	275	248	227	186	228	257	222	257	236
- Education/culture	1,153	1,609	2,023	2,280	2,255	2,527	3,252	3,423	3,816	3,915
- Science/technology	7	8	10	10	10	11	12	12	12	15
- Work programmes	-	-	-	-	-	-	63	171	120	146
- Housing/planning	154	104	177	177	162	198	220	259	182	215
- Water/sewage	48	35	115	137	210	126	187	144	94	59
Economic services	169	423	493	768	745	823	888	940	774	559
Public debt	22	162	145	151	150	290	230	215	260	385
Total	4,101	5,674	6,990	8,049	7,927	8,717	9,869	10,731	11,097	10,997

Source: Dirección Nacional de Coordinación Fiscal con las Provincias

serve out a six-year term; in 1995, having rewritten the constitution, he won re-election for a further four years.

External shocks

As Menem commenced his second term, however, Argentina was emerging shaken from the first big blow to its economic model. By December 1994, a sharp rise in US interest rates had provoked a world bond-market crash and devaluation of the Mexican peso. The popularity of emerging markets plummeted. Capital fled Latin America. Stock prices fell sharply on the Buenos Aires Bolsa as the Tequila effect hit. The Argentine economy lurched into recession, unemployment soaring from 12 to 18 per cent in scarcely six months. Capital flight and falling reserves created fears as to whether the convertibility of the peso could survive. The subsequent run on the banks—18 per cent of deposits lost within weeks—raised anxieties about the strength of the banking system as a whole, and forced some provincial closures. GDP contracted by 7.6 per cent from the last quarter of 1994 to the first quarter of 1996.

Menem and Cavallo's currency-board system was kept intact. Foreign-debt repayments were guaranteed by the Central Bank's reserves, with the government offering to rebuild these, if necessary, through additional privatization measures—although by now there was little left to sell. Political friends—Pérez Companc and others—rallied round to support the peso. Speculators held fire. Alarmed by the repercussions of the Mexican crisis, the US lowered its interest rates somewhat. Argentina appeared to have weathered the storm. But the cost of financing the budgetary deficit—which grew from \$1.3 billion in 1995 to \$5.6 billion in 1996, with falling revenues and rising interest payments—had set the country on the first turn of the rising debt spiral that would culminate in the massive default of December 2001. Through the late 1990s, rising external interest rates would lead to growing debt-service costs, which in turn would amplify the debt and thus entail the still higher rates imposed on the country as a 'risk premium'; with the entire deficit being hugely magnified, as noted above, by the effects of the currency-convertibility system. The small deficit of previous years, mainly a result of the partial privatization of social security, began to yawn.²⁹

Temporarily, however, the appreciation of the Brazilian *real*—Cardoso had raised interest rates to nearly 65 per cent, in response to the Tequila crisis—came to the rescue of the Argentine economy, by creating a big pull from its main export market.³⁰ But recovery remained tenuous. Argentine exports still consisted mainly of low-value primary goods. Half the new jobs that now appeared were temporary ones, signalling an increase in *cuentapropismo*. At this stage, too, the social problems of regional decline and unemployment became more obtrusive. The bank failures of 1995 had a disastrous effect on regional finance in some parts of the country, leading to plummeting standards of public health and education. Provincial leaders demanded more resources. In mid-1996 Cavallo resigned over a row about health spending, to be replaced by Roque Fernández.

Revenues from privatization were exhausted. Foreign investment stagnated. Further hikes in US interest rates brought higher debt-service costs, swelling the deficit. Crucially, from early 1996 the US dollar also

²⁹ Mark Weisbrot and Dean Baker, 'When "Good Parents" Go Bad: The IMF in Argentina', Centre for Economic and Policy Research, Washington, DC April 2002.

³⁰ Manzetti, *Privatization South American Style*, p. 85; Geisa Maria Rocha, 'Neo-Dependency in Brazil', NLR 16, July–August 2002.

began to rise. Its appreciation became the turning point for the world economy in the 1990s—the ‘death knell for those peripheral economies that had tied their currencies to the dollar’. Increasingly towards the end of the decade, ‘the US would absorb all the world’s mobile capital. In this situation, countries that had staked everything on attracting foreign investment were up against the wall’.³¹ In early 1997, US interest rates rose again. The upward lurch in foreign-debt payments spread panic, capital flight and then collapse through much of Southeast Asia. A year later, in August 1998, Russia defaulted on its debt. By then, the Argentine economy had fallen into recession. Contrary to the picture the IMF has painted, the government ran a primary budget surplus through most of the period—but the rising interest costs of the debt pushed it into deficit (see Table 2).

TABLE 2: *Government spending and revenue, millions of current pesos*

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Revenue	50,727	51,078	50,294	47,669	55,377	56,726	58,455	56,571	51,319
Total Spending	47,996	51,364	51,667	52,933	59,653	60,800	63,224	63,362	59,429
- as a % of GDP	20.3	20.0	20.1	19.5	20.4	20.3	22.3	22.3	22.1
Interest Payments	2,914	3,150	4,084	4,608	5,745	6,660	8,224	9,656	9,630
- as a % of GDP	1.2	1.2	1.6	1.7	2.0	2.2	2.9	3.4	3.6
Deficit/Surplus	2,731	-286	-1,373	-5,264	-4,277	-4,074	-4,768	-6,792	-8,110
Primary Spending	45,082	48,214	47,583	48,325	53,908	54,139	55,000	53,706	49,799
- as a % of GDP	19.1	18.7	18.4	17.8	18.4	18.1	19.4	18.9	18.5
Primary Surplus	5,645	2,864	2,710	-657	1,468	2,587	3,455	2,864	1,520

Source: Secretaría de Hacienda, Ministerio de Economía, Argentina

Exports, meanwhile, still depended on the continuing over-valuation of the dollar-pegged Brazilian *real*. In January 1999, this came under ferocious speculative attack. Cardoso’s government was obliged to abandon the exchange-rate anchor of the Plano Real and allow the currency to devalue. It appeared imperative that Argentina should follow. The Brazilian market was contracting fast. The convertibility system, tying the peso to the rising dollar, was devastating exports. Why did Argentina

³¹ Robert Brenner, June 2002 (personal communication).

not allow the peso to fall? Certainly, there was political pressure from the country's large middle class, who did not want their savings depleted. But this was reinforced by support from the IMF and US Treasury. The country, as a leading Fund official put it, had 'faithfully applied' its lessons, and its 'performance was recognized internationally, with President Menem's appearance alongside President Clinton at the 1999 annual meetings of the Fund and Bank'.³² At this stage, Menem even proposed reinforcing the fixed currency through all-out dollarization.

At the same time, blighted provinces were showing signs of exhaustion with neoliberal policies. The unemployed *piqueteros* had begun their roadblock protests, with support from the CTA and radical groups such as the Corriente Clasista Combativa. Faced with growing popular discontent, provincial administrations—led by Buenos Aires—slightly increased their public-sector employment, which rose from 1,223,000 in 1996 to 1,318,000 in 1999, rather than instituting the redundancies demanded by the federal government.

Return of the Radicals

Menem's domestic support was beginning to fray. The Justicialista party was racked by regionally inflected internal conflicts, pitting the president against his heir apparent, Eduardo Duhalde (vice-president in the early 1990s, before becoming governor of Buenos Aires). Menem tested the water for a further constitutional reform that would allow him to run for a third term but found little support; longstanding charges of corruption and abuse of authority were resonating more strongly.

In October 1997, sensing the exhaustion of *menemismo*, Argentina's oldest party, the Radicals, had united with Frepaso—one of its newest—to form the Alianza. Frepaso was itself a coalition of centre-left groups and, like the Radicals, largely middle-class in composition. Its main constituency lay in the city of Buenos Aires. Its leader Carlos 'Chacho' Alvarez was a teacher and former Peronist, who had quit the Justicialistas in 1993 in protest against school decentralization and privatization. Although united against Menem, the free-market Radicals and progressive *frepasistas* had sharply contrasting orientations. Alvarez, an able

³² See IMF Deputy Managing Director Anne Krueger's address of 17 July 2002, 'Crisis Prevention and Resolution: Lessons from Argentina', at: www.imf.org/np/speeches/2002/071702.htm

communicator, lectured against ‘globalization’, while another leading figure, Graciela Fernández Meijide, defended protectionist positions—a heresy for the Radicals.

Fernando De la Rúa, the Alianza figurehead, was known as a conciliator and vote-winner rather than a man of strong ideas. A veteran Radical from Córdoba, he had nationwide credentials and could expect strong support from the provinces in gubernatorial elections. He was currently serving as elected mayor of the newly established Autonomous City of Buenos Aires, where his unblemished, if unspectacular, record also promised victory against the divided Peronists. He was considered safe, stable and untainted by corruption.

De la Rúa and his running mate Alvarez squared off against a Peronist ticket headed by Duhalde in the presidential election of October 1999. Advised by Clinton’s Dick Morris, the Alianza campaign glossed over the crisis that faced the country and offered a saccharine programme of moderate liberalism and clean government, with vague promises of better health and education. Under Morris’s direction, De la Rúa stressed his personal reputation for reliability and stability, declaring he was ‘proud to be boring’. On the economy José Luis Machinea, head of the Central Bank under Alfonsín and a key member of De la Rúa’s team, was a strong advocate of convertibility (the question of how far the *frepasistas* would go in this direction was brushed aside). Machinea was sympathetic to the dollarization proposals that Menem had been floating, but argued that this would require prior ‘structural reform’ to eliminate the state deficit and ‘free’ the labour market.³³ Yet room for manoeuvre was shrinking fast. Revenue was falling, along with demand and consumption, while debt-swollen deficits grew. As one *ajuste*, or spending cut, led to another, the economy pitched further on down.

The Justicialistas were divided. As a *bonaerense*, Duhalde enjoyed little support from the Peronist provincial governors and none at all from Menem. On the stump, he hinted at a willingness to devalue, and even to default on the foreign debt—leading to accusations that he was merely rewarding his Gran Buenos Aires cronies, the manufacturers and trade unions who stood to benefit if competition from imported goods declined. The Peronists never managed to transcend

³³ *Financial Times*, 12 March 1999.

public opposition to abandoning convertibility—and Menem continued to agitate for dollarization.

The subsequent, narrow victory of the Alianza in December 1999 reflected the divisions of the Peronist camp rather than support for De la Rúa; the Peronists retained a large majority in Congress and the provinces. The new government's single aim was to attract more foreign investment, to service, while exacerbating, the debt requirement. According to Machinea, that meant both shoring up the fixed currency and wringing out the fiscal deficit, although this was only a modest 2.4 per cent of GDP. The administration's attempts to reduce *coparticipación* funds in order to cut provincial spending, however, were thwarted by Peronist governors and Congress, resulting in political stalemate. Taxes were raised and cuts imposed, but the fiscal saving—an overall 2 per cent of GDP—was dwarfed by the increase in debt-service costs. There was still no sign of recovery. *Flexibilización* measures—including the abolition of centralized collective bargaining and an end to employers' contributions to union-run health funds—again met resistance in Congress. Reports circulated of a government attempt to bribe Peronist senators to support the legislation. Alvarez resigned as vice-president, having served for only nine months. The Alianza persisted only in name.

After the bubble

Time had run out. From April 2000, the downturn on Wall Street signalled the end of the US boom and the onset of a grave deterioration in the world economy. Capital flew out of the country as predictions grew that Argentina faced a 'hard landing'. The deficit worsened, despite spending cuts. By November 2000, default was looming. The government turned to the IMF for emergency assistance. The Fund set conditions of draconian fiscal austerity. If these were met, a huge loan, totalling almost \$40 billion, would be made available to prop up the currency-convertibility system.

The severe retrenchment demanded by the IMF merely accentuated the negative effects of deflation, deepening the recession, accelerating capital flight and increasing the likelihood of eventual default. To require the enfeebled De la Rúa government to combat spending in the Peronists' provincial strongholds only exacerbated the risks of political breakdown. In a desperate search for spending cuts, the administration raised the

age of retirement for women and reduced the minimum state pension. A public-works programme to reduce unemployment and revive consumption, announced at the beginning of 2001, remained stillborn. Machinea resigned in early March, having failed to push through further reductions. Ricardo López Murphy, the neoliberal economist who replaced him, duly declared war on the provinces' welfare and employment programmes, but met with a solid front of opposition from the Peronist governors of Buenos Aires, Córdoba and Santa Fe. López Murphy shifted his focus to higher education, no doubt hoping to find a softer target, only to encounter the collective fury of the university students. Three weeks after taking office, he resigned.

De la Rúa now brought back Menem's finance minister, Cavallo, who—after an initial shot at tax cuts—tried to implement the old fiscal-austerity recipe of higher taxes and spending reductions. In June, he sought to negotiate a delay on foreign-debt interest payments through a 'mega-swap' of some \$32 billion. In a covert attempt at devaluation, Cavallo then proposed re-setting the convertibility level at a rate based on a basket of lower-value European currencies; this was spotted at once, and rejected by Congress. In July, Radicals prevented a further cut in pensions.

As depositors emptied their bank accounts and safety-deposit boxes, De la Rúa appeared resigned to Armageddon: 'I give my life to the fight,' he vowed in July 2001: 'I will never devalue.'³⁴ The IMF now demanded that the government achieve a zero fiscal deficit as the condition for a further loan of \$8 billion; it targeted the increase in provincial public-sector employment—up 35,000 between 1999 and 2000, by the Fund's own figures—as a major 'fiscal problem' and symptom of 'public-sector bloat'. In October 2001, mid-term elections revealed the public's disorientation and disillusionment. The Alianza vote collapsed; the Peronists' increased (bringing Duhalde into the Senate) but the biggest jump was the 4 million people who cast blank ballots.³⁵ Withdrawals from bank deposits reached \$500 million per day in late November, and a staggering \$1 billion per day in early December. It was in these circumstances that Cavallo instituted the *corralito*. Backing for De la Rúa now vanished completely. Defence of convertibility was no longer possible. The popular uprisings of December 2001 saw De la Rúa's flight, devaluation and the historic debt default.

³⁴ *Financial Times*, 16 July 2001.

³⁵ Non-voters risked fines under Argentine law.

What balance sheet can be drawn from Argentina's long decade of neoliberalism? Promises of a new economy funded by foreign capital clearly proved a mirage. Unemployment soared, and high-value export sectors failed to materialize. Privatization, thanks in part to the oligopoly of the domestic conglomerates, has not even brought efficiency—as the *Financial Times* has noted, Argentina has been one of the world's most expensive places to do business.³⁶ Deficits were supposed to cease with the ending of state subsidies to national industries; instead, they were swollen by the rising costs of foreign debt. The currency-convertibility system drastically exacerbated these problems through its deleterious effects on exports and deficits. If the central planks of the Washington Consensus produced unemployment, regional blight and rising inequality, it was the fixed exchange rate that, with the rising dollar, provided the extra turn of the screw, the extreme severity of Argentina's millennial crisis.

The IMF supported the fixed-rate system to the tune of tens of billions of dollars right to the bitter end. It still claims that the root cause of Argentina's crisis was fiscal mismanagement, and that insufficient flexibility in the labour market was the real problem undermining the currency regime. It has been particularly outraged by recent acts of Congress—extending a ban on mortgage foreclosures and the seizure of debtors' cars; reinstating employers' payments to a trade-union run health scheme; claiming that foreign banks' head offices should be responsible for new deposits in their Argentine branches. As a result, it is now demanding 'political consensus'—the ultimate fiat—for any deal.³⁷

It is not yet clear what the contents of such an agreement might be. Will it provide real resources for reviving the economy, or merely put Argentina into 'a type of receivership' in which slow growth, permanently high interest rates and an unsustainable debt burden cause the country to limp along from one crisis to the next? Argentina might do better to pursue a non-IMF alternative. The crisis of the last year has already altered the economy's coordinates. An effective devaluation of around 72 per cent has made the export sector vastly more competitive and, with the collapse in imports, expanded its share of the overall economy from 11.5 to 37 per cent. As a result, there is now a current-account surplus. Could Argentina take its own steps to recovery—declare a moratorium

³⁶ *Financial Times*, 15 February 2002; 19 March 2002.

³⁷ *Economist*, 7 September 2002, p. 57.

on the debt, institute a broad-based public-works programme, work directly with private banks in Brazil, for example, to arrange for letters of credit that would allow exports to expand more rapidly?⁴⁰

In July 2002, with political support slipping away from him, Duhalde declared that the country needed an elected rather than an appointed leader, and announced that he would bring the next presidential elections forward to March 2003. Peronists are currently squabbling over who should succeed him. Menem attempted yet another comeback, but met with such a torrent of abuse that he was forced to retire. Carlos Reutemann, governor of Santa Fe and a former Formula One racing champion, has so far declined to run, but might reconsider if he had the support of the IMF. The Córdoba governor, José Manuel De la Sota, has meanwhile proffered himself as next best.

The dissident Radical congresswoman Elisa Carrió has emerged as a leftish alternative, having gained a reputation as a scourge of corruption. Like Leandro Alem, who came to the fore during the Baring Crisis, Carrió has succeeded in surrounding herself with an aura of transcendent integrity. Opinion polls in the spring of 2002 showed her as the country's most popular politician—perhaps the head of a mass movement comparable to the *radicalismo* of a century ago. Had they considered the parallel more closely, Carrió's followers might not wish for an exact replay of the events of the 1890s. The Radicals then suffered fraud at the polls, and took another twenty-six years to reach office. Alem proved a brilliant rhetorician but a flawed leader; his career ended in suicide. Honesty alone may once again prove insufficient to forge a path out of the abyss. But as a preliminary step, it seems essential for Argentines to recognize how, during the course of the 1990s, they were led into it.

⁴⁰ For this proposal, see Alan Cibils, Mark Weisbrot and Debayani Kar, 'Argentina Since Default: The IMF and the Depression', Centre for Economic Policy Research, 6 September 2002, www.cepr.net