The Sorrows of Carmencita

MAURICIO ROJAS

*

The Sorrows of Carmencita

Argentina's crisis in a historical perspective

TIMBRO

Timbro Förlag AB 2002
Tel: +46 (0)8-587 898 00
E-mail: info@timbro.se
Internet: www.timbro.se

English translation:
Roger G. Tanner

Cover design and typography:
Formgivningsverket

Cover photo:
Anthony Saint James/Gettys Images

Author portrait:
Pontus Johansson

Origination:
Ateljé Typsnittet L&R AB

Printing:
Kristianstads Boktryckeri AB, Kristianstad 2002

ISBN
91-7566-529-8

Para Mónica,
por todo aquello que las palabras no pueden decir.

Contents

PREFACE

This book is a long reply to those wishing to put down the tragic problems of Argentina to liberal ideas and economic liberty.

Stockholm, April 2002
Mauricio Rojas

Carmencita, little friend,
steer well clear of wealthy men!
Happiness isn't just oxen and cows,
and you will never ever buy it with money.

From "Fritiof & Carmencita" by Evert Taube
(Swedish troubadour who visited Argentina during it's
golden days)

… it will never be completely understood how a country
with tremendous potential
has had such a contorted past.

Davide G Erro
Resolving the Argentine paradox

INTRODUCTION

There are countries which are rich
and countries which are poor.
And there are poor countries which are growing rich.
And then there is Argentina.

According to a classification attributed to Mario Vargas Llosa.

»WELCOME TO AFRICA,« the passport control officer at Buenos Aires airport said to me. »Yes, this is Africa,« he insisted, in response to my look of bewilderment, pointing to the corridor behind him leading into the country. We exchanged a few words, and on hearing that I would be going off to Chile so as to be there on 11th March 1990, the day when Augusto Pinochet was to hand over power to Patricio Aylwin, the new, democratically elected president, he said: »Can't you send Pinochet here, now he's at a loose end?«

This reception more than astonished me, but the days I then spent in Buenos Aires really helped me to understand the passport control officer's remarkable state of mind. I had come to a country in the midst of hyperinflation and chaos, a country whose citizens had seen their incomes dwindle by an average of one-quarter in ten years, and whose belief in the future had just about vanished. In Buenos Aires I met Hilda Sábato and Juan Carlos Korol, two researchers I collaborated with. One day, at the offices of CISEA[1], we were discussing the theme currently at the centre

1. Centro de Investigaciones Sociales sobre el Estado y la Administración.

of every Argentinian's thoughts and travails – hyperinflation. In the middle of the conversation, one of my colleagues got up and went over to a cupboard which I thought held essays and suchlike, but to my amazement the door opened to reveal a stockpile of cigarettes, oil and other commodities. »It's part of our salaries,« I was told. »We have to exchange every single *austral* we get for dollars or goods as quickly as possible, so as not to lose everything.« That was almost the end of our conversation, because someone phoned to announce an extra salary payment which Buenos Aires University would be making inside the hour. People had to hurry up, sign for their money as quickly as possible and exchange it for dollars or buy something with it before hyperinflation made it practically worthless.

That was Argentina in March 1990, in the midst of a crisis which perhaps has to be experienced first-hand in order to be properly understood. No prices were displayed in shops and restaurants, because prices were changing all the time, and everywhere people were feverishly exchanging their money for dollars, a clear indication of the country's wretched condition. On arrival in Chile I found even more manifestations of Argentina's unbelievable transformation from boom to bust. Visiting Sonda, a big Chilean IT corporation, I was told that every day well-educated Argentineans came offering their services at practically any price. It was incredible – destitute Argentineans coming to Chile in search of work, whereas formerly it had always been impoverished Chileans making their way to the big wealthy country on the other side of the Andes.

What had befallen Argentina, the prosperous country I had already visited as a child and which at that time, in the 1950s, from the viewpoint of other Latin Americans, was so incomprehensibly advanced and wealthy? How could things go so wrong? When did the trouble start? These are questions which the Argentinians themselves have been wrestling with in recent decades and which

have been begging more and more insistently for answers following the eruption of chaos in December 2001, when the whole world marvelled to see how the country which had once inspired the hopes of millions of poor European emigrants had gone so utterly and completely to the dogs. How could a country which at one time had been the granary and larder of so many others be turned into a country whose own famished children were going berserk?

In my earlier writings on Latin America I had outlined a few answers to questions like these, but now it seemed high time to address them more coherently and in greater depth. To do so I had to go a long way back in time, especially to Argentina's golden age between 1860 and 1930, when exports flourished, immigrants arrived by the million and the country developed into one of the world's wealthiest. The roots of today's misery are in fact traceable back to those halcyon years.

This book falls into three parts. The first tells the history of Argentine prosperity, that is to say, the country's transformation from a poor backwater of the Spanish colonial empire to the brightest star on the Latin American firmament at the beginning of the 20th century. Part two describes the history of Argentina's odyssey from riches to rags. This story begins with the collapse of the export economy in 1930 and the long march towards the socio-economic, political and moral débacle which the country experienced at the beginning of the 1980s. The third part deals with the period following the restoration of democracy in 1983, down to the chaotic situation of today.

One thing should perhaps be made clear before we turn to consider Argentina's long journey towards present-day difficulties. The story told here is not the story of Argentina but the story of Argentina's crisis. This is an important distinction to make, because there are so many things left out of this story. I have only highlighted what can be relevant to an understanding of how this once so prosperous country could come to such a sticky end.

THE HISTORY OF ARGENTINE PROSPERITY

And behold, there came up out of the river seven kine, fatfleshed and well favoured; and they fed in a meadow.

Pharaoh's dream, *The Book of Genesis*

The period between 1860 and 1930 was Argentina's golden age. Seventy joyful years of almost uninterrupted growth, modernisation, democratisation and relative political stability. Millions of immigrants from the south of Europe made their way to Argentina at that time, and by means of new railways and trans-Atlantic steamers, the fertile soils of the Pampas linked up with the markets of Europe. Buenos Aires developed into a huge metropolis, the cultural capital of Spanish-speaking America. Impressive palaces adorned this trans-Atlantic Paris, where the music of the tango was born. But the dazzling façade concealed a good many problematic elements by which Argentina's later development was to be severely blighted. To put developments between 1860 and 1930 into perspective, my story begins with Argentina as a poor, remote colony.

COLONIAL ARGENTINA

Argentina in the 16th and 17th centuries was a backwater of Spanish America. »The Land of Silver« did not live up to the grand expectations of the first Spanish visitors on hearing the

rumour of a realm of silver somewhere in the inland of the Rio de la Plata. Neither precious metals nor plentiful Indian labour awaited the Conquistadors on the far-flung prairies of Argentina. Nor was the climate suitable for growing the sort of exotic, expensive crops which, for example, made Brazil an attractive European colony.

During this period it was the north-west of Argentina – Salta, Jujuy, Tucumán, Santiago del Estero and Catamarca – which, thanks to its proximity to the silver-producing regions of Alto Perú (Bolivia), developed most. Roughly two-thirds of the then Indian population of Argentina lived there, and the region exported draught animals, foodstuffs and craft products in large quantities to the wealthy mountain regions of Bolivia. Buenos Aires – founded in 1536 but quickly abandoned and then resurrected in 1580 – was for a long time unable to benefit from its privileged geographic location, due to the Spanish trade regulations and Lima's control of trade from the Viceroyalty of Peru, of which Argentina at that time formed part. Cattle – mostly only half-tamed *ganado cimarrón* – quickly spread across the Pampas, and large cattle ranches – *estancia* – were already established in the 17th century, mostly inland from Buenos Aires. These *estancias* could cover thousands of hectares of land, but as a rule they only employed a few *gauchos* (cowboys), who rounded up the half-tame cattle, flayed the carcasses and threw the rest away. Hides were almost the only product the region was able to export to Europe.

Things changed radically in the 18th century. Buenos Aires now had the opportunity of developing into a big sea port, not least after the Treaty of Utrecht in 1713 gave England a monopoly of slave-trading in Spanish America which, as far as the southern provinces were concerned, was channelled through Buenos Aires. Between 1714 and 1739, when the English were expelled from the Spanish Empire, Buenos Aires was transformed into

Spanish America's biggest centre for the import of slaves and into the biggest city in Argentina, with a population of 11,000. Extensive smuggling became another principal source of income for the city, together with the ongoing slave trade, though after 1739 this was in the hands of the Portuguese.

To consolidate their hold over the Rio de la Plata estuary, the Spaniards in 1776 founded a new Viceroyalty – *Virreinato del Río de la Plata*, comprising present-day Argentina, Uruguay, Paraguay and Bolivia – and elevated Buenos Aires to its capital city. Silver from Bolivia, hides and salted meat – *tasajo*, mainly for the slaves on the sugar plantations of Brazil and Cuba – were the dominant exports. The population of Buenos Aires grew from 22,000 in 1770 to 50,000 in 1810. The country in 1800 was still very sparsely populated, with scattered Indian tribes controlling almost the entire south of Argentina, large parts of the Pampas region and also many other places. The population at that time – not including the free Indians – numbered about 350,000, of whom 150,000 lived in the north-west region, 100,000 elsewhere inland and another 100,000 on the coast.

Argentina played a pivotal role in the Spanish American struggle for liberation. Contacts with England and other European countries had disseminated new ideas and frames of mind in Buenos Aires, and the national élite, consisting of merchants and landlords, did not – unlike their counterparts in Mexico, Peru and Bolivia, for example – have to fear any Indian risings. A modern, bourgeois spirit seems already to have characterised Buenos Aires at this time. After 1810, the Year of Rebellion, Spain never regained control of the seaport city. The banner of rebellion fluttered in Buenos Aires in 1816, when all the rest of the American colonial empire had been reconquered by Spain. In 1817 Argentine forces under General San Martín marched over the Andes and defeated the Spanish forces, first in Chile and then in Peru.

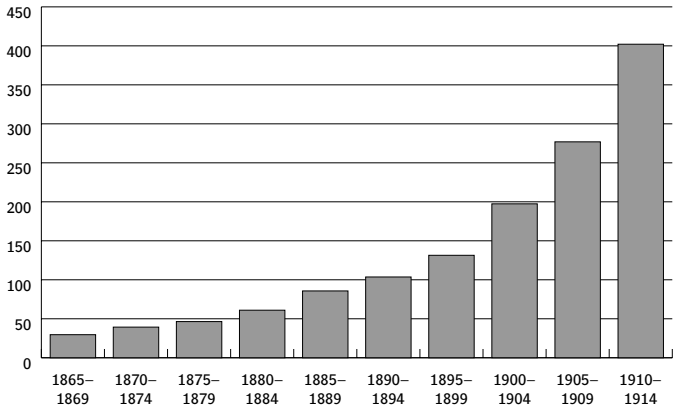
Victory over Spain did not mean peace in Argentina. The first 50 years of independence were wracked by internal and international conflicts. The Viceroyalty of Rio de la Plata was divided into four separate countries: Argentina, Uruguay, Paraguay and Bolivia. It took three wars, with frequent Brazilian intervention, to decide their frontiers. Meanwhile a war was being fought against the Indians, both in the Pampas region and in the north of Argentina. The war on the Pampas Indians was concluded by General Roca in 1879–80. Fighting with the Chacos Indians in the north and the Patagonian Indians in the south continued for the rest of the 19th century. Domestic politics in Argentina were dominated by violent disputes between different regional élites. There were endless feuds between the *caudillos* – strong men – of the city of Buenos Aires, the Province of Buenos Aires and the inland. It was only in 1861, after the city of Buenos Aires emerged victorious from this in-fighting, that the country achieved a relative political stability which, on the whole, was successfully maintained until the 1930 coup.

These years of conflict were the epoch in which the landowning class – which also recruited a good many additional members from the country's new military-political élite – greatly enlarged their estates, following the expulsion of the Indians from huge tracts of land. During this period a few hundred powerful landlords, together with leading politicians and generals, acquired millions of hectares to share between them. Merely to finance the so-called *conquista del desierto* (»conquest of the wilderness«, 1879–80) against the Indians on the Pampas, 8.5 million hectares of land were sold to 381 people, making an average of 22,000 hectares each. These lands, often very fertile, were mainly located inland from Buenos Aires, and they became the foundation of the export economy of the future. And so, even before the export boom and the massive European immigration which

started in the 1860s, the best lands were distributed and a class of immensely powerful *estancieros* (magnates) had been formed. This class went on enlarging its land holdings for the remainder of the 19th century and swayed the destinies of Argentina until the second decade of the 20th century.

The rapid growth of wool exports round about the mid-19th century gave Argentina a foretaste of what was to come. The number of sheep practically tripled between 1840 and 1860, from 5 to 14 million, and exports rose from 1,610 tons of wool to 17,300 tons during the same period. But this was nothing compared with what followed. The sheep population had passed the 60 million mark by 1880, and over 110,000 tons of wool were exported in 1882. But now wheat was also becoming an important export commodity, to be joined before long by other agricultural products and new kinds of meat exports in fuelling Argentina's massive export economy. As can be seen from Diagram 1, the total value of exports multiplied more than 13 times over between 1865 and 1914.

DIAGRAM 1. ANNUAL VALUE OF EXPORTS, 1865–1914, IN MILLIONS OF GOLD PESOS



Sources: Rock 1988, p. 200; Cortés Conde 1993, p. 65.

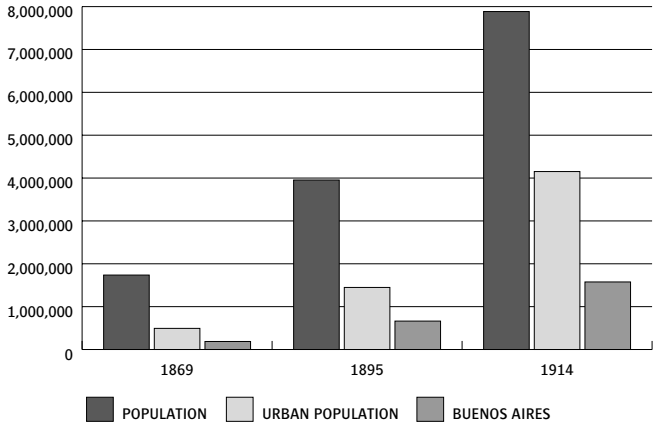
This export boom was founded on a combination of six factors: rising European demand for foodstuffs and raw materials; the »second industrial revolution«, which created new and far cheaper means of transport; copious and readily exploitable natural resources; a heavy influx of immigrant labour from the south of Europe; a plentiful supply of international capital; and, last but not least, the relative political stability achieved in 1861.

A few figures will serve to illustrate the rapid expansion of export industries. After the Indian war of the 1870s, 30 million hectares of land were incorporated by Argentina, and the total available agricultural acreage grew from not quite 10 million hectares in 1850 to over 51 million in 1908. Between 1843 and 1884 the head of beef cattle rose from 10 to 23 million. The acreage put down to cereals expanded from 340,000 hectares in 1875 to 20 million in 1913, an exports of wheat rose from 179,000 tons in 1888 to the pre-1914 record of 3.6 million tons in 1908. Infrastructure too developed rapidly, with a total 33,500 km of rail track uniting the most important points in the country by 1914. Exports rose by more than 5 per cent annually between 1869 and 1913, and Argentina's annual economic growth was estimated at between 6 and 6.5 per cent during that period. This gives a very solid per capita growth rate of about 3 per cent annually during these 44 years (demographic growth was roughly 3.3 per cent annually between 1869 and 1913).

Argentina in 1914 was quite a different country from what it had been 50 years earlier. Rapid population growth and the even swifter process of urbanisation – summed up in Diagram 2 – were very important driving forces of this change. Buenos Aires, which in 1869 had had 187,000 residents, had by 1914 developed into a gigantic metropolis of 1.5 million, and the national population, which the first census, in 1869, put at 1.8 million, had risen to 7.9 million according to the third census in 1914. Provincial capitals like Córdoba, Rosario, Santa Fé, Mendoza and Tucumán had

been transformed into major cities, where provincial export products were collected and then forwarded to Buenos Aires.

DIAGRAM 2. DEMOGRAPHIC DEVELOPMENT 1869–1914



Source: Díaz Alejandro 1970, pp. 422, 424.

Argentina in 1914 was the world's most urbanised country next to Great Britain, with 53 per cent of its total population living in cities with more than 2,000 inhabitants, and the Argentine standard of living was one of the world's highest. A prosperous middle class had come into being and was now cornering a share of political power under the leadership of the radical party (*Unión Cívica Radical*, UCR, formed in 1891) and its chairman Hipólito Yrigoyen. A large working class had also emerged, together with a highly diversified social structure far removed from that characterising the old colonial society. Railway men, dockers and cold store workers formed large, militant workers' collectives, quite comparable to the European labour movement of the time. The very first decade of the 20th century witnessed the formation of two powerful union organisations, *Federación*

Obrera Regional Argentina (FORA) and *Unión General de Trabajadores* (UGT). At the same time Argentina's political system was democratised through the reforms of 1912, introducing universal male suffrage.

Industry advanced rapidly during this growth period. The value industrial output, for example, multiplied 2.4 times between 1900 and 1913. A manifold industrial sector in 1914 comprised more than 48,000 workplaces, and industrial employment rose from 396,000 workers to 633,000 between 1900–04 and 1910–14. Adding to this the construction sector, we obtain growth for the same period from 486,000 workers to 851,000, corresponding respectively to 20.6 and 27.7 of the national workforce. These industries – often a mixture of traditional craft, manufacturing and semi-mechanised workshops, but also including big factories and modern industrial facilities producing for export – had already gained control of a large share of the national market for basic consumer articles – 91 per cent of foodstuffs, 88 per cent of textile products and 80 per cent of building materials, for example – but had also made considerable inroads into parts of the capital goods market: one-third of metal engineering products marketed in Argentina were produced there, and by 1910 the country's industry was capable of meeting one-third of national demand for agricultural machinery and implements.

EXPLAINING ARGENTINA'S SUCCESS

At the outbreak of the First World War, there was a striking contrast between Argentina and most of the other Latin American countries regarding living standards, economic development, degree of urbanisation, infrastructure development and sociocultural and political modernisation. Explaining this contrast is interesting from many points of view, not least considering that the export boom was a general phenomenon in Latin America at

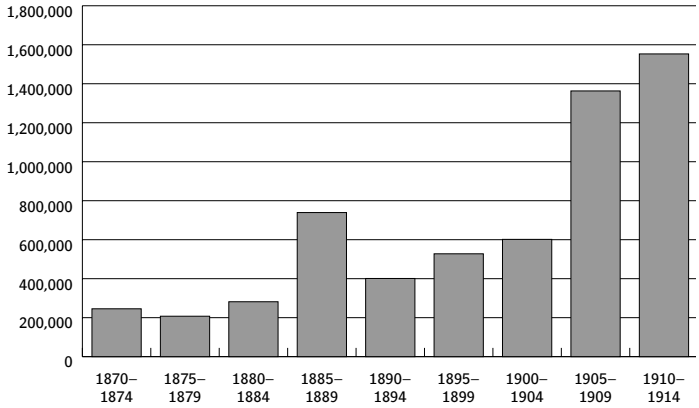
that time. Argentina's successes, in other words, cannot be put down to export growth alone. Countries like Peru, Colombia, Mexico and Guatemala also experienced exponential export growth during this period, but that development could in no way be compared with Argentina's.

One main reason for Argentina's relatively successful and, in Latin American eyes, idiosyncratic development during this period was in fact something which, at first sight, may seem to be a fundamental weakness, namely the country's shortage of manpower. Argentina's landowners did not have access to large numbers of cheap, often semi-servile Indians and mestizos, as was often the case in most other parts of Latin America. So the Argentine élite was compelled to look further afield for its manpower. Earlier the »natural« solution to this kind of problem had been massive imports of slave labour from Africa. That, for example, was the expedient adopted by the Portuguese in Brazil and other European powers in the Caribbean. But this way out was now closed, with the Atlantic slave trade in its death throes due to very active English resistance. Nor were mass imports of, say, Chinese contract labourers a practical solution, least of all for the South American nations on the Atlantic coast. The remaining option was a revolutionary one by Latin American standards, namely the encouragement of voluntary labour immigration. It was the poor children of the south of Europe which in Argentina's case provided the solution to the manpower shortage. This arrangement was perfectly compatible with the country's Europeanised politics and culture. The Argentine Constitution adopted in 1853 made this a central component of the new Argentina by allowing Europeans to immigrate freely.

In order to attract Europeans in large numbers, Argentina had to offer them living conditions which were not only better than Europe's but would also bear comparison with conditions in other immigration countries, such as the USA and Australia.

What enabled Argentina to do this, of course, was its copious natural resources, which meant high crop yields and cheap food. This, coupled with a steeply rising demand for new workers, created modern working conditions and a level of pay which, Uruguay excepted, was otherwise unknown in Latin America.

DIAGRAM 3. IMMIGRATION 1870–1914



Source: Cortéz Conde 1993, p. 56.

Nearly six million Europeans – mainly Italians and Spaniards – arrived in Buenos Aires between 1870 and 1914, and more than three million of them stayed in Argentina for good. As can be seen from Diagram 3, immigration rose to spectacular heights between 1905 and 1914. During those ten years nearly three million immigrants landed in Buenos Aires. Only a minority of them ventured into the countryside. Despite the poor housing conditions in the city's notorious *conventillos* (dilapidated buildings in which many of the poor or the capital city were crammed together), most immigrants were attracted by the lights of the great metropolis and were absorbed by Buenos Aires' growing class of industrial workers, junior clerks, shop assistants, small

entrepreneurs and servants. The city took on a different character, one which perplexed the Argentinians of the inland and is immortalised by the tango, the mournful, wistful music of unattached male immigrants.

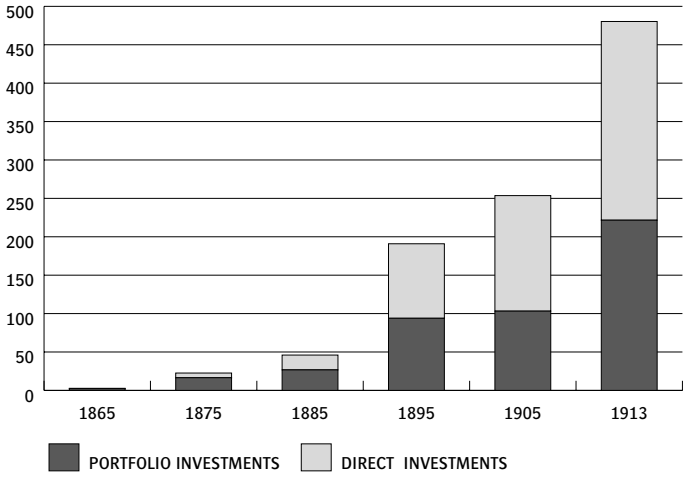
In this way there developed in Argentina, in both town and country, a modern labour market and a wage labourer class which was not subject to semi-feudal relations, which shared both origin and culture with the élite and, moreover, was earning enough money to afford a good many ordinary consumer articles. At the same time, export industries and infrastructure development demanded a number of industrial products, repair shops and processing plants, which further expanded the home market. Harvesting or slaughtering, gathering, processing, transporting and finishing the big Argentine exports required not only machinery, railways, warehouses and harbours but also, especially where meat exports were concerned, modern food factories and large cold store facilities. All this made possible the emergence of a national market on a scale which Latin America had never seen before, encouraging the development of a native industry and to a great extent protected from international competition by the geographic distance between Argentina and the leading industrial nations of the time.

The heavy influx of European immigrants brought several important advantages. The immigrants, although mainly poor peasants from the south of Europe, also included a good many with experience of trade or of factory work. Others were craftsmen or skilled workers. They brought with them invaluable skills and eventually provided Argentine industry with a broad base for the recruitment of entrepreneurs and skilled workers. European immigration was tremendously important in these respects, not least in Buenos Aires, where 70 per cent of the working class population in 1914 were of foreign origin. But immigrants were still more in evidence among the entrepreneurs. More than two-

thirds of all industrialists and merchants active in Argentina in 1914 had been born abroad, and in the case of Buenos Aires the figure was nearly 80 per cent.

Through immigration, then, Argentina obtained both labour, entrepreneurs and skills. Natural resources abounded, at least for agriculture and livestock farming. Capital was mainly derived from internal production growth, and above all from the huge export earnings of the period. In the midst of a dynamic, import-dependent phase of expansion, Argentina was still able to post an almost uninterrupted trade surplus, with only two deficit years between 1891 and 1914. One important and eventually very controversial source of capital, though, was foreign investors. British investments were especially important, and Argentina became one of Britain's most important capital export markets. Those big investments are undeniably one of the clearest indications of the vitality of Argentina's economy at this time.

DIAGRAM 4. BRITISH INVESTMENTS 1865–1913, MILLIONS OF POUNDS



Source: Cortéz Conde 1993, p. 61.

As can be seen from Diagram 4, accumulated British investments in Argentina rose from £2.7 million in 1865 to 480 million in 1913, by which time they equalled 40 per cent of total British investments in Latin America. (Brazil came second, with about 22 per cent.) Of these 480 million, only 316 million were a genuine capital increment from abroad, while the remainder consisted of re-investments and other funds obtained within Argentina. The focus of British investments changed considerably during this time. Up until the 1880s, the greater part consisted of portfolio investments, followed by direct investments, mainly in railways, trade, finance and cold store facilities (see Diagram 4). In 1913 these direct investments made up over 60 per cent of total British investments, and the railways alone accounted for 44 per cent of this total. A clear division of labour developed between Argentine *estancieros*, who owned the land, and foreign capitalists, who controlled the railways and many *frigoríficos* (refrigeration plants) in Buenos Aires (where American investors acquired a prominent position at the beginning of the 20th century). British capital also acquired considerable influence in trade and banking, but the Argentine national banks – *Banco de la Nación Argentina* and *Banco Hipotecario Nacional* – already held a dominant position by this time.

This heavy influx of foreign capital, welcomed with open arms during the period in question, was later to be given much of the blame for Argentina's development problems. This became a central theme of the nationalist, »anti-imperialist« rhetoric which already evolved in conservative circles during the 1910s and was to be tremendously important under the Perón régime, later inspiring a good deal of Argentine political development on both the right and left wings. Attention has been drawn to the power which capitalists in foreign countries acquired over some of the country's strategic sectors and the resources which were taken out of the country in the form of profits and interest payments.

But in this as in so many other cases, rhetoric has little connection with reality. Profit transfers amounted to a mere fraction of Argentina's enormous export earnings during the period and cannot have significantly harmed the nation's development potential. The importance of the contribution made by the foreign capital increment to the development of a dynamic export economy, on the other hand, is established beyond any reasonable doubt. Foreign influence was all the time relatively limited. Most productive resources, both in agriculture and in industry, were always in Argentine hands, and Argentina's status as a fully paid-up, independent nation was never challenged. Of much greater importance – though less convenient than reference to a foreign scapegoat – for understanding the economic and social difficulties which Argentina ran into later on are two other in-country aspects to which I will now turn.

ALL THAT GLITTERS IS NOT GOLD

Impressive growth figures like the ones presented here inspire respect. Argentina in about 1914 was looked upon as the Latin American equivalent of the USA. But there were a good many problematic elements hidden behind this dazzling façade. In fact it was during this golden age that Argentina began treading the path towards the prolonged crisis with which it has been afflicted for the past quarter-century. There are two problematic aspects worth noticing in this connection. One of them concerns property conditions in the countryside, the other the one-sided focus on the home market and the lack of competitive strength displayed by large parts of industry. In this section I will be discussing the first of these two aspects, and in the next section I shall deal with the industrial problems.

When the tidal wave of immigration came to Argentina, the country, as we have already seen, was dominated by a powerful

land-owning class. That class greatly expanded its land holding all through the period between 1860 and 1914, gaining control of a large part of the best land in the fertile Pampas region. In 1914 over 60 per cent of the land in the five Pampas provinces, and 80 per cent of all land in Argentina, was concentrated within units of more than 1,000 hectares. Also in that year, gigantic *estancias* of more than 5,000 hectares accounted for roughly half of Argentina's land area. The existence of this class played a decisive part in counteracting developments like those occurring, for example, in the USA, where a large and prosperous class of landed farmers came into being. The appearance of this propertied agricultural class in the USA bore witness to a more equal distribution of resources and resulted in a more equal distribution of incomes, which in turn encouraged the growth of a very dynamic consumer market for industrial products. At the same time, pioneering agriculture of the American kind tends to become more and more intensive and to raise the level of investment in the agricultural sector, which augurs well for the emergence of a more diversified industrial structure in the country (the typical example being the early emergence of international leading manufacturers of agricultural machinery in the USA).

Argentina's big estates and cattle ranches, on the other hand, developed more extensively, through the uninhibited exploitation of the land, as being the cheapest factor of production, rather than more expensive factors of production, namely labour and capital. This was quite conspicuous where cattle ranching was concerned, but was also true of arable farming. In addition, the big landowners, in their endeavour to »ride with the punch« of fluctuating prices in export markets, tried to minimise the sort of fixed investments that would tie them down to a particular product. The ideal was to be able to switch rapidly between arable farming and cattle raising. At the same time, the distribution of agricultural incomes in Argentina remained far more unequal

than in a pioneering economy of the American kind. All this reduced the potential of agriculture as a market for both consumer and capital goods. In this way link effects with the rest of the economy became less dynamic and the growth-generating potential of agricultural development was greatly reduced.

It was only in certain regions, such as the province of Santa Fé, that immigrants had a chance of owning their land, a situation which quickly gave rise to a more intensive, diversified and development-oriented agriculture. But the land available to settlers never exceeded 15 per cent of the country's total agricultural acreage. Elsewhere in Argentina, leasehold farming became common practice, and especially in areas of wheat growing, which was labour intensive. This form of tenure was hardly conducive to long-term investment or more permanent improvement, because the land was not owned by the person working it and leases were of limited duration, because the landowners wanted to be able to change their land use relatively quickly, shifting from arable to cattle farming.

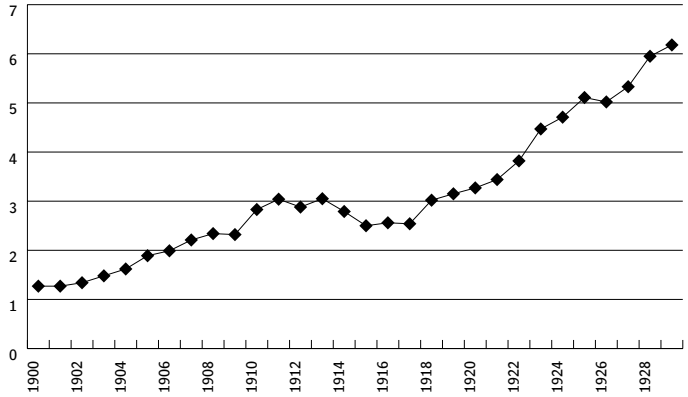
The dominance of the big estate had another important disadvantage from the viewpoint of overall national development. Immigrants tended to stay in the big cities, Buenos Aires especially, to a greater extent than they would have done if there had been a chance of owning the land they farmed. Only 25 per cent of immigrants were absorbed by agriculture. This meant an excessively rapid and burdensome process of urbanisation, characterised by the emergence of a very large service sector which pre-empted considerable productive resources and would severely handicap the nation later on. This in turn led to inevitable and ultimately devastating distributive conflicts between the cities and the countryside.

PROBLEMS OF INDUSTRIAL DEVELOPMENT

Still more problematic, in the long run, than property conditions in the countryside was the type of industrial development initiated by Argentina at the end of the 19th century. This is especially important, because the industrial structure which then took shape was, in principle, destined to dominate Argentina's development until the crisis of the 1980s and the structural reforms during the Presidency of Carlos Menem. Observance of this structural continuity runs quite contrary to the conventional picture of Argentine and Latin American development, which regards the crisis of the 1930s as the initial phase of industrialisation and an absolute watershed between two quite separate models of development. More detailed analysis of this early industrial development is also important because it unmasks one of the commonest clichés about the Argentine economy during this period. The view which many people still take of this period, although long since abandoned by economic history research, is one of ultra-liberalism and complete openness to the outside world in an economy which was entirely submitted to the interests of export industries, thereby inhibiting industrial growth. All this agrees poorly with reality, just as poorly as the idea of a total structural inflection during the 1930s.

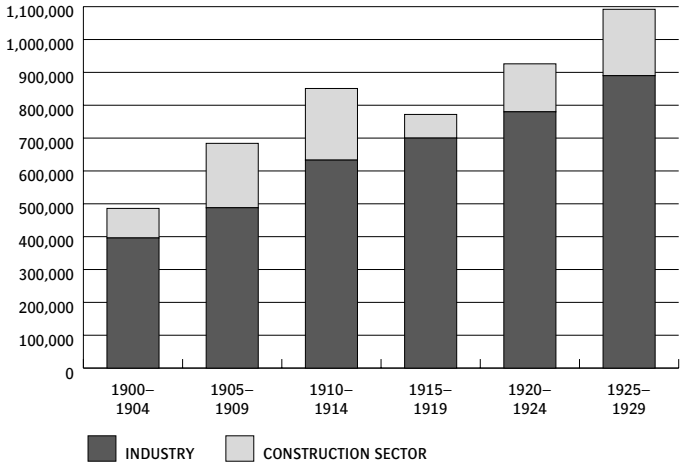
As we have already seen, a fairly extensive industrial sector already developed in Argentina before 1914, and after an intermission for the war years this development continued with undiminished vigour until 1929. As shown in Diagram 5, industrial output more than doubled between 1914 and 1929. Diagram 6 shows the development of employment, and it will be seen that nearly 1.1 million workers between 1925 and 1929 were employed in the country's industrial and construction sector (out of a total employed population of 4.2 million). The problem with this apparently so impressive growth, however, consists in the foremost characteristic of most of the industry emerging in Argentina

DIAGRAM 5. DEVELOPMENT OF INDUSTRIAL OUTPUT 1900–1929 IN BILLIONS OF PESOS (1950 PRICES)



Source: Díaz Alejandro 1970, pp. 418–421.

DIAGRAM 6. INDUSTRIAL EMPLOYMENT 1900–1929



Source: Díaz Alejandro 1970, p. 428.

between 1860 and 1930, namely its exclusive concentration on the domestic market. (Industries directly linked with exports from the primary industries were of course an exception.) Not only this, but this inward-oriented industry depended almost exclusively on those segments of the home market which were not exposed to any foreign competition worth mentioning.

This in fact applied to the greater part of the Argentine market during the 19th century and some way into the 20th. High freight costs, long distances and other transport and communication difficulties gave large parts of the local/national markets what we may term a natural protection which, without any need for protectionist intervention, reserved these parts of the home market for the local producers. This could apply to upgraded foodstuffs, ordinary clothing, footwear, furniture, building materials and so on. But it could also include relatively sophisticated engineering products like engines, spare parts and railway rolling stock. The second half of the 19th century found, for example, a small and not very industrialised country like Chile producing locomotives, steam engines and turbines. True, the production technology was a fairly primitive blend of craft and industry, but the communication and transport problems of the time made it a paying proposition nonetheless.

In these »naturally« protected markets, a national industry developed, mainly in competition with the local craft industry and home crafts. The possibility of transition to industrial production hinged as a rule on two factors, more exactly on the size of the market and the capacity, in terms of knowledge and capital, for establishing industrial activities. As regards the market aspect, one finds that already in the second half of the 19th century Argentina had big enough markets to give industrial activities considerable productivity advantages over craft industry and home crafts. This applied above all to the type of simple consumer goods in demand among the new working class and the rapidly

growing urban middle class. So it is not at all surprising to find – with the aid of an industrial census from 1914 – that the food, textile, leather and timber goods industries accounted for more than two-thirds of industrial employment and nearly 80 per cent of the total value of industrial output at the outbreak of the First World War.

The supply problem was more complicated. On the one hand the Argentine élite showed very little interest in starting industries. There was no cause for venturing into new activities when the alternative – re-investing in export industries – was highly profitable. Besides, industrial production called for technical know-how, experience and organisational talents, which were often very alien to the Argentine élite and similarly to the native-born middle class, which concentrated almost exclusively on the service sector, mainly as freelancers and as public sector employees in the rapidly growing Argentine state bureaucracy, where employment more than tripled between 1900 and 1929. Both foreign investors and immigrants, therefore, came to play an important part in Argentina's industrial development. Foreign investors dominated the export-oriented industrial facilities and a large part of the infrastructure, while immigrants devoted themselves to the industrial activities catering to the home market. In 1914 there was a striking immigrant preponderance among industrialists. Whereas barely one-third of Argentina's inhabitants at that time were foreign-born, more than two-thirds of industrialists were natives of other countries.

The home market industry that was born in Argentina thus became almost entirely dependent on the powers of initiative, the skills and capital assets of these immigrants. It was their often very limited economic and skill-related resources which left a decisive mark on Argentina's early industrialisation profile. Typical of the majority of these immigrant entrepreneurs was an immense appetite for work, basic skills acquired through personal experi-

ence of commercial or industrial activity in the native country, and a very limited supply of capital. The result was a heavy focus on simple production processes which made little demands on technical know-how and capital and could be started on a relatively small scale. This was a pattern essentially reminiscent of the Industrial Revolution in 18th century England, which had been based on a relatively simple and cheap technology and a host of industrial SMEs headed by entrepreneurs with practical training but no academic qualifications. The problem with this spontaneous reiteration of the process which had been so successful in England a hundred years earlier was that by the end of the 19th century completely different types of industry, production processes and entrepreneurs had taken the international lead in industrial development. This makes it very fair to say that Argentina's industry was born with a hundred-year handicap, far behind the front line of technical progress. Argentina's industrial structure was already old fashioned in the first blush of its youth.

The consequence of this one-sided focus on simple consumer articles and none too sophisticated production processes was a flat industrialisation profile. Very widespread industrial establishment as regards simple activities proceeded parallel to a corresponding lack of industrial depth, that is to say, very limited capacity for developing more technically sophisticated industries and in particular a dynamic capital goods sector. This made Argentine industry dependent on the process of knowledge reduction and technical renewal that was going on far beyond the country's frontiers. In this way technical progress assumed an external character and all its dynamic link effects were lost.

As we have seen, neither industrial retardation nor dependence on imported machinery, industrial semi-manufactured goods and raw materials did much to impede quite an extensive establishment of industry in Buenos Aires and dynamic provincial capitals like Santa Fé, Rosario and Córdoba. Industrial imports of ma-

chinery, raw materials and semi-finished goods multiplied 3.4 times over and accounted for some 40 per cent of total imports between 1900 and 1929 (not including the industrial fuel bill or the cost of imported building materials). At the same time, hardly any industrial exports were unrelated to agriculture. One absolute prerequisite of this kind of development, of course, was Argentina's heavy exports at the time of both foodstuffs and raw materials. The growing import needs of the industrial sector were covered by part of the international means of payment which the export sector generated so amply at this time. This fact is crucial to an understanding of the focus and problems of Argentina's industrialisation. Without the country's copious natural resources and the heavy flow of income generated by staple exports, the introverted industrialisation which took place would not have been practically feasible.

The fundamental structural problem of this kind of industrialisation is obvious. The industrial sector does not have an independent development dynamic. It produces neither its own prerequisites – machinery, semi-finished goods, technical know-how – nor the funds needed for importing them plus a good many raw materials. This being so, industry is wholly dependent on the capacity of an export sector based on natural resources for generating a substantial trade surplus. This explains why extremely introverted and protected industrial structures like Argentina's are at the same time extremely vulnerable to disturbances and price fluctuations in the international food and raw materials markets. This structural vulnerability was to become an increasingly overshadowing problem in Argentina's economic development after the Second World War until finally it played an important role in the economic collapse of the 1980s. The whole of this remarkable industrialisation model then broke down. In the end it was exploded from within by the same structural tensions as had characterised its development since the birth of industry in

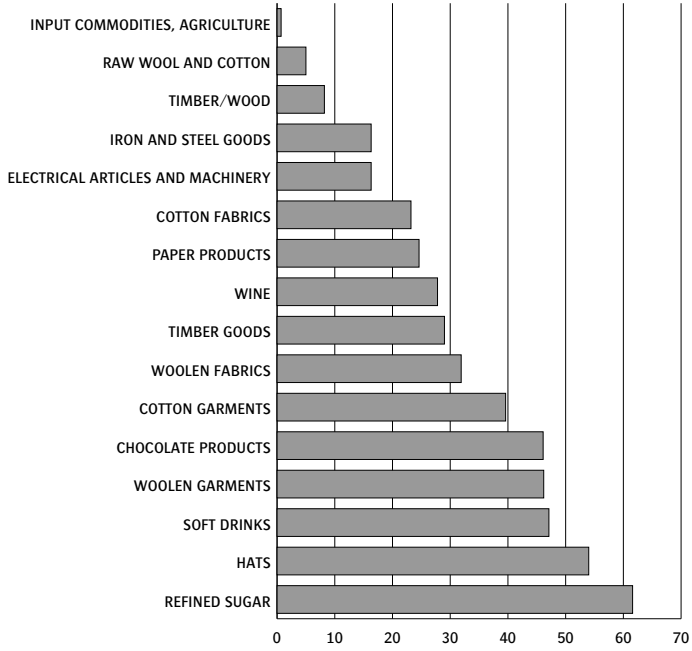
the 19th century. But now the price was not only economic collapse but also a much wider and more serious social collapse.

Development based on internationally sub-standard industries can easily find itself in the danger zone if the protective mechanisms offsetting the productive inferiority of those industries are weakened or disappear. Parts of Argentina's industry already found themselves in this difficult situation at the end of the 19th century. Diminishing freight costs and an infrastructure development making local markets increasingly available to imported products already presented a threat to an industry which had difficulty in standing on its own two feet.

This spectre of competition and the desire to gain control of new market segments led to the formation of industrial associations (the foremost of them all, *Unión Industrial Argentina*, UIA, was founded in 1887) and the emergence of a nationalist rhetoric calling for political intervention against competition from imported products. The free trade principle and the policy of laissez-faire, which in the middle of the 19th century had broken a long tradition of mercantilism rooted in the Spanish colonial empire, now came under increasing attack. Most of the country's intellectual and economic élite were to remain economic liberals for a long time to come, but a strong offensive was already launched by the protectionists in the Argentine parliament during the recession of the 1870s. This led to an initial protectionist breakthrough, with the introduction of protective tariffs for the benefit of wheat farmers and several important industries processing agricultural produce, more specifically the flour, sugar and wine industries. Customs tariffs – which were successively raised, not least as a means of financing the national budget – became a constantly recurring topic of debate in turn-of-the-century Argentina. Exporters, not least, complained that the high Argentine protective tariffs were provoking – or could provoke – reprisal from the nations importing Argentine products.

The result of all this was not a concerted, cogent industrial policy but a fairly erratic, incoherent protectionism reflecting not so much a long-term development policy as the state's need of higher tariff revenues coupled with the relative strengths of different vested interests. Tariff policy, as a rule, had the effect of cementing a one-sided industrial structure. Imports of industrial raw materials, semi-finished goods and machinery were generally made cheaper in relation to imports of many widespread consumer articles, most of which were hit by very high tariffs. This is abundantly clear from the customs tariffs applying in 1927. As can be seen from Diagram 7, even before the crisis of the 1930s

DIAGRAM 7. CUSTOMS TARIFFS IN 1927 (PERCENTAGES OF ACTUAL IMPORT PRICES)



Source: Díaz Alejandro 1970, pp. 290–293.

many important consumer goods industries were protected by very high actual tariffs, many of them exceeding 40 per cent of the value of the imported products (there were even tariffs exceeding 100 per cent!). Quite clearly, then, Argentina was a long way removed from the free trade paradise which many people apparently believe it to have been before 1930.

Tariff levels like this meant that Argentina's industries had already acquired a substantial protectionist inefficiency buffer during the opening decades of the 20th century, to which we must add the buffer created by transport costs in themselves. It is obvious that this kind of industry had no chance whatsoever of exporting its products, and the worst of it is that this inefficiency buffer was destined to grow considerably in the decades that followed, supplemented by a jungle of import restrictions and exchange rate interventions. As a result, Argentine industry was able to grow and grow but never to mature, never to emerge from its protected infancy, for all its increasingly elephantine proportions. What had taken place in Argentina, in other words, was an abnormal industrialisation, and the country was to pay very dearly for this later on.

These protectionist interventions resulted not only in a handicapped industry but also in a resource allocation which deepened the country's structural problems. What this selective protectionism created was a structure of prices and incentives which made it more advantageous to invest in relatively simple consumer goods industries than, for example, in capital goods industry and other industrially more sophisticated processes. This was quite the opposite to what the country's long-term development demanded, but it was quite an accurate reflection of the power structure and the vested interests which Argentina's industrial development had given rise to.

The demands for protectionism and state intervention were a natural reaction on the part of a threatened industrial sector, but

they were also voiced in other sectors of the economy as soon as competition stiffened. Often it was powerful land-owning groups and representatives of industries directly related to agricultural interests that launched the attacks on economic liberalism and became the most vociferous critics of the free trade principle when their interests were threatened. Two important examples of this are the protectionist interventions in the 1870s, beginning in 1875 with the protective tariff on imported wheat, and the far-reaching demands of the powerful *Sociedad Rural* (»Rural Society«, mainly represented big ranchers) for price controls and other state interventions in the meat export industry during the 1920s.

These increasingly common demands for political intervention were later to invest the political sphere, and ability to influence it, with an increasingly important role in Argentina's development. Politics eventually came to be looked on as the most important battle field of the economy. Control of the political machinery became the key to a composite system of transfers which could very well decide the success or failure of an enterprise.

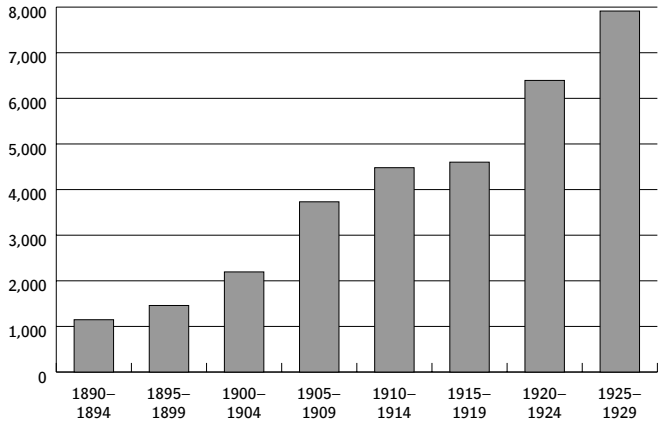
This kind of development has three important consequences. The first is a general pressure enticing one group after the other to form politically influential organisations or corporations which can safeguard its own interests. In societies thus organised, the political struggle tends to supplant the mechanisms of economic competition, often with devastating long-term consequences both for the economy and for politics. The second consequence is that the groups in society – often the most deprived – who are incapable of forming hard-hitting coalitions and thus gaining political influence, become the great losers in the distributive contest. The third consequence of an increasingly politicised economic development is that resource allocation can in the long term become utterly counterproductive. A price structure and an economic regulatory system which primarily reflect the political influence of different groupings in society create economic incentives which

often have little to do with a sustainable strategy for development. During the years that followed, Argentina's economic history was to present any number of hair-raising examples of this.

THE WAR AND THE GAY TWENTIES

The First World War gave rise to great but brief difficulties for Argentina's economy. The country already reverted to the dynamic normalcy of pre-war times in 1917. GDP grew by 6.7 per cent annually between 1917 and 1929, and industry by 7.8 per cent. Exports rose by 6.6 per cent during the same period. Diagram 8, showing the rapid growth of exports after the war, illustrates the continuity from the pre-war period. Argentina in 1929 was riding the crest of a wave. It was the world's foremost exporter of frozen meat, maize, oats and linseed, and the third biggest exporter of wheat and flour. Argentina in 1929 was the world's eleventh biggest export nation and had accumulated large reserves of gold. Also that year, the country was ranked among

DIAGRAM 8. EXPORT DEVELOPEMTNS 1890–1929 IN MILLIONS OF PESOS (1950 PRICES)



Source: Díaz Alejandro 1970, p. 477.

the world's ten wealthiest nations in terms of per capita income, with more cars per inhabitant than Great Britain. The distance between Argentina and the rest of Latin America in terms of development and prosperity had grown conspicuously large.

One important change occurring during this period concerned the supply of land. The possibilities of easily and inexpensively incorporating new arable and grazing land virtually ended, making future agricultural growth increasingly dependent on the transition to more capital-intensive farming methods. The period of extensive growth, in other words, was ended. This was reflected during the 1920s by the increasing mechanisation of Argentine agriculture and its transition to progressively more valuable types of beef cattle. This was the only way in which Argentina could go on asserting its position as a food exporter rivalling the increasingly industrialised agriculture like the USA, Canada and Australia. This has a crucial bearing on our understanding of Argentina's subsequent economic problems. The crisis of the 1930s and then the Second World War struck hard at the ability of the agricultural sector to deepen this productive modernisation. During the second half of the 1940s, when big investments were most needed, the agricultural sector was used as the country's cash cow and drained of its economic surplus at the very moment when agricultural sectors in rival countries were being quickly modernised. The lag in which this resulted was to play a very important role in Argentina's growing marginalisation in the world economy after the Second World War.

But the great importance of this period for Argentina's future development consists not so much on the economic plane as on the political. On the political plane, there were three events of outstanding future importance which I shall now turn to consider.

The first of these was the big political breakthrough of the middle-class party, the Radical Party (UCR), in the 1916 election,

the first to be held with universal male suffrage. The leader of the party, Hypólito Yrigoyen, was then elected President, and the radicals stayed in power until the 1930 coup, when Hypólito Yrigoyen, who had again been elected President was deposed by General José Felix Uriburu. During this long period in power, the party was afflicted both with serious internal dissensions and by accusations of corruption and political violence. The party was also badly hit by the international crisis of 1929. The radicals proved unequal to meeting the big challenges of the time, and the abrupt ejection of the elderly – and, according to his critics, senile – Yrigoyen from the Presidency was mourned by few. All these things left the divided radicals with little credibility as a governing force in the difficult times that lay ahead.

Still more important, though, was the disastrous confrontation occurring at the end of the First World War between the radical government and Argentina's rapidly growing working class. The conflicts began in 1918 in the countryside, where the farm workers went on strike for better pay and working conditions in an attempt, after the difficult war years, to gain a share of the profits from resurgent agricultural exports. The Government responded with hard-handed police methods when the harvest was threatened. The conflicts quickly spread to the cities and above all to Buenos Aires, where the radicals at first took a more worker-friendly line. The situation changed, though, at the end of 1918, when the conflicts once more hardened. In January 1919, following violent confrontations between the police and engineering industry strikers, which left several people dead, began what came to be called *la semana trágica* (»the tragic week«). Massive strikes took place on 9th January, and more than 150,000 demonstrators gathered in protest. This was followed by mass arrests of workers' leaders and several days of clashes and bloodshed, when for example many Jews – who were of Russian origin and regarded by many as foreign revolutionaries – were killed in the worst outbreak of

anti-Semitism in Argentina's history. Paramilitary ultra-nationalist right-wing groups were active here and in future were to be a recurrent element in Argentine politics, culminating in the years of terror – the so-called Dirty War – of the 1970s.

These confrontations with the emergent labour movement had above all two consequences. Firstly, the radicals lost all influence over the working class. Secondly, this class, now a central component of Argentine society, was excluded from the political system. This exclusion created a vital precondition for the emergence of the Perón phenomenon. The workers were thoroughly defeated in 1919. Twenty-five years later they were to re-enter the scene of Argentine politics, this time to change it forever.

The third event with great repercussions for the future was a series of conflicts leading to ensuring hostility between Argentina and the USA. The roots of the conflict were simple and crass. Argentina and the USA were both producers and exporters of the same kind of agricultural produce. The Americans had already made it abundantly clear after the Civil War of the 1860s that rival Argentine products were, if necessary, to be excluded from the American market. That time the product was Argentine wool. Later it was above all the exports of wheat. In 1922 the USA struck hard at Argentina's grain exports through the Fordney-McCumber tariff, thereby demonstrating that Argentina's only reliable customers were the British and other Europeans. The conflict flared up again in 1926, this time with Argentina's meat exports as the target. So the very hard-nosed tariff policy with which the USA responded to the crisis of the thirties was no news to the Argentinians. The conflict was to culminate in the 1940s, but then in completely different political circumstances.

Other conflicts with the USA arose out of the rapid growth of American investments in the Buenos Aires meat export industry. This time it was the powerful cattle ranchers of *Sociedad Rural* who clashed with the American firms and their price policy. The

conflict grew worse in 1922–23, with demands for regulated minimum prices and the formation of Argentine packing firms to break the Anglo-American dominance of the industry.

A third source of conflict between Argentina and the USA was connected with the exploitation of Argentine oil. American Standard Oil became the target in Argentina of a virulent nationalist campaign which, headed by the elderly Yrigoyen, demanded complete nationalisation of the oil industry (which was already dominated by a government-owned Argentine enterprise, *Yacimientos Petrolíferos Fiscales*, YPF). Anti-Americanism was a central theme of the 1928 Presidental election campaign, and Yrigoyen's landslide victory shows the appeal of such rhetoric in a country which had long felt itself commercially victimised by the powerful USA. The importance of this rivalry for the sad fate of Argentina can hardly be overstated.

ARGENTINA'S ODYSSEY FROM RICHES TO RAGS

And, behold, seven other kine came up after them,
poor and very illfavoured and leanfleshed …
And the lean and the illfavoured kine
did eat up the first seven fat kine.

Pharaoh's dream, *Book of Genesis*

1930 WAS IN MANY ways a watershed in Argentine history. The locomotive of Argentine growth – a dynamic export sector – stopped working in the way it had been doing until 1929. The coup in September 1930 ushered in a long period of growing instability and polarisation, culminating in the tragic years of the so-called Dirty War in the 1970s. Argentina also changed mentally. A country believing in the future and development was transformed more and more into *el país frustrado* (»the frustrated country«) and, later on, to *el país desesperado* (»the desperate country«), as has so often been brought home to us recently. At the same time one can see, hidden behind these striking hiatuses, a series of structural continuities which, in a very problematical way, linked together these otherwise so different periods. First of all, we have a ramshackle model of industrial growth which became wholly untenable when its absolute prerequisite, a dynamic export sector, disappeared. Argentina the prosperous would one day, like Kafka's Georg Samsa, awake transformed – into a country on the edge of the abyss. On its way there, however, Argentina

was to experience its profoundest, unhappiest and unforgettable love affair, that with the Peróns – Juan Domingo and Eva.

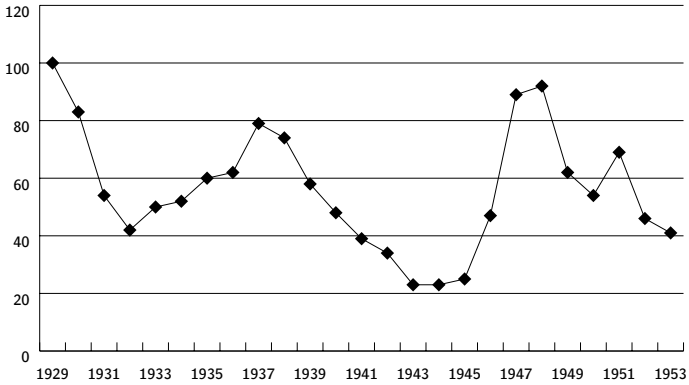
THE COLLAPSE OF THE EXPORT ECONOMY

The collapse of the international economy in 1930 utterly transformed the basic premisses of Argentine development. The motive force behind the country's rapid economic growth, namely the existence of dynamic export markets on the other side of the Atlantic, were suddenly altered. The ensuing economic depression, together with the Second World War and its repercussions, prolonged, basically until the end of the Korean War in 1953, a kind of exceptional economic state in which the conditions affecting Argentina's development were quite different from those prevailing between 1860 and 1930.

The international crisis of 1930 marked the commencement of a startling economic process during the 1930s and 1940s. Exports receded heavily at the beginning of the 1930s, recovering between 1934 and 1937, declining again in 1938 and remaining on a low level until 1941. Then in 1942 came a new recovery phase, culminating in 1948, but still falling short of pre-1930 levels. The initial recession was mainly due to a dramatic fall, by over 60 per cent – in the prices of Argentina's main export products between 1928 and 1932. The volume of exports, on the other hand, fell by only 11.5 per cent during the same period. Import prices fell less rapidly, which for Argentina meant a heavy deterioration in the prices of exports relative to imports. This resulted in a heavy reduction of the country's import capacity and a steep fall in its import levels. This is shown in Diagram 9, where we can also study subsequent developments until the end of the Korean War. As can be seen from the diagram, after a brief recovery the country's imports were again depressed in 1938, remaining on an extremely low level between 1943 and 1945.

Argentina's imports at that time were barely a quarter of what they had been in 1929, and not even the subsequent recovery could raise them to the 1929 level.

DIAGRAM 9. IMPORT DEVELOPMENTS (VALUE) 1929–1953 (1929=100)



Source: Díaz Alejandro 1970, p. 463.

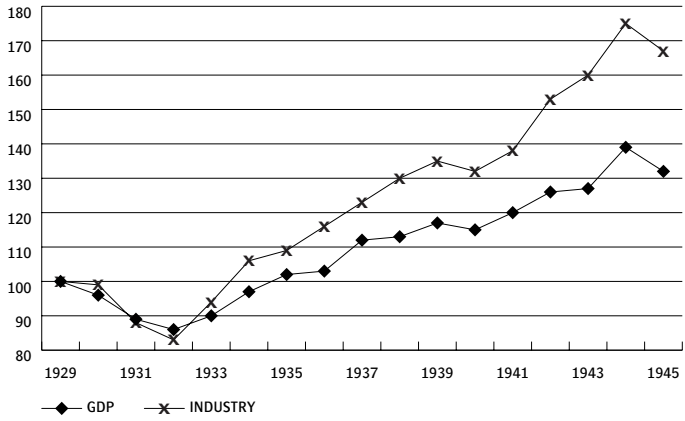
These things, of course, left a powerful imprint on Argentina's economic development during this remarkable time, not least as regards the industrial sector, which now had an unexpected opportunity of replacing former import commodities and greatly exceeding its pre-1929 expansion. For nearly 20 years, the threat of competition from imported industrial goods was to be reduced to a minimum. In many ways this situation came to resemble that prevailing in the 19th century, which had made possible the first wave of industrial start-ups in Argentina. The difference was that the strong protection at that time from foreign competition was mainly due to distance and transport costs, whereas now a corresponding protection had been created by the collapse of the international economy and the outbreak of the Second World War.

The possibilities of industrial development were further rein-

forced by an international movement of prices characterised by a heavy drop in the prices of export products, not least in relation to industrial commodities. This created strong incentives for investing in the industrial sector and other activities catering for the home market. The only constraint on industrial expansion was the output capacity of Argentine industry and the difficulties of importing machinery and industrial input commodities. This period is so exceptional that there was even a rapid growth of Argentine industrial exports. During the Second World War Argentina was to some extent able to replace the industrialised nations as a supplier of industrial raw materials to less developed nations in South America.

As a result of all this one can see how the locomotive of growth shifts from the traditional export sectors and foreign trade to industry and the home market. In the short term this was so successful that the fall of the economy after the 1929 crisis could not only be arrested but was turned into fairly solid growth. This is illustrated in Diagram 10, showing the development of both

DIAGRAM 10. GDP AND INDUSTRIAL DEVELOPMENT 1929–1945 (1929=100)



Source: Díaz Alejandro 1970, pp. 415, 420.

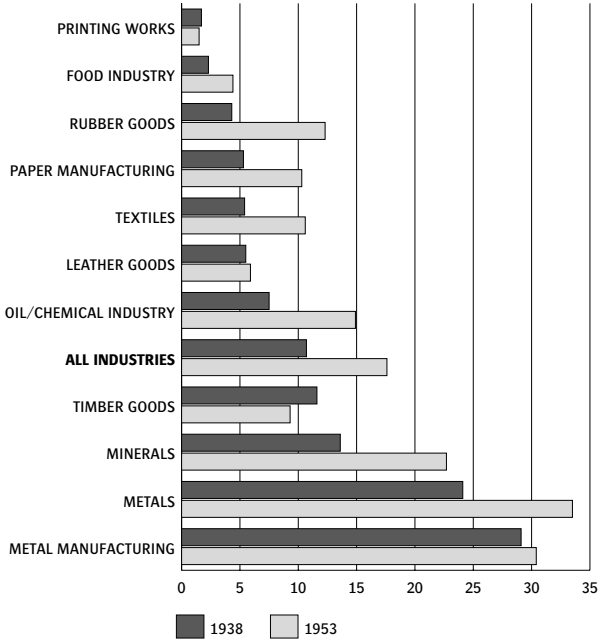
Argentina's GDP and the still more dynamic industrial sector between 1929 and 1945. As can be seen, industrial output doubled between 1932 and 1944.

The problem with this industrial expansion, so successful at first sight, was that in actual fact it had the effect of deepening the inferiority of Argentine industry and its lack of competitive strength in an international perspective. The economic crisis of the 1930s and the Second World War had created an extremely favourable but artificial industrial climate. Industry was able to grow rapidly and had little difficulty in conquering new market segments. Nearly everything was in short supply, and this demand had to be met by new, local industrial undertakings, whatever their level of technical development and efficiency. As a result, Argentina's classical structural problems were greatly aggravated. Inefficiency grew at the same rate as industrialisation spread to more capital and knowledge-intensive sectors. Diagram 11 conveys a good idea of the backwardness of Argentina's industry and how it worsened between 1938 and 1953. There we can see, in a comparison between Argentina and the USA, one of the best indicators we have of the level of technical development, namely horsepower per industrial workstation. As can be seen, the lag was of startling magnitude already in 1938, with industrial workplaces in the USA using 10.7 times more horsepower than in Argentina, and the difference was to become greater still in 1953, when an industry in the USA was using 17.6 times more horsepower than an industry in Argentina. We can also see the gap widening dramatically when we switch from consumer to basic and capital commodity industries, where the difference in 1953 could be more than times 30!

This backwardness became patently obvious as soon as the industrialised nations were once more capable of supplying their products to the international markets. Meanwhile, Argentina's pent-up demand for imports had grown exponentially. After the

Second World War, the capital stock was completely outmoded and inadequate. It is these circumstances which account both for the trade balance problems that were to come and for the wave of protectionist intervention which would be needed for the protection of such an inferior industrial sector.

DIAGRAM 11, HORSEPOWER PER INDUSTRIAL WORKSTATION IN THE USA IN 1938 AND 1953, COMPARED WITH ARGENTINA (MULTIPLES)



Source: Vitelli 1999, p. 572.

The changes in Argentina's economic development, of course, were not isolated phenomena. On the contrary, they were just part of a wider redirection of Argentine society towards new ideas and social models. This redirection was based on a growing conviction that the country's continuing growth and prosperity

neither could nor should be so dependent on external forces and circumstances as had been the case with the earlier export-oriented growth model. The country should aim for a higher degree of self-sufficiency, and this called for a very active industrial policy, systematically transferring resources to industry and promoting its development through direct and indirect intervention in the national economy. Combined with this was a changed view of the economic role of the state, which was now regarded as a central player in a process leading to wider industrialisation and growing economic independence. These three components – greater self-sufficiency, a policy promoting industry and economic state activism – were subsequently to be combined in many different ways and supplemented by other ideological elements, often borrowed from the anti-liberal movements at that time dominating political developments in Europe.

Where concrete policy was concerned, the economic role of the state grew slowly but surely during the 1930s and the early war years, and then expanded rapidly after the 1943 coup, culminating during the Perón Presidency (1946–55). The first important consequence of the 1929 crisis in this respect came in October 1931, when exporters were required to sell all foreign exchange to the state, which then decided how much was to be resold to the importers. This gave the Government a possibility of controlling the volume of imports and achieving a certain equilibrium in the trade balance, as well as a profit margin on the actual currency trading. In 1933, with the crisis at its worst, the economic powers and functions of the state were substantially enlarged. Federico Pinedo, the new Minister of Finance, pushed through the so-called *Plan de Acción Económica* (»Economic Action Plan«), containing a number of highly important innovations. The most important of all was the fixing of minimum prices for the main agricultural products, with the state guaranteeing to purchase at those prices. Also important was the intensification of state con-

trol over foreign exchange supply, by means of import licences. This way the state could decide, not only the volume of imports but also their composition and origin. Another important reform was the introduction of income tax, which soon became a central source of revenue for the state, marginalising the taxes on foreign trade which had been so important previously. Publicly funded relief work projects were another interesting part of Pinedo's initiative. A further important reform came in 1934, with the formation of a Central Bank, soon to develop – under the leadership of the young Raúl Prebisch – in a Keynesian direction by means of a demand-regulating credit policy.

These and other reforms, for all their great importance, were only the first steps towards profounder forms of state intervention and a new development model. The Second World War accelerated this process, not least through pressurisation by the Argentine Army for the development of national industries and raw material sources to make Argentina self-sufficient in military supplies. Nationalism began in this way to play an increasingly important role in fuelling demands for state-driven industrialisation. The conflict with the USA, which I shall be returning to, was central in this respect, as were fears of a Brazilian, US-backed military action against Argentina. The Army's direct industrial activities grew considerably with the formation, in 1941, of a separate authority for military production (*Dirección General de Fabricaciones Militares*), and they expanded tremendously following the military take-over in 1943.

All these things bear witness to a country trying to adapt to circumstances radically different from those it had been accustomed to. There was palpable uncertainty, and many people regarded the new development tendencies as temporary departures from what ought to be Argentina's normal path of development. Most people still regarded the agricultural industries as the immutable foundation of the Argentine economy, and the Government plans

for the promotion of industrial development often included even stronger incentives for the agricultural sector. It would take new and dramatic circumstances to steer development in the direction making the victory of Perón and national populism possible. And this would also require individuals – ranging from an unbelievably inept American Ambassador to the enchanting Evita and the principal character of this drama, Colonel Juan Domingo Perón – whose ideas and actions came to play a crucial part in the framing of Argentina's future.

IN THE COLONEL'S ARMS

In June 1943 the time had come for a new coup d'état in Argentina. The unsteady, increasingly discredited administration headed by Ramón Castillo capsized in an Argentina completely dominated by the great tensions and difficult situations of choice which the Second World War had given rise to. The old trade conflict with the USA – greatly deepened in the 1930s – had now been escalated to a general confrontation with great repercussions on the South American balance of power between Argentina and Brazil. Argentina opted for a provocative policy of neutrality, and there was no mistaking the pro-Axis sympathies of both the general public and the military, even though the Castillo administration in many respects adhered to a *de facto* pro-British policy (not least by selling Britain large quantities of meat on credit). After Pearl Harbour and the USA entry into the war, things became more serious still. At the Pan-American Conference in Rio de Janeiro in January 1942, Argentina sabotaged the efforts of the USA to create a concerted Pan-American front against the Axis powers. The USA retaliated with a total blockade of arms deliveries to Argentina, plus economic sanctions. Meanwhile Brazil emerged as the USA's foremost ally in the region and received generous American support, both military and economic. In 1942 Argentina was

abuzz with rumours of an imminent Brazilian invasion and direct American intervention at strategic points in the country.

Something of the moods prevailing in Argentina at that time is captured in this short description of the May Day celebrations in Buenos Aires in 1943, which comes from Nathan Shachar's *To the Land of the Jaguars*:

> *Ten thousand anti-USA, anti-democratic, pro-Nazi nationalists marched down Santa Fé Avenue, defiantly shouting: »Death to the British pigs!« »Death to the Jews!« and »Neutrality and Castillo!«* [2]

This was the state of things when it became clear that Castillo had chosen an old landowner with strong pro-Ally sympathies to succeed him – officially a Presidential candidate, but the rigged elections of the time were usually won by the candidate of the sitting President – and the military intervened, installing General Pedro Ramírez in the Presidental Palace.

The key figures behind the coup of 4th June 1943 included Colonel Perón and a secretive group of young officers who came to be known by the acronym GOU (presumably short for *Grupo de Oficiales Unidos*). These were strongly pro-Axis officers, sympathising not only with the war efforts of Germany and Italy but also with the social model which Hitler and Mussolini had introduced in those countries (Franco's Spain was another source of inspiration). These officers conformed to a long tradition of nationalism, contempt for democracy and pro-Germanism in the Argentine Army (the Military Academy had been formed by a German military delegation, and still had German teachers when Perón studied there in the first half of the 1910s). This was clearly expressed in General Uriburu's seizure of power from Yrigoyen in 1930, in which Captain Perón played an active part and which

2. Shachar 2001, p. 267.

inaugurated his rapid career during the 1930s. The turning point in the life of Perón – a descendent of Italian immigrants who had attained middle-class status in Argentina – was the time he spent in Italy (partly as Military Attaché) during the years surrounding the outbreak of the Second World War. He returned to Argentina at the beginning of 1941, convinced of the impending victory of the Axis powers and deeply impressed above all with the personality and social policies of Mussolini. In European fascism Perón had found the magic formula which he believed could turn Argentina into a powerful nation capable of asserting its independence against everything and everybody.

Fascist influence became visible in Perón's ideas of a corporative society – »the organised community,« as he was to call it – based on state-controlled co-operation between different groups and interests in society. The same went for the idea of an introverted economic development in the spirit of self-sufficiency or autarchy so typical of the totalitarianism of the time. But the influence of fascism was no less concerned with methods, above all the bid to win over the working classes and form a mass movement in favour of the corporative social project and a strong cult of the leader. This awareness of the potential importance of the working class was Perón's great innovation and the foundation of his coming successes.

Perón's sense of purpose in this respect was already apparent in October 1943, when, to the important position of Under-Secretary of State at the War Ministry he could add the directorship of the National Labour Secretariat (*Departamento Nacional del Trabajo*), which he quickly upgraded and transformed into the increasingly powerful *Secretaría de Trabajo y Bienestar Social* (»Secretariat of Labour and Welfare«). He immediately began looking for contacts with leaders of the big unions and intervened in current labour disputes on the workers' side. It took him only until December, by supporting generous pay rises, to gain the sup-

port of the most important Argentine trade union, *Unión Ferroviaria* (»The Railway Workers' Union«), and the railwaymen hailed him as *Primer Trabajador Argentino* (»Foremost Among Argentine Workers«).

The escalated conflict with the USA – which, following the exposure of a secret Argentine attempt to buy arms from Germany, led to Argentina being threatened with a total trade boycott unless it broke off all relations with Germany – led in January and February 1944 to fierce in-fighting among the ruling military. In February 1944 General Ramírez was deposed by the pro-German military just after announcing that Argentina would comply with America's ultimatum. The Vice-President and Minister for War, General Edelmiro Farrell – Perón's immediate superior – took over as President. But it was Perón who became the most powerful man in Argentina, by cornering such appointments as Vice-President, Minister for War, Head of the Labour and Welfare Secretariat and Chairman of the Council for Post-War Planning.

Before long, large, fascist-inspired torchlight processions were to become a frequent occurrence on the streets of Buenos Aires, and nationalist rhetoric celebrated new triumphs. The new administration immediately drew up big plans for the expansion of the Argentine Army. The numbers of officers and recruits were radically increased, and the Armed Forces' share of the national budget rose from 17 per cent in 1943 to 43 per cent two years later. Still more important for the future was the focus on a swift and increasingly autarchic economic development characterising the new military administration. Heavy Government investments in infrastructure, smokestack industries and prospecting and raw materials extraction (minerals and oil mostly) ran parallel to strong incentives and renewed protection for the country's existing industry. Tariff walls against imported industrial consumer articles were raised higher than ever and restrictive import quotas introduced. At the same time a bank for industrial development

(*Banco Industrial*) was created, to facilitate the financing of industrial expansion.

During these years Perón was able to devote himself still more intensively to his efforts at currying favour with the Argentine working class. He employed a skilful combination of carrot and stick. Compliant union leaders could count on strong support through the conciliatory role of the state – the Labour Secretariat, whose conciliation packages were mandatory, only negotiated with the unions it recognised – while leaders unwilling to submit to Perón's new deal were combated by every available means. The winner was the more compliant *Confederación General del Trabajo* (CGT), which before long had put other, more independently minded organisations out of the running. By 1945 the number of unions affiliated to the CGT was almost three times what it had been in 1941. This is how Peronism's strongest future power base of all was created.

In addition, Perón issued a deluge of decrees conferring great benefits on the workers in the form of pay rises, holidays, pensions, work injury insurance and so on. All this, of course, inspired growing opposition to Perón among employers and other conservative circles. Argentina's Confederation of Industry (*Unión Industrial Argentina*) broke with him already at the end of 1944, when he issued a decree forcing employers to make extra wage payments at the end of the year.

The end of the war and hopes for better times led to a dramatic rise in labour disputes, which in 1945 were more than ten times as many as in 1944. Tension began growing from June 1945, when the opposition to the military régime – styling themselves *Fuerzas Vivas* (»Living Forces«) – mobilised against Perón's policies, at the same time as the unions mobilised in defence of them. The US Ambassador, Spruille Braden, also plunged into the fray against Perón and the Government in power. Big anti-government manifestations were organised on 9th September, and the first

coup attempt against the ruling military was staged on 24th September. Civil war was in the air, and General Farrell began to realise that the hour of defeat was near at hand. The pressure became too great, and the controversial Vice-President was forced to resign on 9th October and was arrested on 12th October.

Many then believed that the game was up as far as Perón was concerned, but they had not really understood the events of the two preceding years. The Colonel was no longer just an army officer, he was also Argentina's foremost labour leader – Peronism had been born. Union leaders – especially Cipriano Reyes, who headed the meat industry workers – and young officers loyal to Perón began, with Eva Duarte's help, to mobilise resistance (Perón had met her in January 1944 and was to marry her before long). The moment of truth came on 17th October. The working population of Buenos Aires took to the streets *en masse*, filled the Plaza de Mayo in front of the Presidential Palace and demanded Perón's release. Something of the mood of this crucial day in the history of Argentina can be sensed from a couple of passages in Joseph Page's biography of Perón:

> *Things began to stir early in the morning in the grimy suburbs that link La Plata and Buenos Aires. In Berisso and Ensenada, the followers of Cipriano Reyes set out again, chanting »We want Perón«, their women and children marching with them. In Avellaneda and Lanús, closer to Buenos Aires, the metalworkers also took to the streets. Factories and workshops closed down or never opened. The railroad workers declared a strike and cut off rail traffic in and out of the federal capital … In downtown Buenos Aires, well-dressed porteños stood on the sidewalks and gaped at the invasion. Dark-haired, dark-skinned marchers wore coveralls or other types of factory garb … They carried improvised banners and placards, some with Perón's picture attached; they sang popular tunes with new verses composed for the occasion; they chanted for their colonel. Though it was a warm, very humid*

spring day and by noon a few drops of rain fluttered from overcast skies, they kept arriving.[3]

General Farrell took the opportunity of resuming control of the situation. Perón was instantly released, reinstated in all his appointments and enabled, from the balcony of the Presidential Palace, to address a jubilant crowd estimated at 300,000 people. This was the victory of the Argentine poor, *los descamisados* (»the shirtless«) and the despised *cabecitas negras* (»small black heads«) had now become a force to reckon with in Argentina's history.

A few days later Farrell announced that a Presidential election would be held in February 1946. Perón was the obvious candidate in an election which, thanks to the interference of the American Ambassador, could be presented as a choice between the USA and Argentina or, as it was specifically expressed at the time, between *Braden* or *Perón*. The outcome was unequivocal. With 54 per cent of the votes cast, Perón – in an election with no fraud – had defeated the candidate of the entire united opposition. Argentina was in the Colonel's hands.

PERÓN IN POWER

From the moment he came to power, Perón made it clear that he was absolutely determined to keep his promises. He went by a development forecast which was not at all uncommon at the time and whose basic component was the assurance that post-war international development would bring even worse disruptions and tensions than those which had followed the end of the First World War. The Second World War would soon be followed by a third, between communism and capitalism, resulting in the com-

3. Page, 1983, pp. 128–129.

plete breakdown of world trade. In this perspective a five-year plan was outlined, aimed at making Argentina practically autarchic – that is, independent of other economies for its development – already by 1951. This was to be the paramount objective of the aggressive economic policy which Perón pursued between 1946 and 1948, aimed at quickly arming Argentina for a long isolation, as well as consolidating Perón's power base among the country's workers. In that kind of perspective, the long-term future of the export sector was of little importance. The thing was to exploit export industries to the hilt as long as possible and, similarly, to splurge the considerable reserves of gold and foreign exchange accumulated by Argentina during the war (amounting in 1945 to 1.2 billion dollars in gold and convertible currencies, plus 430 million dollars in non-convertible/blocked currencies).

The policy which Perón resolutely introduced had the following main outlines: a radical redistribution of incomes in favour of the workers, an equally radical attack on the resources of the agricultural sector, heavy investment in industrial development, an extensive policy of nationalisation and, ultimately, an attempt to build up a state-corporatist society on clear fascist lines. To this must be added new conflicts with the USA, which at the end of the forties imposed heavy strains on Argentina's exports.

The most spectacular thing about the new régime was its policy of redistribution to the advantage of wage-earners, which elevated Perón's popularity to new heights. The massive redistribution that was to come during Perón's first period of office (1946–52) was a consequence of the new Government's pro-worker policy coupled with a spectacular mobilisation of the workers. Union membership grew from just over half a million in 1945 to nearly 2 million in 1949, and strikes became legion. In Buenos Aires, for example, the number of workers involved in strike action increased tenfold between 1945 and 1947. Time and time again, these strikes led to state conciliation offers which

favoured the workers' side and raised real earnings to record levels. This is how the average real wage in the cities in 1949 came to be 70 per cent higher than in 1945. As a result, the wage share (social security charges included) of national income showed a record increase, from 38.4 per cent in 1943–44 to 45.4 per cent in 1947–49 and 49.5 per cent in 1950–52.

There followed a rapid expansion of the home market for both industrial goods and agricultural produce. This stimulated the growth of the industrial sector but also led to a massive redirection of agricultural output from exports to the country's home market. For example, over 80 per cent of Argentina's meat production and nearly 80 per cent of its grain production at the beginning of the 1950s was being consumed by the Argentinians themselves. This is a classic dilemma in an economy where export commodities are also central components of the type of domestic consumption which grows rapidly when workers achieve better living conditions (*wage goods*, as the term goes). In this situation, big redistributions unmatched by output increases lead to a collision between the need to export and internal consumption, but this did not in the least perturb the new Argentine Government, which, on the contrary, was intent on a higher level of economic isolation.

The second component of Perón's policy, the attack on the incomes of the export industries, was the kingpin of the new Government's strategy. It was in this way that large parts of the redistribution of incomes, but also the heavy expansion of public expenditure and rapid industrialisation, were to be financed. The agency for this massive transfer of resources from the agricultural sector/countryside to the state, industry and the urban economy was the *Instituto Argentino para la Promoción del Intercambio* (IAPI, »Argentine Institute for Trade Promotion«). The IAPI was set up in May 1946, at the suggestion of the industrial magnate and Governor of the Central Bank, Miguel Miranda, who was to

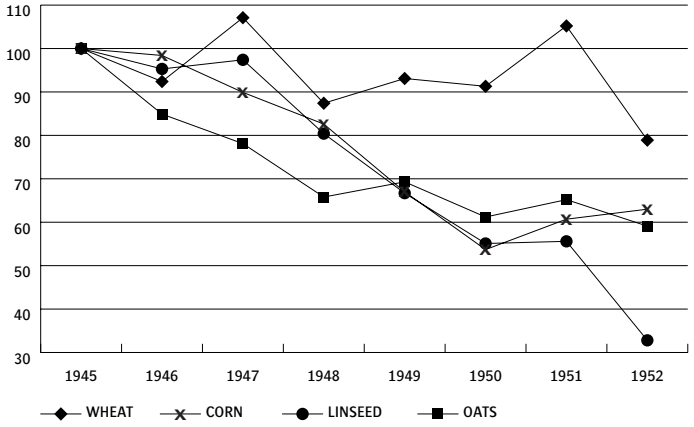
play a key role during Perón's first years in power and was the author of the five-year plan which, on paper at least, was to make Argentina a more or less self-sufficient nation.

The AIPI was given a purchasing monopoly of Argentina's main export products – with wool as the only significant exception – at prices of its own choosing. It was then to sell Argentina's export commodities at internationally current prices, retaining any profits deriving from the operation (for wheat, to quote just one example, the AIPI paid less than half the international prices between 1947 and 1949). During the 1940s this gave the Argentine Treasury substantial resources to be applied to industrial development or to the Government's social reforms and, not least, the extensive charity work conducted by Eva Perón through the foundation which in June 1948 was named after her. At the same time, agriculture was given low priority for credits and access to imported goods (imports of agricultural machinery and implements during the second half of the 1940s were not even one-fifth of the corresponding imports for industry). On top of this, agriculture was hit by very negative price movements in relation to other products. Between 1950 and 1952, the relative prices of agricultural produce had deteriorated by about one-third compared with the situation in 1937. Finally, there was the protracted conflict with the USA. This conflict had the effect, firstly, of excluding most of Argentina's export products from the American market and later – when the Americans prohibited the spending of Marshall Plan dollars on Argentine products – from many European markets.

The effects of the Government's policy, plus the American blockade, became very noticeable in terms of both falling output and diminishing export volumes. The reduction of output is clearly apparent from Diagram 12, showing changes in the cultivated acreage devoted to Argentina's four most important export crops between 1945 and 1952. Still more important, though, was

the long-term effect of this anti-agricultural policy at a time when the agricultural sectors of competing countries were modernising for all they were worth. The productivity gap between Argentina and the USA, for example, widened and became more and more difficult to bridge for the future. Productivity growth in American farming between 1935–39 and 1950–54 – and farms in the US were far more productive than Argentina's even to begin with – was more than twice that achieved by Argentina (48 per cent as against 21 per cent).

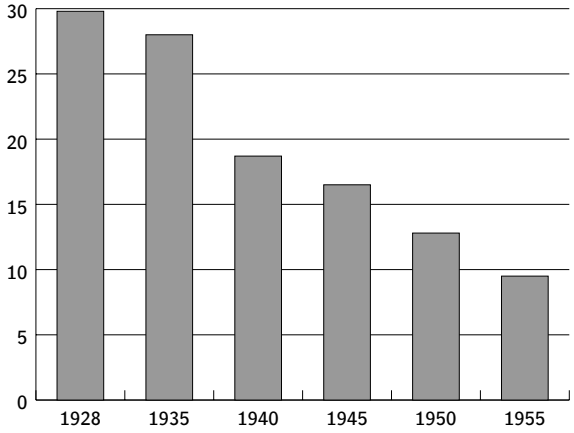
DIAGRAM 12. CULTIVATED ACREAGE 1945–1952 (1945=100)



Source: Rock 1988, p. 370.

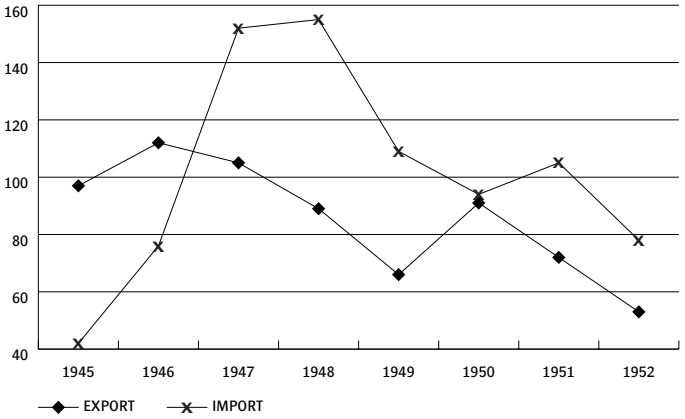
In the longer term, this development completed the spectacular decline, so clearly illustrated by Diagram 13, of Argentina as an export nation. But there were also to be direct repercussions on Argentina's trade balance, and the great gap opening between diminishing exports and, until 1948, steeply rising imports. Diagram 14, illustrating this development between 1945 and 1952, gives us a background to the trade balance crisis which was to hit

DIAGRAM 13. EXPORTS BY PER CENT OF ARGENTINA'S GDP, 1928–1955



Source: Bulmer-Thomas, 1988. p. 74; Díaz Alejandro 1970, p. 407.

DIAGRAM 14. DEVELOPMENT OF IMPORTS AND EXPORTS, 1945–1952, MILLIONS OF PESOS (1960 PRICES)



Source: Díaz Alejandro 1970, p. 407.

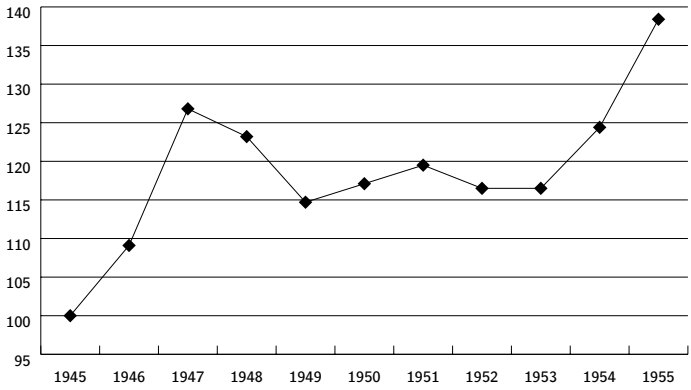
Argentina as soon as the foreign exchange reserves accumulated during the war years were exhausted.

The third component characterising Perón's administration was the pro-industrial policy which, in the same way as the anti-agricultural policy, was to have very adverse consequences for Argentina's future development. Industrial development under Perón was shaped by a policy which depressed profit margins through heavy pay increases but at the same time channelled abundant resources into industry through the readily available, cheap credits provided by the Industrial Bank. In addition, industrial output was stimulated by a rapidly growing home market which, by dint of tariffs, quantitative import restrictions and differentiated exchange rates, became increasingly cut off from foreign competition.

The result was a very rapid expansion of industry during Perón's first two years in power, followed by a slow recession between 1948 and 1953 (connected with Argentina's trade balance crisis and general economic deterioration), after which growth resumed at the end of the Perón era. These ups and downs are illustrated in Diagram 15. More important, however, than these short-term fluctuations is the kind of industrial development characterising the period. Perón implemented an industrial policy which had absolutely nothing in common with a more long-term development target but went hand in glove with his populist intentions. Instead of directing resources towards the creation of more modern base and capital goods industries, which were Argentina's industrial Achilles' heel, he allowed the more basic consumer goods industries to expand heavily, often in the form of small factories which, technologically, were far below the productive standard of the industrially developed nations. The fact is that the number of workers per workplace declined during this period of extensive industrial expansion, that is to say, an expansion based, not on technical progress and improved productivity

but on increased labour inputs. In 1954 an average industrial plant in the USA had nearly six times more employees than its Argentine counterpart. In this way the relative backwardness of Argentine industry was aggravated during the period (see Diagram 11, above), becoming still more dependent on imported machinery, semi-finished goods and raw materials. It is something of an irony of history that this nationalistic government, which wanted to make Argentina stronger and more independent, actually made the country both weaker and more dependent on the outside world than it had been for a long time.

DIAGRAM 15. INDUSTRIAL OUTPUT 1945–1955 (1945=100)



Source: Díaz Alejandro 1970, pp. 415–416.

The fourth element of Perón's policy was his bid to minimise the influence of foreign capital in Argentina. This was achieved through a series of rapid actions with great popular support. The foreign debt was paid off completely and a succession of nationalisation measures affecting the infrastructure, service enterprises and banking culminated in February 1947 with the nationalisation of the British railways (financed almost entirely out of

Argentina's reserves of non-convertible sterling). In this way the economic role of the Argentine state expanded considerably, with the foundation of some of the most loss-making publicly-owned companies imaginable.

Lastly, Perón's government was characterised by various attempts at building up a state-corporative society with fascist lineaments. Control of the unions was vital in this connection and was completed with the mixture of rewards and punishments which Perón had so skilfully used on previous occasions. Recalcitrant leaders were pushed aside and persecuted, while the compliant ones were richly rewarded. Eva Perón played a key role in this connection, in effect controlling the mighty CGT. This proceeded parallel to the formation of a new political party (known, from December 1947 onwards, as *Peronista*), distinguished above all by its loyalty to Perón (who was now called *el líder*, the leader, or *el Conductor* – the Führer – as he himself preferred to be called) and Evita (later elevated by the Senate to *Jefa Espiritual de la Nación*, »Spiritual Leader of the Nation«). This was also achieved by a systematic purge of less obedient adherents, a growing personality cult and strict top-down government (»*verticalidad*«), culminating with Perón becoming full empowered to change the Party's policy and replace leading persons as he wished.

At the same time, a »Peronisation« of the Argentine state, the universities and the media was set in train. Thousands of university teachers were sacked, the supreme court lost its autonomy and prominent opposition politicians like Ricardo Balbín, leader of the Radical Party, were thrown into gaol. Big election victories, both in 1948 and in 1951 (when Perón was re-elected with 64 per cent of the votes in the first election with women's suffrage) reduced the institutional standing of the political opposition to practically nothing. A new constitution was adopted in 1949 and Perón's social doctrine (*Justicialismo*, from *justicia social*, social justice) was made the ideological foundation of the nation.

At the beginning of the 1950s Perón intensified his efforts to expand state corporativism and form *La Comunidad Organizada* (»the organised community«) by organising other sectors of society than the workers into state-controlled associations. An organisation of this kind had already been formed for employers in 1951, and similar ones were later created for public sector employees, university students, freelancing professionals and even high school students. But these organisations never acquired the social footing and strength of the Peronist trade union movement.

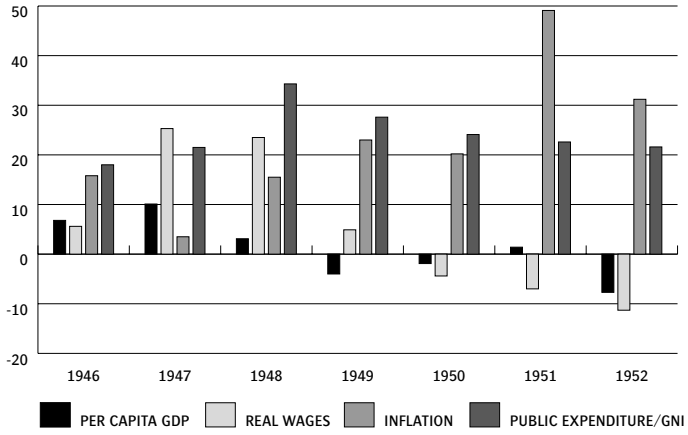
Parallel to the »Peronisation« of the state and its increasingly corporative grip on society, both its functions and its personnel strength were augmented. Public spending literally exploded in 1947–48, rising to levels equalling 34.3 per cent of Argentina's national income, i.e. more than twice the level in 1943–44. Argentine society became more and more regulated and the apparatus of state plus union control over large parts of the social security system (known as *obras sociales*), generated great opportunities of employment and reward for Perón's adherents. In this way the state – comprising both the national administration and the provincial administrations, plus the publicly owned enterprises – became the foremost agent in the Argentine national economy, easily exploitable by individuals with an appetite for careers and privilege (by 1954 the number of public sector employees had risen to 725,000, as compared with an average of 370,000 for the years between 1940 and 1944). This triggered a development which was to lead to one of Argentina's severest problems, namely growing political corruption and a contest for privilege.

Reality, however, soon put a stop to Perón's national-populist programme. The rapid growth occurring until 1948 destabilised the Argentine economy and was followed by a steep decline, bottoming out in 1952. The heavy expansion of the public sector and the cost pressure generated by pay rises led to accelerating inflation, which was accompanied by serious trade balance

problems and heavy import restrictions. Inflation operated here as a product both of an under-financed budget and of a rapidly growing demand unmatched by genuine output growth. But inflation was also a central tool in a distributive contest between different groupings in society. The employers responded to the increasing pressure for higher wages by raising prices, which in turn led to new pay demands in a spiral which Argentina was to experience many times over in the years that followed.

In Diagram 16 we can observe the co-variation of national per capita income, real wages, public spending and inflation. What we can see is a kind of economic cycle which we can call the populist cycle. It begins with a strongly expansionist policy giving »money to everyone«, which in the short term leads to growth, but at the price of growing imbalances – budget and trade balance deficits, heavy pressures of costs and demand etc. – and rising inflation, which after two or three years leads the economy into a phase of decline, necessitating strong stabilisation meas-

DIAGRAM 16. PER CAPITA CGP, REAL WAGES, PUBLIC EXPENDITURE AND INFLATION, 1946–1952 (PERCENTAGE VARIATIONS)



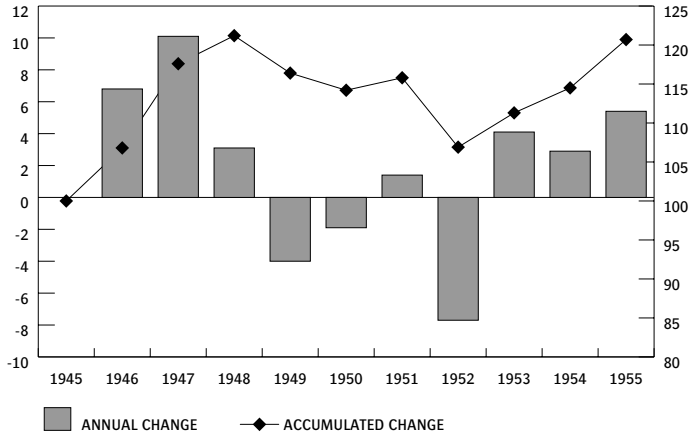
Source: Díaz Alejandro 1970, pp. 417, 421 and 527-528; Vitelli 1999, p. 372.

ures – devaluation, an austere budget, and a freeze on prices and wages, for example. This happened during the crisis years between 1949 and 1952, which made Argentina ready for the first stabilisation programme, to be pushed through by Perón in a political volte-face as spectacular as that to be presented 40 years later by Carlos Menem.

What we now see is a Perón freezing wages and trying to create better profit margins for the employers, encouraging foreign investors – even the detested Standard Oil – to come to Argentina, supporting the agricultural industries instead of throttling them, devaluing the peso and putting the brake on the growth of internal demand so as to encourage exports, trying to redirect resources towards the base industries instead of concentrating them on the consumer goods industry, and giving priority to big industries instead of small ones. Perón's last three years in power were dominated by the struggle against inflation and also for a more balanced budget and a better trade balance. In this way he succeeded in reversing the negative spiral, and Argentina once more experienced good growth in the years between 1953 and 1955. Diagram 17 gives us an overall picture of economic developments under the Perón administrations (1946–55), by showing both annual and accumulated change in the country's per capita GDP.

But a better economy could not save Perón, least of all now that the days of the populist bonanza were over. From 1952 onwards his enemies began to gather strength, added to which, he acquired new and powerful opponents, not least within the Church and among the military. His authoritarian and increasingly capricious style of government could not fail to provoke large numbers of people. Added to this, 33-year-old Eva Perón died of cancer in 1952, and in her Perón lost both invaluable personal support and a first-rate people's tribune. Bloody confrontations erupted in 1953 and both the offices of the opposition parties and the venerable *Jockey Club* were vandalised. In 1954 the count-

DIAGRAM 17. PER CAPITA GDP, 1946–1955. ANNUAL VARIATION AND ACCUMULATED CHANGE (1945=100)



Source: Díaz Alejandro 1970, pp. 417 and 421.

ry was shaken by a sudden epidemic of strikes, and mid-1955 found Argentina on the brink of civil war.

Street demonstrations for and against Perón came and went in the winter of 1955 and violent clashes became more and more common. On 11th June a few hundred thousand opponents of Perón's gathered, on the feast of *Corpus Christi*, for a silent march under the Papal flag. A few days later a large crowd of Perón supporters gathered for a counter-demonstration which ended with hundreds of people killed as a result of the crowd being bombed by a number of naval aircraft. After this the Peronists launched violent attacks on their opponents and on churches, which were set on fire. Several violent incidents followed and on 31st August – the same day that the state of emergency was reintroduced – Perón gave the most aggressive speech in his life, calling upon his adherents to take the law into their own hands and promising that five opponents would die for every Peronist killed:

We must respond to violence with a greater violence … Anyone who anywhere tries to change the existing order … can be killed by any Argentine … when one of our people falls, five of theirs will fall.[4]

Following this fateful invocation of civil war, it was not hard for Perón's opponents in the armed forces to launch the revolt which, after the navy threatened to bomb the Presidential Palace, led to Perón's resignation on 19th September 1955. Perón himself took refuge on board a Paraguayan gunboat and a fortnight later was flown to Asunción, the capital of Paraguay, and thus began a long exile which would last until his triumphal return to Argentina on 20th June 1973. Perón had left Argentina, but Peronism remained.

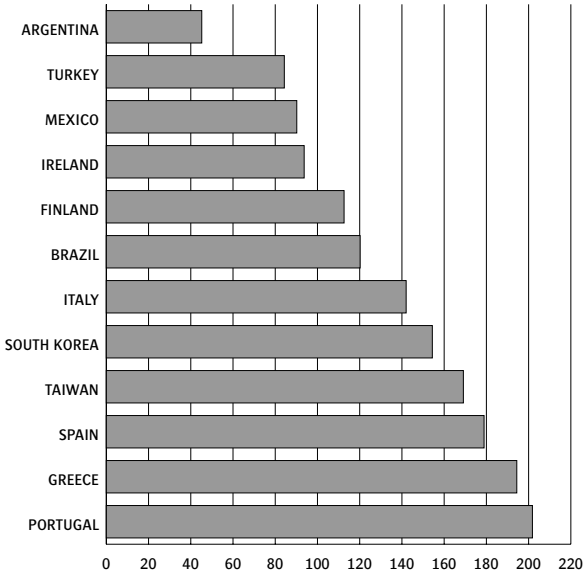
TOWARDS THE ABYSS

Between Perón's resignation in 1955 and his return as President of Argentina on 17th October 1973, the country had ten different Presidents, five of them generals. Repressive military administrations were succeeded by weak civilian governments, which in turn were ousted by new military dictatorships in recurrent military coups in a country becoming more and more difficult to govern. Economically, Argentina was characterised by perpetual ups and downs occasioned by new populist cycles of expansion, inflation, trade balance problems, crisis, devaluations and stabilising austerity packages, resulting in powerful social tensions. Argentina's long-term backwardness compared with many other nations – which had begun in the 1930s and had deepened during the Perón years – was now to continue, especially by comparison with other nations which in the mid-1950s were semi-developed or under-developed. This is reflected by Diagram 18, in which

4. Page 1983, p 315.

Argentine per capita income growth between 1955 and 1974 is compared with that of eleven other nations. As we can see, Argentina's growth is between half and quarter of growth in the other countries. This points to the enormous development opportunities which passed Argentina by during this internationally very dynamic time.

DIAGRAM 18. PER CAPITA GDP, ACCUMULATED PERCENTAGE GROWTH 1955–1974



Source: Penn World Table.

There is no point, in the present connection, in delving into the complications characterising this period. Instead I would like to analyse the economic and political structures underlying Argentina's lost opportunities and growing instability.

In economic terms, Argentina's problems were dominated by the structure which to all intents and purposes had already been created before the First World War, namely what has been termed

a half-closed economy, with an introverted, substandard industry which had to be shielded by various protectionist measures and which burdened export industries with a growing need for imports. The Argentine dilemma in the mid-1950s was a simple one, in a manner of speaking. Without even stronger protective mechanisms and political intervention, large parts of the very extensive industry which had emerged between 1930 and 1955 would have found themselves in great difficulty. The technological development gap compared with the industrialised nations was far too wide for anything else to be expected. In this respect, Argentina's position was much more difficult than that of the nations embarking on their industrial development at this time. They were not forced to protect an outmoded industry or to dismantle it, with all the social and economic costs which this implies. Argentina, then, was afflicted by the typical problems usually afflicting old industrial nations when their economic structure becomes old-fashioned by comparison with more dynamic newcomers.

A radical restructuring of Argentina's existing industry was something which no government even contemplated seriously at this time. The industrialists had become a very powerful lobby and industrial workers were not only numerous – over 2.3 million or 30 per cent of the country's total labour force, if construction workers are also included – but were also well-organised and militant. In addition, the spirit of the age was dominated by nationalist ideologies of development which saw, in an introverted, planned and protected strategy of this industrialisation the solution for less developed or semi-developed countries. All this explains why Argentina continued longest along the road which was nothing but a blind alley.

The policy of industrial protectionism was intensified by increased customs tariffs, but still more important was the arsenal of intervention measures put into operation in the form of quan-

titative import restrictions, import licences, import prohibitions and multiple exchange rates. In 1958, the protection which these various protectionist instruments afforded Argentina's industry had risen to quite extraordinary levels – 133 per cent, on average, for capital goods and 164 per cent for industrially manufactured consumer articles according to Little, Scitovsky & Scott[5] – and those levels were to rise even higher during the years that followed.

The export capacity of industry, of course, was very limited – not even one per cent of Argentina's industrial output was exported in the mid-1960s – and at the same time its dependence on imports had grown considerably. Also in the mid-1960s, consumer goods made up only 10 per cent of imports. The remainder comprised raw materials, semi-manufactured goods, fuel, building materials, machinery, tools and means of transport. Thus dependence on the traditional export sector had further increased, but that sector could hardly show the type of dynamic growth capable of securing industry's growing need for imports (Argentine exports grew by less than one per cent annually between 1950 and 1968, a startlingly low figure considering that world trade at that time was growing by 7.8 per cent annually). The Argentine economy was therefore subjected to heavy restrictions and recurrent external shocks, related to the fluctuating destinies of agricultural products on the international markets. This made the struggle for the remaining and – in relation to needs – ever scantier international means of payment all the more important. Further political intervention and regulations became inevitable, and so the battle for privilege was on. The group or branch of economic activity with no political contacts or influence could hardly survive in an environment where political decisions had come to be of paramount economic importance.

5. Little, Scitovsky & Scott 1975.

State control of foreign trade and exchange flows increased parallel to many other interventionist measures, until finally the Argentine economy acquired a fully-fledged neo-mercantilist structure. The decisive economic role of politics forced every group in society to get organised, so as to have a chance of success in the distributive contest which had less and less to do with each group's productive contribution. Growing instability and rampant inflationary tendencies became a natural component of this distributive contest during what was to be Argentina's long march towards the hyperinflation of 1989–90. This led to new political intervention and increasingly regulated price structures, alternating with periods of liberalisation which generated new tensions, which in turn made the struggle for political influence still more important as a means of economic competition.

Public expending expanded heavily in this increasingly politicised economy and already in 1975 exceeded 30 per cent of the country's national income. But the financing of this expansion became increasingly shaky, resulting in huge budgetary deficits: the annual deficit for 1973–75 equalled, on average, 10.3 per cent of Argentina's national income – which were most often financed by printing more bank notes, which in turn meant new inflationary tendencies and growing instability. The ups and downs of the Argentine economy made the country increasingly dependent on rescue packages from the IMF (ten of them between 1954 and 1980, making Argentina by far the IMF's most important »customer« in Latin America), necessitating measures of austerity and competition improvement, which immediately triggered great rashes of strikes and put new life into the nationalist/anti-imperialist rhetoric which has always played such an important role in the political life of Argentina.

Developmentally, Argentina by the mid-1950s had gone through what is termed the simple or first phase of import substi-

tution. The thing now was to move on towards technically more sophisticated products like vehicles, telecommunications equipment, machinery and other capital goods. This, moreover, was regarded as a necessary step to alleviate the serious trade balance problems which industrial development had given rise to. But there was a serious problem here. Argentine industry had little capacity for entering these new fields on a wide front. Here the negative effects of a development profile with no dynamic technology and knowledge production of its own were clearly visible. The name of the solution proved to be transnational enterprise.

Perón was the first to realise this, amid the ruins of the national populist experiment which he himself had initiated in 1946. A law promoting foreign investments was dictated in 1953, and a start-up agreement had already been signed a year before that, with Italian FIAT. Fourteen other international corporations were permitted to start up subsidiaries in the country between 1953 and 1955, among them Mercedes Benz and Kaiser Motors from Detroit. But this was only a modest beginning. Before long, Ford, Renault, Peugeot, Citroën, Firestone, IBM, Duperial, Olivetti, Coca-Cola and many other big foreign corporations had established themselves in Argentina. President Arturo Frondizi (1958–62) made the extensive establishment of transnational corporations a kingpin of the development strategy which he called *desarrollismo* (»developmentalism«). Already in 1963, out of 88 industrial concerns employing more than a thousand workers, 35 were foreign-owned, and many markets were dominated by relatively newly established transnational firms.

Getting these big corporations to build up production facilities in a country whose market could be supplied far more efficiently with imported goods was a task requiring even stronger protectionist intervention. The only way of procuring such obvious »mis-investments« was to practically reserve the whole of the national markets concerned for industrial goods produced within

the country. As F.G. Donner, President of General Motors, put it, GM, like other vehicle manufacturers, »had a choice between producing in Argentina or withdrawing from that market«. This, for example, is how Argentina acquired its motor industries, though in many cases at no small cost to the Argentine consumer. Production runs in the Argentine motor factories were far short of the normal international standard. In 1960 there were 21 vehicle manufacturers for a market of 100,000 vehicles a year, i.e. a market which, by the productive standards of that time, would hardly have been sufficient for more than one or two cost-effective producers. In this way a lorry produced by an American company in Argentina in 1967 cost 145 per cent more than the same vehicle manufactured in the USA!

The degree of inefficiency, of course, varied from one industry to another, and there were industries which, after a while, could operate relatively efficiently and could even start exporting some of their output, though frequently under the gallows and with a good deal of political assistance. This is already noticeable – even for a number of Argentine firms – at the beginning of the 1970s, when industrial exports rose from less than 100 million dollars in 1969 to just under 900 million in 1974, suggesting the existence of a limited but not insignificant export potential in parts of this traditionally so introverted industrial development.

The establishment of the transnational corporations in Argentina was also to have remarkable effects on the trade and payments balances. The expectation was that these enterprises would relieve the load which industrial expansion had created, but the immediate effect was just the opposite. Import demand grew heavily when the firms established in Argentina were unable to get hold of parts and input commodities locally. One typical example, yet again, is the very expansive motor industry which developed in Argentina during these years, mainly in Córdoba. Between 1959 and 1970, the trade balance was burdened with

900 million dollars for imports by the motor industry, whose exports at the same time totalled only 45 million dollars. A negative financial flow – investments compared with repatriated profits – of 133 million dollars was charged to the balance of payments for the same period, giving Argentina a total payments deficit of more than a billion dollars.

The hope was, of course, that the transnational corporations would bring and disseminate a new corporate culture and spearhead a process of technology transfer and industrial modernisation. Undeniably, this is what happened in many ways. Argentina gained access to industries which its national industry was incapable of developing. But the process was contradictory. The Argentine environment, with its strongly mercantilist features, compelled the newly established enterprises to adapt in many ways to an economic and political scene very different from that in their country of origin. This was a natural process demonstrating the importance of the structural and institutional framework surrounding and shaping business activity in a particular country. Acting in »modern« capitalist fashion, that is to say, the way people did in the USA or Western Europe, would have been utter madness in Argentina. To make this clear – and at the same time to illuminate the micro-economic process typical of the »Argentine development model« – it may be interesting to take a closer look at what we can term the Argentine business profile – Latin American really, because Argentina's torments in this respect were shared by the rest of the region. What we have is a specific type of corporate profile which emerged within the framework of semi-closed economies with limited home markets and strong elements of mercantilism.

This business profile was primarily shaped by the limited scope of the market – that is to say, of the protected home market – which made short production runs, often one-fifth or less of what was normal in the developed nations during the 1960s and 1970s,

regular practice, necessitating a very wide product mix in order to maintain reasonable output levels. Instead of growing specialisation, standardisation and economies of scale, industry tended very much to be a jack of all trades, which of course affected the choice of both organisation and production technology.

Argentina's business profile was also marked by the great uncertainty with which firms were daily having to cope. This could mean everything from galloping inflation, the true outcome of which was hard to predict, to rapid exchange rate fluctuations, strike waves, serious political confrontations and sudden reversals of economic policy. Coping with this unstable environment and guarding against uncertainty involved, of course, heavy expenditure which we can term socio-political transaction costs. Businesses responded to this by trying to organise away as much uncertainty as possible. This was done partly by vertical integration, i.e. building as many production operations as possible into the business activity concerned, and also by building up large stocks of every conceivable product. Quite simply, big, expensive organisations and large commodity reserves were created as a precaution against the uncertainty of the market and the caprices of politics. In the developed countries after the Second World War, the opposite tendency applied. Growing stability, reliable institutions and increasingly open economies, as well as improved communications, made markets more secure and lowered transaction costs, thereby facilitating both industrial specialisation and a reduction of inventories.

Business activity in Argentina came in the end to be entirely dominated by the all-pervasive economic importance of politics. In this situation, influencing the political system was an absolute prerequisite of survival, and so people were forced to commit heavy resources to a game which had very little to do with efficient resource utilisation but was ideal for promoting corruption in both great things and small. Lawyers and people with the right

names and political contacts were strategic facilitators to the corporations. Large departments were built up to deal with the endless paper work and lobbying activity which opened the way to vital import licences, juicy public contracts, much sought-after start-up permits, cheap credits, special prices, lower exchange rates and so on. This was a colossal waste of economic resources, engendering abnormal corporate structures and a mercantilist entrepreneur mentality.

Leaving the economic sphere and turning to consider politics, we find other important structures and conflicts which interacted with the economic ones during this mournful pilgrimage to the abyss. The absurdity of the situation can be described as follows. Peronism not only survived Perón's exile, it remained Argentina's strongest political and social force, with rock-solid base in the strong Argentine trade union movement. Peronism's popularity enabled the Peronists to win every election in which they were allowed to take part or to exert crucial influence on those elections – the majority – which they were not allowed to take part in. The Peronists could, de facto, both make and break governments, but were not themselves allowed to govern. This was prevented by the other big player in Argentine politics at the time, namely the military. The Peronists had the strategic objective of making Argentina ungovernable without Perón. The military aimed to exclude him from power. And neither side was capable of achieving a conclusion to this, a contest which proved increasingly ruinous for Argentina. As an interlude in this contest between the military and the Peronists, various constellations within the Radical Party were allowed to govern from time to time, but without having any strong power base of their own and without any chance whatsoever of gaining control over the military or the Peronists.

This impossible game took a dramatic turn at the end of the 1960s, under the harsh dictatorship of General Onganía (1966–70). New winds began to blow through Latin America following

the Cuban Revolution. New militant left-wing groups were formed everywhere, and Argentina was no exception. Large parts of the Peronist movement were radicalised, and a new generation of labour leaders, together with increasingly militant workers – mainly from the big new foreign-owned factories which had grown up, for example, in Córdoba – escalated labour resistance considerably. 1969 proved a turning point in this respect. Students and workers made common cause in a wave of strikes and manifestations culminating in May 1969 with the famous *Cordobazo*, when the Government lost control of Argentina's second-largest city, the centre of its motor industry.

Equally worrying, if not still more so, was the appearance in 1970 of a number of armed resistance groups of both Peronist and Marxist persuasions. The Paraguayan Consul was kidnapped in March 1970, and in June General Aramburu, one of the central figures in the coup which deposed Perón and President of Argentina between 1955 and 1958, was executed. Corresponding groups were immediately organised by the right wing, which, with support from the police and the military, resorted to brutal reprisals against the left-wing activists. This signalled a spiral of violence which within a few years was to turn Argentina into a land of terror.

It was at this stage of things that the military gave in to their old rival. They came to the conclusion that only Perón – who had turned 75 in October 1970 – could give Argentina a stable government and a new start. Quite simply, there was no one else who could rally anything like the same popular support. This conversion beneath the gallows paved the way for Perón's return to power three years later. It was Argentina's last hope, but it soon vanished. The elderly Perón – who won a landslide victory in the 1973 election – was only to rule for a few months. On 1st July 1974 Juan Domingo Perón died of a heart attack. For Argentina, only the abyss remained.

THE ABYSS

When, on 20th June 1973, Perón returned to Buenos Aires' Ezeiza airport, it was not only hundreds of thousands of enthusiastic Argentinians who awaited him. This, his great day of triumph, was to be sullied with blood in a way which portended the horrifying days and years which Argentina had ahead of it. Left-wing and right-wing Peronists confronted each other. The left-wing Peronists chanted: »Perón, Evita, socialist fatherland!« and the right-wing Peronists riposted: »Perón, Evita, Peronist fatherland!« Chaos quickly descended, with weapons alone speaking. Both sides were heavily armed, and the whole thing ended with hundreds dead in what has gone down in history as the Ezeiza Massacre.

What happened at Ezeiza is symptomatic of the state of Argentina during the first half of the 1970s. Perón's return did little to bridle the emergent violence. Left-wing Peronists from the *Montoneros* guerrilla organisation declared war on *los burócratas*, »the bureaucrats«, meaning the more conservative old guard of Peronism in the union movement, and José Rucci, Secretary-General of the powerful CGT, was murdered in September 1973. In January 1974 the Trotskyist *Ejército Revolucionario del Pueblo* (ERP, »People's Revolutionary Army«) launched a massive attack on the garrison of the city of Azul. At the same time the later so dreaded *Alianza Argentina Anticomunista* (AAA, »Argentine Anti-Communist Alliance«) cropped up at the other extreme.

After the death of Perón, all hell broke loose. His widow, Isabel, who was now President of Argentina, having been Vice-President under Perón, gave the military and the death squads a free hand in the campaign against the left. What now followed was an unbelievable wave of brutal repression. At the beginning of 1975 alone, some 50 left-wing activists and sympathisers disappeared every week in a war which was to go on for several years and quite rightly came to be called *la guerra sucia*, the

Dirty War. What had begun during the Presidency of Isabel Perón continued with undiminished vigour when the military assumed power in 1976. Nathan Shachar sums up as follows the events which unfolded in Argentina during these miserable years:

> *Death squadrons began operating several years before the formal military takeover. The great terror erupted after the death of Perón in 1974. The differences between subversive activists and passive sympathisers were presented like subtle, cynically laid smoke screens. It was said, and later confirmed, that when a suspected activist was arrested his address book became the rough sketch of a massacre. Everyone who happened to be in it was in danger – the piano teacher, the butcher or the distant relative. In the combinatory avalanche of names that followed, something like 25,000 people were killed … The murder by the Argentine authorities of their own citizens between 1974 and 1982 is unique. Nothing like it has happened in the West since the Second World War.*[6]

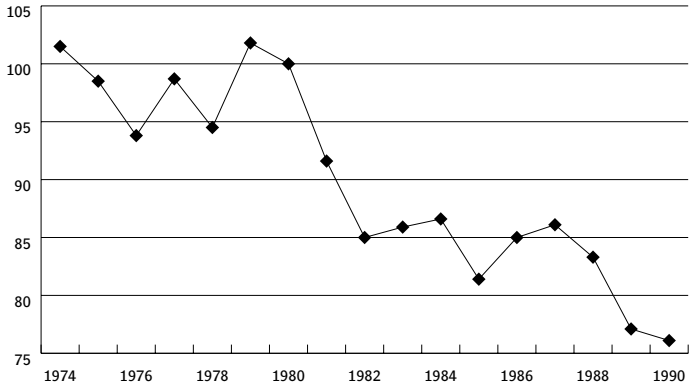
Internal repression, however, was not the sum total of suffering. The military who, led by General Jorge Rafael Videla, assumed power in March 1976 included those who firmly argued that a war was needed in order to rally the nation round an enduring, revolutionary military government. This expedient was highlighted at the beginning of the 1980s, when the military, now headed by General Leopoldo Galtieri, saw in a war of this kind the only possible way of remaining in power in the midst of an increasingly devastating economic crisis. Chile was the natural target of this madness, and war with Chile came very close indeed to breaking out, but the likely cost and the number of other complicating factors resulted, in the event, in the choice of a »softer« target. On 2nd April 1982 the Falkland Islands (or Malvinas, as they are

6. Shachar 2001, pp. 216, 268.

called in Argentina) were invaded in an adventure which, as will be remembered, ended in a supremely humiliating defeat which, however, opened the way to the reinstatement of democracy in Argentina.

The death of Perón was also an economic turning point. An economic nightmare period of 16 years started which, as shown in Diagram 19, would reduce the Argentinians per capita income by a quarter and lead to an explosion of poverty in what had previously been such a prosperous country (5 per cent of Argentine households were living below the poverty line in 1970, while in 1990 there were 27 per cent doing so). Development became increasingly chaotic, characterised above all by galloping inflation which at the end of the 1980s turned into hyperinflation (the total rise in prices between 1976 and April 1991 was an incomprehensible 2.1 billion times!).

DIAGRAM 19. PER CAPITA INCOME 1974–1990 (1980=100)



Source: IMF 2000, p. 208; CEPAL 1991.

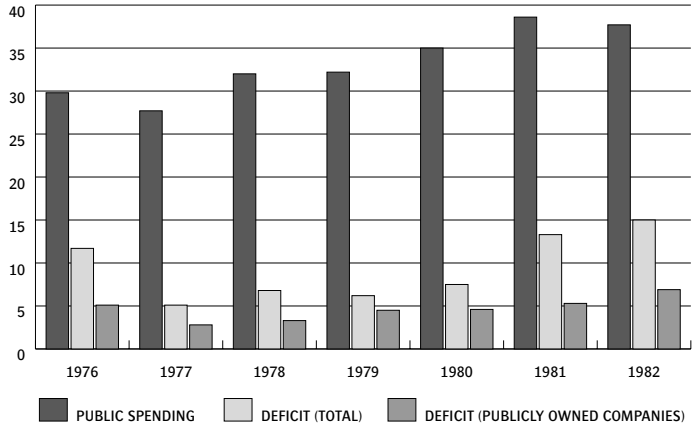
The economic decline had already set in during the Presidency of Isabel Perón (mid-1974 until March 1976), as a consequence of the international recession, which in turn was a consequence of

the first oil price shock in 1973. Per capita income fell by about 7 per cent between 1974 and 1976, and government finances ran amok, due to a heavy reduction of revenue (equalling more than 6 per cent of national GDP between 1974 and 1975), resulting in a rapidly growing public financial deficit (in 1975 equalling a record 15.4 per cent of Argentina's GDP) and a violent growth of inflation (from 24 to 182 per cent between 1974 and 1975).

It was a country like this, on its last legs, which the military took over in March 1976 to inaugurate what they called *Proceso de Reorganización Nacional* (»National Reorganisation Process«). What they then attempted was indeed a squaring of the circle, that is to say, slowing down inflation and stabilising the economy without fundamentally reforming national government finances and eliminating the public sector deficit. In addition, they were determined at all costs to keep unemployment down to a very low level (between October 1978 and October 1980 it was in fact running at about 2.5 per cent). Diagram 20 shows the development of government finances between 1976 and 1982. As will be seen, after a brief sobering up, public spending started to increase again in 1978, as did the public sector financial deficit. The diagram also shows what was the Argentine economy's real headache, namely the loss-making public enterprises, which at this time accounted for between 40 and 72 per cent of the total public sector deficit. Of course, there was no curbing inflation in this way, nor was there any abatement of social conflicts during these brutal years of steeply falling real wages and rising poverty. On top of everything, a very rapid accumulation of international debt – the foreign debt grew from 7.9 to 35.7 billion dollars between 1975 and 1981 – left the country more exposed than ever to external shocks.

One of the military administration's most innovative moves was a heavy reduction of tariffs and abolition of most of the protectionist interventions which, by tradition, had screened off

DIAGRAM 20. PUBLIC SPENDING, TOTAL DEFICIT AND DEFICIT OF THE PUBLICITY OWNED COMPANIES BY PERCENTAGES OF GDP, 1976–1982



Source: Heymann & Navajas 1990, p. 45.

large parts of Argentina's economy from foreign competition. An average tariff level of almost 100 per cent was reduced within a few years to just one-third of that (custom tariffs on machinery and other investment goods were zeroed) and most of the quantitative import restrictions were abolished. This policy was prompted by considerations of principle, based on a realisation of how untenable Argentina's greenhouse industrialisation had been, and on a desire to combat inflation, and its implementation was complicated quite considerably by the heavy fluctuations of exchange rate policy. At first it was an under-valued peso that alleviated the effects of the liberalisation, and then the opposite happened, i.e. an over-valued peso made imports cheaper, thereby compounding the consequences of liberalisation.

The policy of liberalisation, however, turned out to be only a brief episode. Its full effect was confined to two or three years, and in connection with the profound economic crisis which began in 1981 it was more or less buried. It should also be point-

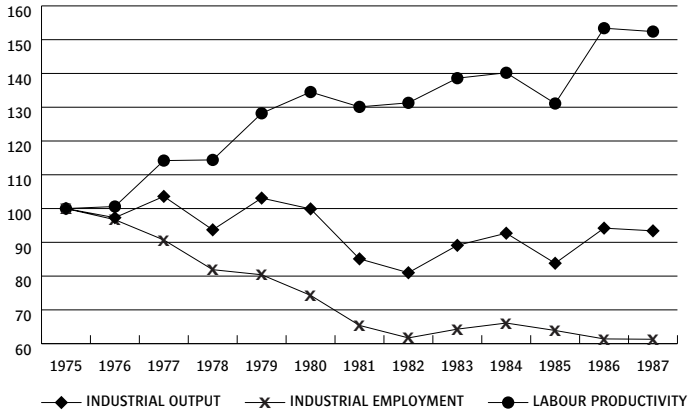
ed out that the liberalisation of foreign trade took place under the worst imaginable macro-economic conditions – high inflation, heavy exodus of capital, high interest rates and a general instability and uncertainty. Even so, this policy was so innovative that an analysis of what happened to the industrial sector so heavily protected previously is called for, not least because what we can see happening then both presaged and, not least, prepared for the structural reforms to be introduced during the Menem Presidency.

Diagram 21 shows the development of industrial output, employment and labour productivity in the industrial sector between 1975 and 1987. What we see is a startling process indeed. Up until 1975, industrial employment in Argentina had shown a rising trend, but from that year onwards we find a radical trend inflection, with employment falling by nearly 40 per cent by 1987. This, as Adolfo Canitrot pointed out in a highly influential essay, was »one of the most influential structural changes of the period«.[7] Meanwhile industrial output stagnates after a long decline between 1979 and 1982. Its level in 1987 was 6.6 per cent below the level for 1975 (and much lower than that if calculated in per capita terms). At the same time, labour productivity rose dramatically by more than 50 per cent during the period in question.

This course of events can be interpreted as follows. The new policy of the military triggered a strong process of productive renewal and modernisation of Argentine industry, which accelerated with the liberalisation of foreign trade, both through the strong pressure of competition from imported products between 1979 and 1981, and still more so due to the possibility of importing large quantities of cheaper investment commodities during the same period. The fact is that imports of capital goods more than quadrupled between 1977 and 1980–81 (as against an in-

7. Canitrot 1986, p. 114.

DIAGRAM 21. INDUSTRIAL OUTPUT, EMPLOYMENT, AND PRODUCTIVITY PER INDUSTRIAL WORKER, 1975–1987 (1975=100)



Source: Katz & Kosacoff 1989, pp. 86, 92.

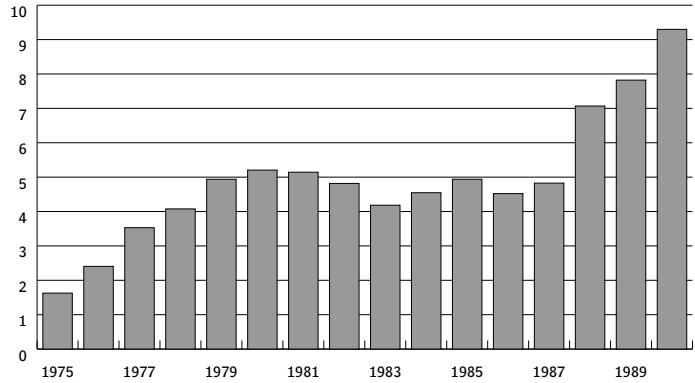
crease of about 2.5 times in total imports). Industrialists understood, to quote Canitrot's words once again, »that a renewal of the apparatus of production was a prerequisite of their survival prospects in the face of foreign competition in local markets.«[8] And the most interesting thing of all is that this process of productive modernisation appears to have gone on with undiminished vigour – as can be easily seen from the diagram – even after the policy of openness had been abandoned in 1982. We would seem, then, to be faced with a historic trend inflection regarding the productivity development and competitive strength of Argentine industry.

Summing up, we can say that Argentine industry grew smaller but at the same time stronger during this traumatic period in the country's history. The extraordinary growth of productivity which can be seen in Diagram 21 is the best evidence that some-

8. Ibid, p. 112.

thing of essential importance had happened to Argentina's industrial sector. Another sign of this is the rapid growth of industrial exports during the second half of the 1970s and also at the end of the 1980s, a development which decisively reinforced a tendency initiated some years previously. Diagram 22 shows this development, which was nevertheless hope-inspiring in the midst of all the misery Argentina experienced during these years.

DIAGRAM 22. INDUSTRIAL EXPORTS 1975–1990, BILLIONS OF DOLLARS



Source: Bisang & Kosacoff 1993, p. 124.

The significance of all this for Argentina's prospects was in the 1980s more a question for the future. At the beginning of the 1980s the Argentine economy was completely dominated by new external shocks – the debt crisis – which conclusively destabilised this already so fragile economy, inaugurating a decade of recession and mounting chaos. It was in the middle of this desperate situation that the military threw themselves into the war against Great Britain which, hopefully, was to prove their final exploit.

Defeat was followed by democratisation, and in December 1983 Raúl Alfonsín of the Radical Party took over a degraded,

demoralised and misgoverned Argentina. The country which at the beginning of the 20th century attracted millions of expectant immigrants had been turned into a country which many of its children just wanted to get out of if they could only find a way. And Argentina's torments were by no means ended with the restoration of democracy.

Not many who saw them are likely to forget the faces of tens of thousands of Argentines who, on December 10, 1983, took to the streets of Buenos Aires for the inaugural of their new, democratically-elected government. With joyous expressions they celebrated, almost to the point of delirium, believing that they had finally ended the torments that had begun nearly fifty years earlier, when the overthrow of constitutional government led to a succession of civic calamities that dragged their country into a general economic, political and social decline. Now the citizens of Argentina hoped they'd put all of that behind them.

Laurence W Levine, *Inside Argentina*

WITH THE REINTRODUCTION of democracy began Argentina's struggle to raise itself out of the abyss. The losses resulting from the spiral of mounting instability and violence which had characterised the country for decades were not only concerned with economics or politics. The country was damaged in its moral nerve and self-perception. Argentina at the beginning of the 1980s was a country which had lost faith in itself. A profound crisis of self-confidence had crystallised out, and would subsequently lead a life of its own, with devastating consequences for everything else. In a country dominated by powerful social conflicts, distrust and negative expectations, it is the citizens' state of mind which in the first instance has to be altered, so as to make possible the initia-

tion of a sustainable reconstruction process. But this cannot be achieved overnight, and there is an imminent risk of new difficulties and reverses once more triggering a negative spiral of economic panic, social desperation and a war of all against all which can easily lead the country back down into the abyss. This is what would happen to Argentina at the end of the 1980s and again at the turn of the century. It was as though this already so afflicted country had been further afflicted with the curse of Sisyphus. And this is where Argentina stands today, once again deeply enmired. Is there any hope for Carmencita, or is it her last tango we are now witnessing?

ALFONSÍN

There is something both tragic and magnificent about the man who became President of Argentina in December 1983. Tragic because Raúl Alfonsín, who had such good intentions and also a number of good ideas about how to overcome Argentina's economic crisis, was nevertheless to be ultimately defeated in that crisis and forced to relinquish prematurely the Presidency of a country in complete economic chaos. Magnificent, because this man nevertheless succeeded in piloting a tattered Argentina through the first very difficult years of democratisation. It was a great event in the nation's history when, in July 1989, he handed over power to Carlos Menem. Not since 1916 had a democratically elected President handed over power to another democratically elected President who, moreover, represented another party. This was a big step forward for Argentina and Alfonsín's greatest triumph in the midst of the economic collapse which had forced him to resign.

Alfonsín came to power in a situation where the public sector deficit equalled 15 per cent of the country's GDP, the annual inflation rate had passed the 400 per cent mark and the level of investment had been practically halved compared with the situa-

tion a few years earlier. In addition, the country's economy was burdened with a foreign debt of more than 40 billion dollars demanding large annual interest and instalment payments which Argentina was no longer able to raise (by the end of 1983 the country had run up a debt of 20 billion dollars in unpaid interest and instalment charges). In this situation, very harsh and painful measures were the only possible way of getting the economy back on its feet, but Alfonsín opted for the populist path, thereby sealing the fate of the Argentine economy. A new populist cycle was about to begin in Argentina, but this time under such difficult circumstances that the time between populist expansion and the need for stabilising retrenchment was to prove extremely short. In other words, the days when populism could draw a veil over reality for a while were over in Argentina. This was an important lesson for the future. Argentina had nothing but a difficult path to tread if it was going to get anywhere, as Alfonsín too was to realise before much longer.

In January 1984 the Minister for Economic Affairs, Bernardo Grinspun, launched an expansive economic policy, categorically rejecting all talk of growth first and redistribution later. Argentina's social situation would not allow it. People – so, at least, he believed – must have everything at once. This choice of economic policy was of course disastrous, but it was not altogether incomprehensible, because the government needed plenty of popular support in order to stabilise democracy and not only gain control of the generals but also haul them into court, as Alfonsín actually did. Then again, he had to cope with the new poverty which had begun to emerge in the country. And this is why, for example, the new government started extensive food programmes for a million poor (*Programa de Alimentación Nacional*), augmented the education budget by a quarter and promised substantial real wage improvements.

This expansive policy produced hardly any expansion at all,

and the economic situation worsened considerably in 1984, with a continuing heavy deficit in public finances, inflation approaching 700 per cent per annum, record-low investment levels, a capital exodus which has been estimated at 22 billion dollars, and a hopeless situation as regards the servicing of foreign debt. In May 1985 the IMF and other international credit organisations blocked all new credits for Argentina. Quite simply, the country was bankrupt. The populist evasion of reality had collapsed. This forced the Minister for Economic Affairs to resign, and Alfonsín decided to make a serious effort to stabilise the economy and to tackle the country's big structural problems. On 14th June 1985, Alfonsín declared Argentina to be in an economic state of war, and he announced a new economic plan, the so-called *Plan Austral* (from *austral*, the name of the new currency which was to replace the old peso).

The new economic programme – to which further initiatives were eventually added – was one of the most ambitious Argentina had ever seen. It included both strong stabilisation measures and bold proposals for structural reform. Wages and prices were to be frozen, the government was to eliminate the budget deficit and stop printing money to cover its expenditure, the Central Bank was to be made independent and publicly owned companies were to be privatised, the economy was to be deregulated and foreign trade liberalised. The Austral Plan can very well be seen as a kind of dress rehearsal for Menem's programme of reform later on. It pointed to a way out of the mess, but it was also to illustrate the difficulty of following such a path in a country with strong organisations and interest groups which for decades had been fighting a devastating distribution struggle which they were in no way prepared to drop.

After an initial success, the plan collapsed entirely a couple of years later. Alfonsín made courageous attempts to push the reforms through, but the obstacles in the way became too much

for him. Among the most important factors of Alfonsín's failure, there are two which deserve to be looked at more closely, because they are also very important clues to an understanding of developments during the Presidency of Carlos Menem.

The first of these factors was the fiscal disorder of the provincial governments. Alfonsín tightened up the national government's budget well and truly and actually succeeded in turning a deficit, equalling six per cent of GDP in 1982, into a surplus of just over five per cent in 1985–1986. But what good was this when the deficits of the provincial administrations literally exploded during the same period, exceeding seven per cent of national GDP in 1987? What happened, quite simply, was that the provincial governments parried the consequences of the Austral Plan's austerity measures by borrowing and spending more money and, above all, expanding public sector employment – which, de facto, served as unemployment insurance – to unbelievable levels. One typical example of this is La Rioja, a poor inland province of north-western Argentina, headed by Carlos Menem. According to a feature article published by *The Economist* in October 1990, and appropriately headed »Letter from Menemland«, the number of employees of the provincial administration rose from twelve to just over forty thousand between 1983 and 1989, a figure equalling more than half the gainfully employed population of La Rioja in 1989. This is how the same feature article describes the situation: »many of these employees have nothing to do. There are schools with more teachers than students, and the halls to government buildings are packed with salaried loungers.«[9] Given this background, there can be no doubt of Carlos Menem's realisation that, without a radical reform of Argentina's extremely inefficient public sector, the country had no way out.

The second problematic factor was wage movements fuelling

9. *The Economist,* 6th October 1990, p. 50.

both inflation and the public spending deficit, as well as a conflict-ridden labour market in which strike action had become an everyday recourse. The Peronist-controlled unions struck, as they had done so many times before in history when the radicals were in power, and made the country more and more difficult to govern. During Alfonsín's Presidency, the country was rocked by 13 general strikes and more than a thousand other stoppages. Altogether an unbelievable eighty-three million working days were lost during this period. These conflicts were fomented primarily by the public sector employees, who had seen a heavy deterioration in their conditions of pay as public finances descended into ever-greater chaos. Strikes by public sector employees – not least in poor inland provinces like La Rioja – accounted for roughly 80 per cent of all lost working days during the Alfonsín Presidency.

Alfonsín's position grew rapidly weaker from 1986 onwards, in a wave of popular protests against the government's austerity measures, dominated by widespread labour disputes and an complicated situation regarding the legacy of the military dictatorship in terms of human rights infringements. The 1987 election proved to be the last nail in Alfonsín's political coffin. The Peronists had recovered their strength, once again becoming the leading political force in the country. They gained a majority of seats in the Chamber of Deputies and in 16 or the 22 provincial governments. After this the government became increasingly paralysed and the situation grew rapidly worse in every way. Argentinians' per capita incomes fell steeply in 1988 and 1989, investments dropped to levels unknown previously, inflation ran wild, the new currency, the austral went into free fall and once more the country was ripe for bankruptcy. Soon several Argentine cities became the scenes of bloody food riots. Argentina's tragic circle had been closed. The nation which at one time had fed so many other countries now had to witness its own hungry children being turned into desperate street looters.

THE MAN FROM LA RIOJA

As we have already seen, there is a large element of the improbable in Argentina's modern history, but even so it is hard to find anything as improbable as Carlos Saúl Menem – the Peronist who turned everything that was sacred and true to the Peronists upside down, the man with the orgiastic habits and an insatiable appetite for luxury from the remote, impoverished La Rioja, who was to transform Argentina as profoundly as Perón had once done, in Nathan Shachar's words, this »little gentleman who – no matter how many charges the indignant writer piles up against him – has reshaped the destiny of his country, indeed of his continent.«[10]

Many people laughed when this Peronist, with the looks of a light opera singer, born in La Rioja in 1930 to Syrian immigrants, plunged into the contest for nomination as the Presidential Candidate of the Peronist Party (*Partido Justicialista*, PJ), in the 1989 election. Laurence Levine, for example, former Chairman of the American-Argentine Chamber of Commerce, recalls as follows how Washington reacted to Menem's candidature:

> *When the governor of the poorest province of Argentina announced that he was running, many in Washington dismissed it as a joke. There was a great deal of laughter about the upstart candidacy of this short, mysterious man with long hair and sideburns, the »wild man« of Argentine politics.*[11]

Everyone expected Antonio Cafiero, leader of the Peronist Party and mayor of Buenos Aires, to carry off the nomination with ease, but they were wrong. The little man from La Rioja went straight to the grass roots of the party and ran a powerful nomination campaign under traditional Peronist slogans. He did not

10. Shachar 2001, p. 295,
11. Levine 2001, p. 221.

offer a clear government programme. What he primarily asked for was support for himself, a new Perón, the man the people could follow even if they did not quite know where he was leading them. And enough Peronists did just that to make him the party's candidate, and then enough Argentinians did the same to give him a convincing victory in the Presidential election on 14th May 1989.

Up till then, many people had associated Menem with the worst sides of Peronism, and they anticipated a new populist cycle, spiced with even more nationalist demagogy, state intervention, corporative horse-trading and corruption. So the prospect of Menem winning the election triggered a wave of economic panic which was an important contributory cause of the first of the two hyperinflations afflicting Argentina in 1989–90 (with an accumulated prise rise of 26,000 per cent between February 1989 and March 1990). After Menem's victory, the economy became unmanageable. The monthly inflation rate, 78 per cent in May, rose to 114 per cent in June and nearly 200 per cent in July, and a mood of general chaos spread throughout the country. It was under these dramatic circumstances that Raúl Alfonsín decided to resign five months before his term expired, handing over to Menem on 8th July 1989. Now it was for the man from La Rioja to speak, and he was to leave everyone speechless with a series of rapid decisions which neither friends nor foes had anticipated. Thus he opened a completely unexpected window of opportunity for the country, so confusing to all the economic, social and political players in Argentina that no one had time to react before Menem had taken control and set in train a series of trail-blazing reforms.

Menem's first stroke of genius already came before he had taken over as President. Immediately after his election victory he established close co-operation with representatives of Argentina's most important agro-industrial enterprise, the transnational conglomerate Bunge & Born (B&B). This led to the framing of the

so-called BB plan, and in the Cabinet which Menem announced before his accession, leading B&B economists and directors played a key role, headed by the new Minister for Economic Affairs, Miguel Roig (after Roig's death after one week as Minister, his mantle was taken up by Nestor Rapanelli, another leading force in B&B). By doing this, Menem eliminated a great deal of the distrust of the Peronists which the Argentine business community had harboured for decades, and he made it clear to all and sundry that the new government intended following a responsible economic policy with no trace of populism.

Still more important from a political and psychological point of view was the way in which Menem showed that it was he who ruled the country, not the Party, the unions, or manner of vested interests or old ideological falanges. Argentina was in such a state of crisis that a courageous leadership was needed, capable of breaking with everything and everybody standing in the way of the reforms which the country so greatly needed. This was made very clear by the composition of the new Cabinet, in which leading Peronists were conspicuous by their absence. On the other hand Alvaro Alsogaray, leader of the Conservative UCD Party, was given a key role to play as chief negotiator concerning the foreign debt.

The second quite unexpected move in Menem's game of lightning chess concerned foreign policy, with a rapprochement to both the USA and Britain. This, for a Peronist, was the most prohibited thing imaginable, but Menem showed the same firmness here as he had when appointing representatives of the country's leading capitalists to serve as Ministers for the Economy. Menem travelled immediately to the USA, where he not only succeeded in arousing the sympathy of the financial community but also established very friendly relations with George Bush Senior. He went on to visit Britain, and before long Argentina had re-established diplomatic relations with its adversary of the Falklands War. To

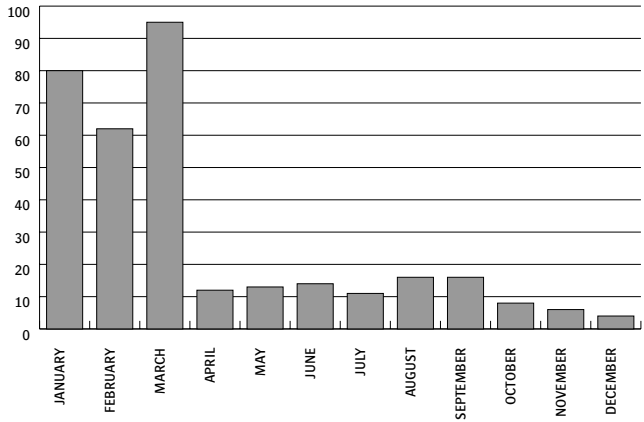
make this new deal in Argentine foreign policy clearer still, Menem decided to curtail a semi-secret missile manufacturing project of which the USA greatly disapproved, and he also resolved to join in the Gulf War on the side of the UN and USA. This caused quite a stir, not least remembering Menem's Arab origin. And so the little man from La Rioja had in record time transformed Argentina into a dependable ally of the USA and given the county a large fund of international goodwill.

No less important than these two innovative moves was Menem's immediate inauguration of structural reforms in Argentina's problem-ridden public sector, through rapid and symbolically charged privatisations coupled with drastic job cuts and heavy retrenchment. In this way Menem demonstrated that structural reforms had top priority, even at the expense of stabilisation measures. This was a diametrically opposite order of priorities compared with every previous attempt at reforming the Argentine economy, when stabilisation had either been disconnected or else regarded as the prelude to a structural transformation which never came about. To this end Menem put two important legislative proposals before the parliament already in 1989, namely *Ley de Reforma del Estado* (»Law on the Reform of the State«) and *Ley de Emergencia Económica* (»Law of an Economic State of Emergency«). The rapidity of Menem's action, plus the traumatic experiences of the first hyperinflation, resulted in his far-reaching legislative proposals being passed with opposition support. Menem was then able, at a hectic speed and by presidential decree, to carry out an extensive privatisation programme and to dismantle most of the country's corporative, thoroughly regulated and protectionist structures.

The fourth stage in Menem's rapid strategy of change concerned inflation. In December 1989 a second wave of hyperinflation commenced, showing that the first and quite traditional stabilisation measures by the new government were not enough. A new

Minister for Economic Affairs, Antonio Erman González (who had been Menem's Economic Affairs Minister in La Rioja) took office on 15th December, and three days later all price and exchange controls were abolished. Argentina began to resemble a market economy again. But the decisive event came on 1st January 1990, with the launching of the so-called *Plan Bonex*, which was nothing more or less than an extensive confiscation of the Argentine people's savings in national currency. All fixed-term bank deposits – *plazo fijos*, which could even be renegotiated daily – were converted into ten-year government bonds in dollars (*Bonos Exteriores*, Bonex), with interest payments every six months. In this way liquidity – cash, together with short-term securities and bank deposits – was dramatically throttled and about 60 per cent of the monetary base (M2) disappeared. This was followed by such an acute liquidity demand that inflation was already drastically curbed in April. This can be seen from Diagram 23, which shows the development of monthly inflation in Argentina during 1990.

DIAGRAM 23. MONTHLY INFLATION IN 1990 (PERCENTAGES)



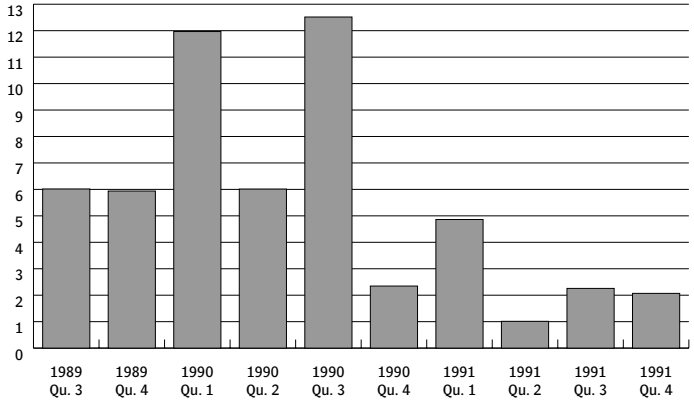
Source: Erro 1993, p. 210.

A brief recession was the price paid for this measure, which had suddenly reduced potential demand so drastically. And Menem made this choice fully aware of the consequences. It was, as he used to say, »surgery with no anaesthetic«. And this really was something new: no previous Argentine President had opted for recession as a method of curbing inflation and stabilising the country. But another effect of *Plan Bonex* also proved highly important. A copious and much-needed flow of dollars entered the country's banking system, because many Argentinians were forced to dispose of their dollar savings in order to cope with their day-to-day expenditure. In this way the Central Bank more than doubled its exchange reserves between January and December 1990. Talk about killing two birds with one stone!

Much had been gained by these four rapid moves, but the game of reforming Argentina could not be won without challenging the Peronists' foremost creation, the militant Argentine trade union movement. No sustainable stability could be achieved, nor could the structural reforms be put into effect, unless the constantly recurring strike waves could be ended. For this purpose Menem employed an extremely effective mixture of cunning and resolve. His method was to divide and rule, to favour those willing to compromise and to strike hard at the others. This had the effect of breaking up the powerful CGT, and where strikes in the public sector were concerned, Menem gave as good as he got. The moment of decision came in September 1990, when a big strike in the Entel telephone company ended with utter defeat and many dismissals. This was a typical example of the phenomenon known as slow-down strike, meaning a strike whose ending serves as a deterrent to others, and it has been compared with the miners' strike in Margaret Thatcher's Britain and the air traffic controllers' strike in Ronald Regan's USA. Strikes by public sector employees were practically forbidden after this one, and the effect on the frequency of industrial disputes was dramatic, as

can easily be seen from Diagram 24, showing the number of working days per quarter lost through strikes.

DIAGRAM 24. NO. OF WORKING DAYS LOST ON ACCOUNT OF STRIKES, QUARTERLY FIGURES, MILLIONS.



Source: McGurie 1996, p. 146.

Last but not least, it was the appointment of Domingo Cavallo as Minister for Economic Affairs in January 1991 and the Convertibility Law (entering into force on 1st April 1991) which conclusively stabilised the Argentine economy. The Convertibility Law guaranteed the unlimited convertibility of Argentina's currency – altered as from 1992 to the new peso – at 10,000 *australes* to one dollar (and the new peso also acquired a fixed value of 10,000 *australes*, thus being equated with the dollar). The Central Bank was given the task of guaranteeing this fixed exchange rate by withholding sufficient hard currency reserves to fully cover the Argentine money supply. This arrangement was supplemented in September 1992 by a new law in which the Central Bank was made independent and forbidden ever to lend money or underwrite loans to the government (meaning both the national and the provincial governments) and publicly owned enterprises. This

was a bitter medicine, but how otherwise could more long-term confidence in Argentina's currency have been created, after all the country had gone through?

During the years that followed, the Menem-Cavallo duo became the guarantee of Argentina's rapid transformation into an increasingly open economy with a high growth rate and zero inflation. Already in 1992, Cavallo spoke of the Argentine miracle as imminent, and many people so greatly wanted to believe him, both in and outside Argentina. But in the land of the tango, all dreams apparently die young.

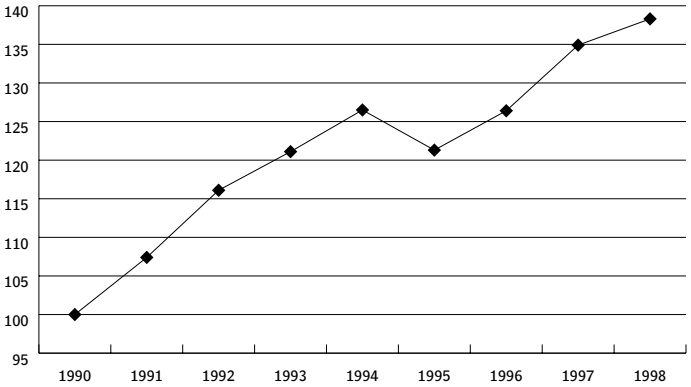
ARGENTINA'S INDIAN SUMMER

The reforms continued thick and fast for the remainder of Menem's first term of office (1989–95). The economy was thoroughly de-regulated, tariffs were substantially lowered and any number of import restrictions were abolished. Privatisation rose to record levels, including everything from the Buenos Aires Zoo to the big YPF oil corporation and the national airline, Aerolineas Argentinas. The number of public employees fell by more than 200,000, hosts of foreign companies became established in Argentina and the investment ratio rose quickly. Exports grew and a successful regional integration emerged under the aegis of Mercosur (commercial co-operation between Argentina, Brazil, Paraguay and Uruguay), inflation had vanished and the Argentine Central Bank could pride itself both on its large reserves and its independent status.

These structural reforms and stability gave rise to a period of very strong economic growth which, despite a temporary setback in 1995 (connected with the crisis of the Mexican peso), was to continue until the middle of 1998. Diagram 25 shows the accumulated variation of per capita incomes between 1990 and 1998, a period which must be termed remarkable, bearing in mind how

unsatisfactory Argentina's economic development had been since 1930. The Argentine economy in 1998 was 50 per cent larger than it had been in 1990, and during the same period the Argentinians' per capita income had grown by almost 40 per cent!

DIAGRAM 25. PER CAPITA INCOME 1990–1998, ACCUMULATED VARIATION (1990=100)



SOURCE: CEPAL 2001, p. 106.

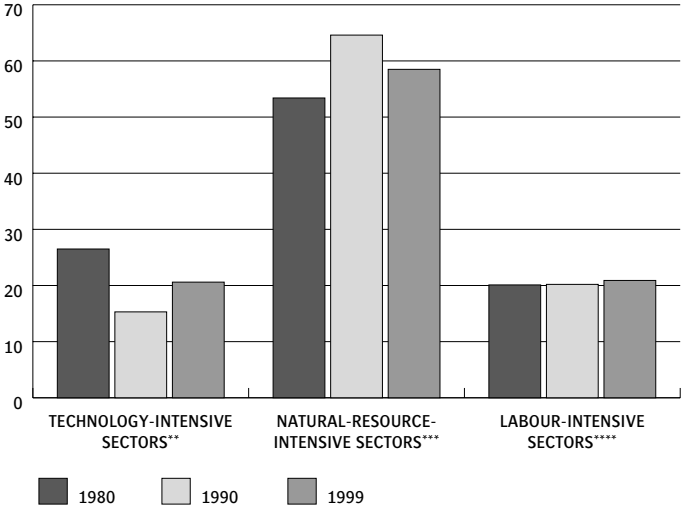
One of the most dynamic forces behind this growth was Argentine industry, which displayed an impressive capacity for renewal and seemed more than capable of coping with the new openness towards the outside world. This strongly corroborates the analysis presented earlier concerning the transformations of Argentine industry after 1975, which had already generated a vigorous growth of efficiency and productivity. The same development continued after 1990, but this time within the framework of a strong industrial expansion. Industrial output grew by an impressive 47.5 per cent between 1990 and 1998, and all fears of a deindustrialisation in the wake of the new policy of openness were proved wrong. But this required revolutionary changes which not all industries could accomplish.

This was a period of rapid industrial modernisation, character-

ised by heavy investments and efficiency measures leading to job cuts (minus 19 per cent) and unparalleled productivity gains per employee (plus 82 per cent). Labour productivity in Argentina's industry developed so strongly during this period that the productivity gap compared with the USA, which had widened in the 1970s and 1980s, now shrank by over ten percentage units. This was indeed the »productivity revolution« (*revolución de la productividad*) which had been a central watchword of Menem's Presidential campaign. This productivity growth was also reflected by industry's export capacity, which grew to such an extent during this period that Argentina – albeit from a very low level and with a great deal of help from regional integration – could start increasing its share of the international markets for industrial products (as was also the case, incidentally, concerning agricultural exports). This was especially noticeable in the case of the industrial products which were not intensive natural resources and which in 1998 accounted for nearly one-third of Argentina's total exports. It is still more interesting to note that openness to the outside world had not, as many people feared, led to a »regressive« structural transformation of industry, meaning an industrial structure specialising more heavily in simpler industrial products based increasingly on natural resources. This tendency had in fact been observable during the 1980s, but during the 1990s the trend was spectacularly reversed, as is shown in Diagram 26.

Undeniably, »the wild man« from Argentina had achieved a great deal in just a few years. Menem had put the country back on its feet, but there were still enormous problems waiting to be solved, and quite a number of new ones had arisen as a result of his reforms. Events were soon to show how fragile Argentina's so-called »flight into the future« actually was. The country's centuries-old structural problems and 60 years of growing mismanagement could not be magicked away so easily. The past would soon catch up with the development and the flight into the

DIAGRAM 26. THE STRUCTURE OF INDUSTRY* IN 1980, 1990 AND 1999 (PERCENTAGES)



* Excluding the oil sector (CIIU 353)
** CIIU 381, 382, 383, 384 and 385
*** CIIU 311, 313, 314, 331, 341, 351, 354, 355, 362, 369, 371 and 372.
**** CIIU 321, 322, 323, 324, 332, 342, 352, 356, 361, 390.
Source: Katz & Stumpo 2001, p. 142.

future end in a new journey to the abyss. Argentina had had its Indian Summer, but once again there were cold and rough times ahead in the land of Carmencita.

THE OTHER SIDE OF THE COIN

Carlos Menem was re-elected on 14th May 1995, polling nearly 50 per cent of the votes cast. This was his greatest triumph, but also his last. After it the man from La Rioja began to lose his grip on the situation. What happened was truly paradoxical. Argentina had been normalised to such an extent that it was now possible to begin scrutinising with increasingly critical eyes the Presi-

dent's methods and solutions and, not least, all the shady deals which, one way or another, could be pinned on his administration. It was time to look at the seamier side of the miracle and also to address old, unsolved problems, and there were many of those, ranging from unsolved crimes against human rights to growing poverty. Menem's success, in other words, became his worst enemy. He was good enough for a nation in profound crisis, more or less ready to accept almost anything to get itself out of the mess, but he was definitely not the man to govern a more normal country. In this way the man who was by far the greatest asset of the Argentine reforming process became its heaviest burden.

Corruption was the key word in this remarkable and, once it had started, rapid process of transformation. The President's extravagant lifestyle, family scandals, despotism and enormous powers were part of the problem, but no less important were the conditions, extent and, not least, the tempo of the reform process itself. A lot of things had to be done and quickly. Action, action and still more action was Menem's recipe for reversing Argentina's downward spiral and creating an economic, social and psychological momentum for the reforms. And it is easy to admit that this, presumably, was the only proper way of acting in a situation as desperate as Argentina's in 1989. In the midst of all this furious action there was plenty of scope for all manner of mistakes, mismanagement and sheer corruption. This can be clearly illustrated from the privatisation process.

The first thing to be said in this connection is that the sell-off of publicly owned companies and other public assets really was a sell-off. In four years about 60 big, publicly owned corporations (oil companies, petrochemical factories, steelworks and power stations, airlines, telecommunications factories, electricity and gas companies, defence material industries etc.) were sold, 19 others were put out to contract (including 25,000 km of railways, the Buenos Aires subway and television and radio stations) and

nearly 800 public properties (buildings, ports, grain silos etc.) were disposed of. The country's common and so badly managed assets – the publicly owned companies had generated losses of more than 50 billion dollars between 1965 and 1987 – were realised at a frantic pace and at prices far below their potential value. Now of course, all property in a bankrupt, chaotic country is heavily depreciated, but this did not prevent a widespread feeling that the country had been stripped of its common assets. This feeling grew progressively stronger with the passing of time, not least in connection with the outright corruption scandals which soon began to be revealed, and also when people were able to see public monopolies very often being replaced by private ones and the prices of many essentials like water, electricity and transport climbing steeply. Basically these price rises were not so much a monopoly problem as the necessary consequence of abolishing the subsidies which had previously kept loss-making operations afloat. After privatisation, things became more efficient but also more expensive. Many people found this hard to understand and they found it harder still to pay what things actually cost.

The scandals began almost immediately, but to begin with public opinion was relatively tolerant of these »accidents«. One of the very first important privatisations, that of the Entel telephone company, ended with a big scandal involving the daughter of Alvaro Alsogaray (leader of the Conservative Party and Menem's chief negotiator for the foreign debt). But this was nothing compared with a lot of other things which were eventually to be uncovered (and much is still waiting to be brought to light). Various mafiosi and even groups connected with international terrorism had horned in on the Argentine sell-off and had also managed to obtain many concessions for public services which were now being put out to contract.

The most frightening example of all this is Alfredo Yabrán, a mafioso with contacts in terror organisations from the Middle

East, who, through relatives of Menem's then wife – the Syrian-born Zulema Yoma – had got one foot inside the government building itself. This man, who was later involved in the widely publicised murder of journalist José-Luis Cabezas (who had begun delving into Yabrán's mysterious affairs) and then committed suicide in 1998, had hit the jackpot in Argentina's privatisations:

> *One of the biggest public sectors in the world came under the hammer in a couple of years. Out of this free-for-all, Alfredo Yabrán pulled several remarkable plums which inevitably aroused both curiosity and envy. What was the secret of his many successful bids in the privatisation process? He landed the monopoly of all duty-free sales at Argentina's thirty-three airports, exclusive contracts for fuel and food deliveries to the airlines, for express and security transport serviced, for the issue of passports and ID documents throughout the Buenos Aires province, and numerous other goodies. The benefices over which he acquired dominion all had one ting in common: they were cash cows ripe for immediate milking, with no need for any big preliminary investments.*[12]

The Yabrán case and much else besides resulted in a complete loss of legitimacy by the privatisation process, which on the whole was working well and was absolutely necessary in order to create efficiency and reduce the enormous public sector deficit. But this was not the only reason why Menem's administration tended more and more to be associated with corruption and abuse of power. Widespread police corruption was uncovered in connection with the dreadful anti-Jewish outrages that rocked Buenos Aires in 1992 and 1994, and a major scandal broke in 1996 concerning the government's involvement in international arms smuggling (the same scandal that, five years later, resulted in

12. Shachar 2001, p. 278.

Menem being placed under house arrest, and the arrest of Domingo Cavallo in April 2002). On top of everything else, there was the conflict with star Minister Domingo Cavallo, who after leaving the government in 1996 became one of the people who with the best authority could denounce the corruption and the Mafia rule which, in his opinion, characterised the Menem administration (Cavallo enlarged on this in book form, in *El peso de la verdad* (»The Weight of Truth«).

At the same time, in 1996, the government suffered a major parliamentary defeat on its proposal to reform the Argentine labour market, and labour disputes began to increase again. That same year the country was rocked by two big general strikes called by the united trade union movement. Labour market developments, which will be further discussed below, played a decisive role in this connection. Unemployment had risen to proportions never before seen in Argentina. But the growth years and Argentina's normalisation also played an important part. Now there was manifestly more to distribute, and this fuelled the type of militant distributive contest which occupies such a large part of Argentina's history. The protests against the Menem administration were henceforth to grow steadily stronger, and in the 1997 parliamentary election the Peronists were thoroughly defeated by a new electoral alliance formed by the Radical Party (UCR) and *Frente País Solidario* (»Front for a County of Solidarity,« FREPASO). In the end, Menem made a desperate attempt at clinging to power by standing for a third term of office, which called for a constitutional amendment, but no real support was forthcoming. Thus ended the saga of Carlos Saúl Menem, at least for this time round, for who knows whether he may not make it back to the Argentine Presidency in the 2003 election, or even earlier. A people's desperation can produce the most unexpected results, and desperation is almost the only thing that Argentina today appears to have plenty of.

BACK TO THE EDGE OF THE ABYSS

Menem's crisis would not have been much more than a personal tragedy if it had not occurred in an Argentina which was once again to be struck by hard times. The re-start given to the country by Menem's reforms would soon be coming under heavy strain. Problems old and new, plus a goodly number of external forces, would combine to bring about the collapse which the country suffered at the end of 2001. Argentina needed a new, vigorous and innovative leadership for the second half of the 1990s in order to develop further and in this way save what had been initiated by Menem. Instead, down to 1999, Argentina was headed by an increasingly powerless and discredited President and after that by a new government alliance (UCR plus FREPASO) which soon fell apart at the great challenges of the economic crisis. The whole of the political class found itself in complete disrepute, and the people's desperation became still more powerful when it could not be channelled into a political alternative. Thus Argentina became the sinking ship which it is today.

The challenges confronting Argentina at the time when the sad ending of the »Argentine miracle« began (1998) were many, and it would take a whole doctoral dissertation to illuminate them at all completely. Here we will stick to the challenges which, in my opinion, were most important and essentially contributed to the coming débacle.

Convertibility, recession and debt crisis

First and foremost, we have the more long-term consequences of the famous convertibility, or currency board, established in 1991. Few would question the sheer necessity of this measure when taken. Quite simply, it was a matter of life and death to prevent politicians from financing their own failures with an irresponsible monetary policy, and at the same time there were few other ways

of creating confidence in Argentina's currency than providing it with a counterpart to the gold standard of the past. Convertibility – *la convertibilidad*, as it is called in Argentina – was thought of as a necessary strait-jacket for a country which in economic terms had run amok so many times, but this strait-jacket became a big problem when it was made permanent. Nobody had the courage – which, one can well understand, with hyperinflation still a recent memory – or the strength to emancipate Argentina from this emergency solution, which many had actually begun to view as a panacea for all manner of economic ills (one of those who wanted, but was not allowed, to change the situation was in fact Menem, who, after the devaluation of the Brazilian real at the beginning of 1999, wanted to dollarise Argentina completely). Convertibility came to be regarded as such an immutable element of Argentina's new deal that, as late as May 2000, the following cocksure statement could be read in *The Economist's* special survey of Argentina: »One forecast, however, seems safe: 'convertibility' will endure.«[13]

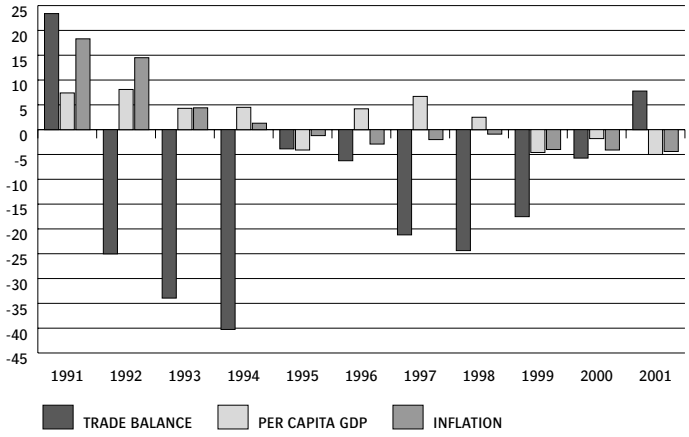
Basically, the problems of convertibility were three in number. The first was that the fixed exchange rate soon gave an overvalued peso in relation to the general competitive strength of the Argentine economy, because inflation in Argentina, although falling rapidly, for some time remained well above the American level. In addition, the peso was still more overvalued in relation to many other currencies, due to the appreciation of the dollar during the 1990s. In theory this should lead to growing trade balance problems (exports diminishing or – as in Argentina's case – growing less than imports do) and a diminishing money supply (money flowing out of the country to pay for the trade deficit), resulting in recessive tendencies and deflation, that is to say, a levelling down of prices in Argentina. An adjustment of this kind

13. *The Economist*, 6th May 2000, Argentina survey, p. 5.

ought to increase the competitive strength of the Argentine economy (by adapting prices to the country's comparative level of productivity), restore the equilibrium of the trade balance and reestablish a more reasonable relation between the purchasing power of the dollar and that of the peso.

All this was actually to happen, though not on the theoretical plane but in a real country where the deflation which had actually begun in 1995 (when prices in Argentina began rising more slowly than in the USA) and the recession which began at the end of 1998, became extremely protracted processes, and the road to the restoration of equilibrium became so heavily burdened that, inevitably, it gave way. Diagram 27 shows this process. Note the development of the economic cycle (in the form of per capita GDP), the trade balance (deficit/surplus by percentage of exports)

DIAGRAM 27. TRADE BALANCE*, PER CAPITA GDP AND INFLATION**, 1991–2001



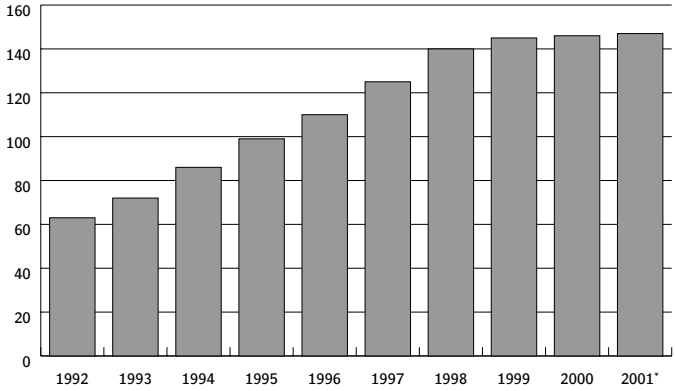
* Surplus/Deficit as a percentage of Argentina's exports.
** Annual percentage variation, with 1991 represented by the period April–December. Retail price index difference between Argentina and the USA (percentage units).
Sources: CEPAL 2001 and 2001A; ERRO 1993; Bureau of Labor statistics 2002.

and inflation (in terms of the difference between Argentina's and the USA's retail price indexes, where a plus means a reduction of the Argentine peso's purchasing power and, consequently, stronger overvaluation against the dollar, while a minus means the opposite). What is calculated to surprise here is the duration of the trade balance deficit. This is a product of the heavy initial overvaluation of the peso, coupled with something which is not usually taken into account in theoretical models, namely when, through foreign credits, international means of payment become available which make it possible for such a deficit to be maintained for a long time. But this very thing is the essence of the second great problems of convertibility.

The only way of escaping the strait-jacket of the currency board is by borrowing money. In this way any deficits can be financed and money supply augmented (by means of foreign credits). Thus the really non-existent flexibility of monetary and financial policy resulting from convertibility can be relaxed above all by means of external financing, but this is an extremely dangerous path to tread, because a rapidly growing foreign debt creates a burden in the form of interest and amortisation charges which, as soon as the credit flow diminishes or dries up, is transformed from the economy's angel of deliverance to its gravedigger. And this is exactly what happened in Argentina. Diagram 28 shows the explosive international contraction of debt characterising the 1990s. This increase was due to a growth of both private and public sector indebtedness, with the private sector as the most dynamic player during the second half of the 1990s. At the end of this decade the interest charges and amortisations which theoretically ought to have been paid on the foreign debt equalled practically the whole of Argentina's commodity exports. In these circumstances a country is bankrupt unless it has a continuing heavy influx of foreign capital. But things could hardly go on like this indefinitely, and the moment of truth arrived at the

end of the 1990s, in connection with an increasingly turbulent international development in the wake of the Asian crisis. From the middle of 2001, when the creditors discovered that Argentina had come to a financial dead-end, external finance dried up completely, apart from capital from such international rescue organisations as the IMF.

DIAGRAM 28. DEVELOPMENT OF FOREIGN INDEBTEDNESS 1992–2001, IN BILLION DOLLARS.



* September
Source: CEPAL, 2001a, pp. 514–515.

In the end, and this was the third problematic aspect of convertibility, the Argentine currency board rested on very fragile foundations. The existence of large reserves in the Central Bank of Argentina was not decisive in this connection. Everything hinged on the amount of confidence which the general public, institutions and experts could have in the willingness and ability of Argentina's government to adhere to this policy. With more and more people realising that this would not hold, confidence failed, despite the large accumulated exchange reserves, and the Argentine nightmare whirligig started up once again. Everyone wanted to get away from the national currency (and, in many cases, from

the country itself) and nobody wanted to lend money to the state. So the government had little alternative but to confiscate as much money as possible in various ways, as it has done several times since last year in the form of compulsory conversion of the internal national debt – totalling some 50 billion dollars – to loans more favourable to the state, in the form of reduced pensions (minus 13 per cent for pensions over 500 dollars) and wages for public sector employees, in the form of suspended payments to state suppliers and, lastly, after convertibility had been dropped in January 2002, in the form of a compulsory conversion into pesos of all bank deposits in dollars, at an exchange rate far below the market level. Quite simply, in the words of Steve Hanke[14], this was a widespread »legalised theft«.

From hyperinflation to hyper-unemployment

For a hundred years Argentina had allowed itself to tolerate a great deal of inefficiency in both the private and public sectors. This was a ballast which weighed increasingly heavy on Argentine development and which, basically, accounts for the country's startling regression for most of the 20th century. We have seen how protectionism shielded inferior industrial development, how public sector employment was converted into large-scale wastage of the country's productive resources, how political decisions, conflicts of interests and corruption became more important factors of success than successful productive ventures, and the morals of a whole country were distorted in such a way that people began to see the distributive struggle as the path to happiness. All this was the legacy which Menem – or anyone who really had Argentina's best interests at heart – was forced to do something about. Menem's solution was to force a productivity

14. Hanke 2002.

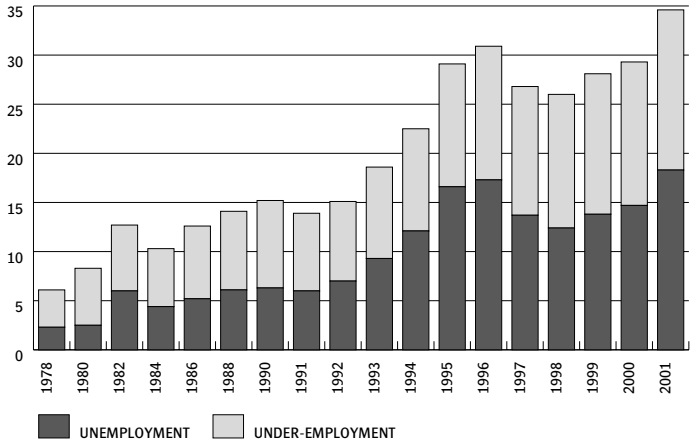
revolution by quickly and insistently dismantling the politico-corporative structures which had been keeping the whole of this ruinous cycle of inefficiency in motion. But a decision that revolutionary was bound to have turbulent consequences in every way.

As we have already seen in the case of industry, the reforms triggered an unparalleled growth of productivity, and the same was true of the many privatised companies. This resulted in a heavy reduction of employment, in the case of industry corresponding, between 1990 and 1998, to one-fifth of all employees. But job cuts were even heavier in the privatised operations, which were typical examples of the inefficiency which had characterised the public sector for decades. Of 319,000 employees in these activities in 1989, only 67,000 remained at the end of 1993! At the same time strong checks were put in the way of what had previously parried the growth of unemployment in similar situations, namely the possibility of expanding public sector employment. And not only that, the struggle for a more efficient public sector led to a reduction of personnel strength by about ten per cent or 200,000 employees during the same period.

The result of these drastic upheavals was an unemployment explosion which, within a few years, transformed one of the most characteristic features of Argentine development, namely quite low unemployment. The tendency towards higher levels of unemployment had already been apparent in the 1980s, but now it became much more powerful, as can be clearly seen from Diagram 29, which also shows the development of under-employment (persons working less than 35 hours a week due to lack of job opportunities). Young people were especially hard hit: at the end of the 1990s it was estimated that there were 920,000 young persons between the ages of 15 and 24 who were neither working nor studying. This development preceded parallel to a tremendous growth of the black economy, which had always been important in Argentina. Underlying all this was also the extremely

high cost of hiring people (during the 1990s social security and other such charges equalled about 50 per cent of gross wages, i.e. a good deal more than in Sweden and other developed countries) and fairly rigid labour market regulations, essentially inherited from Perón's first term of office.

DIAGRAM 29. UNEMPLOYMENT AND UNDER-EMPLOYMENT, 1978–2001
(MONTH OF OCTOBER, PERCENTAGES)



Source: INDEC 2001.

The poverty explosion

The unemployment shock of the 1990s played a crucial part in the Menem administration's loss of popularity after 1995 and also in bringing about the serious social conflicts which were once again to descend on Argentina afterwards. But the unemployment shock is also a pivotal reason for the rapid spread of poverty and an increasingly uneven distribution of incomes.

First, though, a few words as to what we are talking about in this connection. Poverty can be defined in many ways, often in relation to other people's incomes or wealth (»relative poverty«).

This will not be the case for present purposes. Here we define poverty as a relation between available income and the cost of a certain quantity of goods and services judged necessary for tolerable living. According to the Argentine Central Bureau[15] this, in May 2001, corresponded to between 133 and 154 dollars per adult monthly, depending on which region of Argentina one was living in. At the same time extreme poverty – *indigencia* – is defined as an income not even giving access to a »food basket« affording an acceptable calorie intake for an adult person (2,700 calories per adult daily in this case). This, at the same point in time, correspondent to between 55 and 65 dollars per adult monthly. At the same time it has to be pointed out that income poverty does not say much about accumulated wealth, for example in the form of housing, capital goods and education. And this is not at all unimportant in a country like Argentina, where a substantial portion of the new poor come from an increasingly destitute middle class. For example, between 95 and 97 per cent of all Argentine households in 1998 had their own TV, refrigerator and cooker, and three-quarters owned a washing machine. At the same time the Argentine population presents a relatively high standard of education: in 2000, only eight per cent of the economically active urban population did not have complete elementary education, and nearly 30 per cent had some form of post-secondary education (including 15 per cent with degrees).

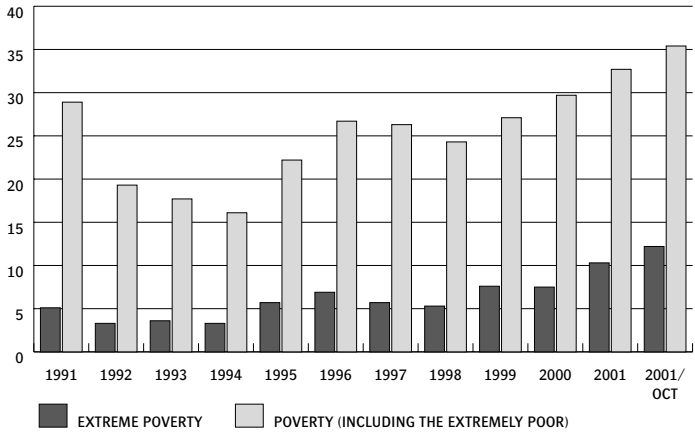
But what does all this mean when other people have much more and, not least, when one has seen better days oneself? It may even be that poverty is infinitely more difficult to put up with in circumstances like this. For a large part of Argentina's population – and in this Argentina differs radically from the rest of Latin America, Uruguay excepted – poverty is a relatively new experience, the beginnings of which can be dated by most people to the

15. INDEC 2002.

economic collapse of the 1980s, when the Argentinians' per capita income, as we have already seen, fell by nearly 25 per cent.

Twenty-six per cent of all households and 36 per cent of the country's inhabitants were counted as poor in May 2001. This corresponded to just over 13 million people. Poverty, however, was very unevenly distributed in this far-flung country. In Buenos Aires (city) only 11 per cent were poor, whereas almost 40 per cent were poor in Greater Buenos Aires (excluding the city). At the same time, poverty in the north-eastern provinces was well over 50 per cent. No less interesting than this is the development of poverty in the past few years. We can study this in diagram 30, with the aid of figures for the whole of Greater Buenos Aires. As a point of reference, the proportion of poor people there was under five per cent at the beginning of the 1980s but rose to unbelievable levels during the hyperinflation periods. In October 1989, 47.4 per cent of Buenos Aires' population were classed as poor!

DIAGRAM 30. POVERTY AND EXTREME POVERTY IN GREATER BUENOS AIRES, MAY 1991–2001 AND OCTOBER 2001 (INDIVIDUALS, BY PER CENT OF THE TOTAL POPULATION)



Source: INDEC 2002A, pp. 3/8 and 4/8.

From the diagram we can see that poverty declined steeply during Menem's early years in power. This, undeniably, was an impressive improvement compared with the disastrous years at the end of the 1980s, but from the 1995 crisis year onwards, poverty once again began climbing to ever-higher levels, coming to rest in October 2001 at upwards of 35 per cent. And we can also note that it was extreme poverty that grew fastest during this time, nearly quadrupling between May 1994 and October 2001. This means that at the end of 2001 there were practically 1.5 million extremely poor people in Buenos Aires! These figures make it abundantly clear that present-day Argentina is a powder keg of frustration, desperation and misery, and they provide a dismal but necessary background to the pictures of desperate crowds of people which, only too often, are beamed to us from an Argentina in crisis.

On top of all this, we can see that the distribution of income has grown increasingly unequal during the past quarter-century. In 1974 the income gap between the wealthiest and the poorest ten per cent of the population was 12.2 times. By 1990 this had risen to 15.4 times, and by 1998 to 24.6 times. It has been said that poverty is easier to put up with if shared by everybody, but this was definitely not the case in Argentina.

The public destabilisation machine

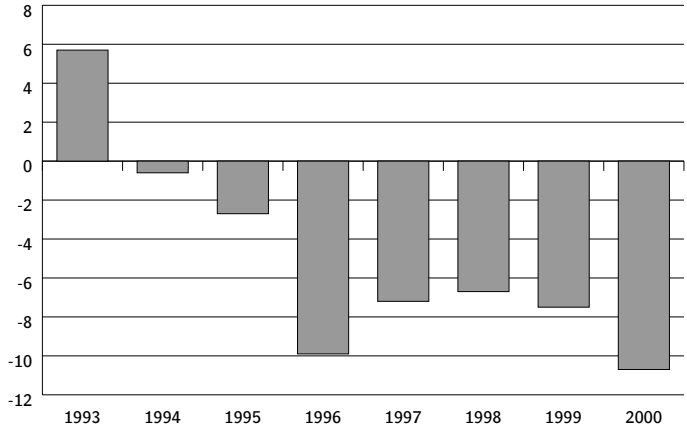
Argentina has long been living beyond its means, and this has become part of both the popular and the political culture. Deceiving reality with borrowed money or through inflation has been turned into a national sport, nearly always with a very bad ending. The public sector has played a leading role in this development towards a country with far too many »*vivos*« (a word which really means »living« but denotes a person with an eye to the main chance, at somebody else's expense). Menem's reforms

were very much concerned with getting the public sector – the biggest sinner in Argentine society – to mend its ways, and so it did for a few years, while »inflation tax« (as publicly driven inflation is termed in Argentina) was not available and budgetary discipline was significantly tightened up.

During the first half of the 1990s, Argentina's public finances were made to more or less balance. Privatisation played an important role here, both by eliminating an important cause of deficits and through the quite considerable proceeds of the sale of public property. But job cuts and more efficient taxation were also important in this connection. As Diagram 31 shows, however, the situation changed after 1995, with heavy deficits – though not so extremely heavy as before – occurring at both national and provincial levels. This led to a rapid growth of indebtedness, the costs of which were a growing burden on public finances, resulting in still greater deficits. Diagram 32 shows the development of total public spending, the total public debt and debt-servicing costs between 1993 and 2000. To bring home these problems more clearly, Diagram 33 shows the percentage growth of these three entities. That diagram shows quite clearly the breakneck growth of debt-servicing costs during the period in question. In 1993 these costs were just under six per cent of total public spending, whereas in 2000 they were almost up to 13 per cent!

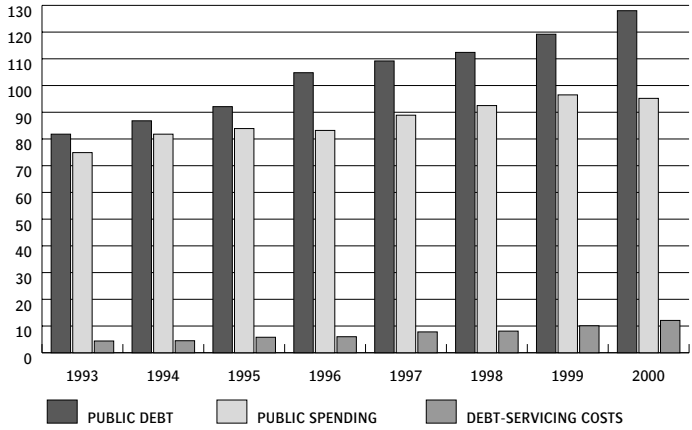
Also of relevance here is the remarkable structure presented by Argentina's public sector. Most tax collecting is centralised, with revenue going straight to the national government, while expenditure, on the other hand, is extensively decentralised and the provinces in 2000 accounted for 40 per cent of all public expenditure or 45 per cent excluding debt-servicing costs. This creates a breeding ground for an extensive distributive contest within the very apparatus of government, turning the provinces into spendthrifts who, as far as they can, pass on the bill to the central government. This in itself causes a great deal of fiscal confusion

DIAGRAM 31. NET FINANCIAL RESULT IN THE PUBLIC SECTOR, BY PERCENTAGES OF PUBLIC SPENDING, 1993–2000.



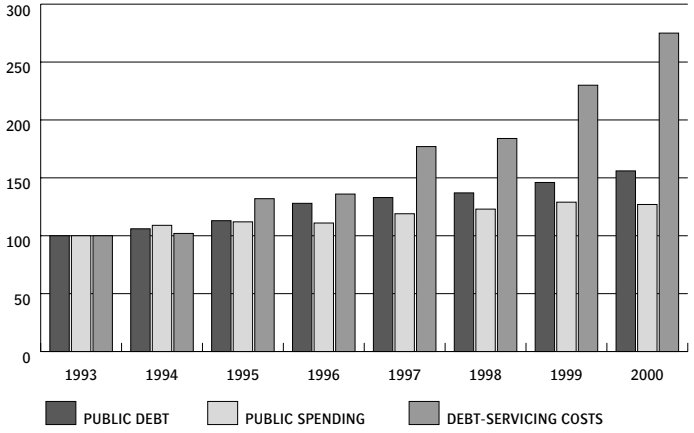
Source: Ministerio de Economía 2002.

DIAGRAM 32. PUBLIC DEBT, PUBLIC SPENDING AND DEBT-SERVICING COSTS 1993–2000 (BILLIONS OF DOLLARS)



Sources: Centro de Economía International 2002; Ministerio de Economía 2002.

DIAGRAM 33. PUBLIC DEBT, PUBLIC SPENDING AND DEBT-SERVICING COSTS, 1993–2000, PERCENTAGE FLUCTUATIONS (1993=100)



Sources: Centro de Economía International 2002; Ministerio de Economía 2002.

and, whenever the national government has wanted to clamp down on provincial spending, pressure from the provinces to incur debts on their own account. This was especially noticeable during the crisis years of 1999 and 2000, when provincial indebtedness grew by no less than 50 per cent (whereas the total debt grew by 14 per cent). The deficits of the provinces in 2000 equalled nine per cent of their budgets.

To all this must be added the great and growing deficit on social security and pensions (*previsión social*), which, in the third quarter of 2001 alone, was running at 1.75 billion dollars, corresponding to 40 per cent under-funding. This is a progressively heavier burden on Argentina's public finances, and it can only be reduced by means of painful social cutbacks or heavy increases in employers' social security contributions, something which, given the country's present unemployment crisis, nobody in their right senses would dare to suggest.

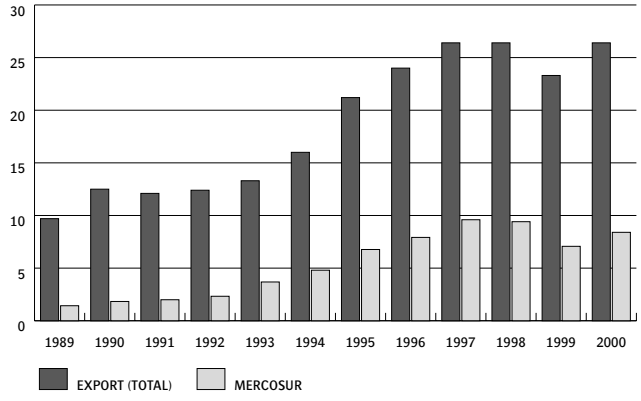
Of course, under conditions like this, no stability was obtain-

able, and so convertibility was doomed to collapse, sooner or later, under the pressure of public sector indebtedness. And so Domingo Cavallo, who had again become Minister for Economic Affairs, but this time under President Fernando de la Rúa, made one last desperate effort, in mid-2001, to save convertibility through the so-called *ley de déficit cero* (»Law of Zero Deficit«), which compelled the national government to post a zero deficit every month. But it was too late: both convertibility and the Argentine economy were beyond saving.

Mercosur

A minor problem in this connection, but still of great short-term importance for the development of the crisis after 1998, was the regional economic co-operation between Brazil, Argentina, Paraguay and Uruguay known as Mercosur (from *Mercado Común del Sur*). Mercosur was formed in 1991 as a free trade area, with a view to its transformation relatively soon into a regular customs union.

DIAGRAM 34. TOTAL EXPORTS AND EXPORTS TO MERCOSUR, 1989-2000 (USD BN)



Source: Ministerio de Economía 2002.

Mercosur's first years were very successful and regional market integration made a great deal of headway. As we can see from Diagram 34, Argentina's exports to the Mercosur countries more than quadrupled between 1990 and 1997, with Brazil as the absolutely dominant trading partner. Exports to Brazil in 1997 made up 30 per cent of Argentina's total exports and were 3.7 times greater than its exports to the USA, Argentina's second most important export market. But this dependence on the Brazilian market was to prove disastrous when Brazil completely dissociated itself from the spirit of co-operation on which Mercosur rested and drastically devalued its currency, the *real*, in January 1999. Suddenly price relations between Argentine and Brazilian products changed by about 30 per cent in Brazil's favour. The effect was dramatic, compounding the economic problems which Argentina had already experienced in the second half of 1998. In one year, Argentina's exports to Brazil fell by 2.26 billion dollars, and this reduction accounts for 73 per cent of the country's export losses in 1999. Worst hit was the strategic motor industry, whose exports to Brazil were now reduced by more than half. This goes a long way towards explaining the catastrophic 40 per cent drop in output experienced by this industry during the first half of 1999, compared with the same period a year earlier. All these reverses left regional co-operation in a very sad way, and today its future seems more and more uncertain.

The crisis of confidence

On 1st March 2002, Eduardo Duhalde, who had taken office as President on 1st January, made an important speech to mark the opening of the parliamentary year. In it he gave the following definition of the essence of the national crisis:

Two months ago this assembly entrusted me with governmental responsibility… in a bankrupt country on the brink of anarchy… The people trust neither politicians nor their representatives. The people do not feel represented by their union leaders, nor by the leaders of commerce and industry, and they also distrust the administration of justice. What is equally serious is that confidence has also been lost within the very fabric of society... the profound moral decay which has eroded trust between citizens has also undermined confidence in public institutions and perverted the basic rules of social life… Facing us today is the immense challenge of reconstructing our social capital, the basic components of which are a people's ability to co-operate on a common project, trust between members of the community and their reliance on society's institutions and their representatives, together with an ethical code of conduct to which everyone subscribes and the civic spirit of the population, that is to say, appreciation of living in a democracy and being able to strive for a better future.[16]

In these words Argentina's new President captured the serious crisis of confidence which in a decisive way influence all the other problems of the country. This crisis, as we have seen, has a long history. It evolved during decades of destructive distributive conflict, populism, privilege-hunting, institutionalised corruption, increasingly violent conflicts and growing instability, and it culminated with the barbarism of the Dirty War, the tragedy of the Falklands War and the chaos of hyperinflation. It was the moral nerve of Argentine society that was seriously damaged during this long process of decline, and this traumatic wound is ever-present, ready to be re-opened and to plunge the whole of society into ruin.

The feeling of living in a completely rotten society and being on the way back towards the abyss grew successively during the

16. Duhalde 2002.

second half of the 1990s, concurrently with the corruption scandals which were exposed, the incomprehensible deeds of violence which were never cleared up and, not least, the never-ending flow of nightmare stories from the days of the Dirty War. *Las madres de Plaza de Mayo* (the mothers of Plaza de Mayo) who had demonstrated year after year for their missing children in Plaza de Mayo) were now joined by *las abuelas de Plaza de Mayo* (the grandmothers of Plaza de Mayo), drawing public attention to the infant children of *los desaparecidos* (»the vanished ones« of the Dirty War) who had been kidnapped and then placed with adoptive parents. This made it possible to instigate new criminal proceedings against those responsible for the Dirty War, for this time the charges concerned kidnapping, a crime which cannot be statute-barred, for it continues to be committed as long as the victims remain in the kidnappers' power.

A crisis of morals or confidence like the one I am speaking of here cannot be quantified as easily as a lot of other things, but its importance for the possibility of leading a civilised life can hardly be overstated. Quite simply, it concerned the most basic essential of social life, the capital of mutual trust and dependable rules of social intercourse without which everything else becomes so much more difficult or indeed impossible. This is what has failed in Argentina, and damage of this kind can take an exceedingly long time to repair.

CARMENCITA'S LAST TANGO?

The breakdown came in December 2001, after more than three years of massive poverty growth, sky-high unemployment and an economic recession which had cost the Argentinians, on average, 11 per cent of their per capita income. President Fernando de la Rúa's situation was now hopeless. His power base had quickly crumbled and, after the election in October 2001, the Peronist

opposition had once more become the leading political force in Argentina. The deplorable state of the country made it clear to everybody that collapse was imminent and that the days of convertibility were numbered. A rapid flight from the peso already began early in 2001, with the result that the Central Bank's reserves began to shrink. Money supply dwindled, which deepened the recession still further, resulting in a heavy loss of taxation revenue. In sheer desperation, several provincial governments began issuing bonds – *patacón, lecop, lecor* etc. – in order, among other things, to pay their employees (these parallel currencies amounted in April 2002 to around six billion pesos). To put the brake on a growing stampede from the peso, a number of controls were imposed on bank and currency exchange transactions in December, among other things drastically limiting withdrawals from bank accounts (the so-called *corralito*). This, quite simply, was a mass confiscation of the Argentine people's savings. The situation now became untenable, and the President resigned on 20th December, after a couple of days of very bloody rioting and general chaos. Economy Minister Domingo Cavallo had resigned one day earlier.

Before the end of December, three more Presidents (Ramón Puerta, Adolfo Rodríguez Saá and Eduardo Camaño), had taken office – and resigned – and on 1st January 2002 the Peronista Eduardo Duhalde took over. The country's economy was now in free fall and convertibility was abandoned within a few days. Since then all the graphs have been pointing in the wrong direction. In the budget proposals introduced in February, the government estimated that Argentina's GDP would fall by 4.9 per cent in 2002, but no other observers will buy such an optimistic forecast (this budget is certain to go down in history as one of the most unrealistic ever put forward, and its estimated tax base had already collapsed by March). That same month a decline of 8.4 per cent was forecast by *The Economist Intelligence Unit*, and the

IMF assessment in March was on roughly the same level, but still more pessimistic forecasts have been going the rounds. If so, we are about to see the biggest economic débacle in Argentina's history, with a per capita loss of about ten per cent or more in a year and an accumulated decline for the past four years of more than 20 per cent!

The peso was devalued by more than 100 per cent as soon as the convertibility was abandoned, and inflation, Argentina's worst nightmare, immediately began to make itself felt. Wholesale prices have already gone up by 25.7 per cent in March, and it is not hard to see the risk of a devastating combination of hyperrecession and hyperinflation (a development which would force the country into a regular dollarisation as its only possible way out). Industrial output, activity in the construction industry, the volume of trade, exports, imports and taxation revenue have plummeted, and certain industries – with motor manufacturing as the foremost example – were completely paralysed at the beginning of this year. In addition, the banking system had in fact broken down, which will mean heavy losses to foreign lenders as well as to Argentine savers and the government. In February the Rosario-based *Fundación Libertad* estimated that it would take external loans of about 50 billion dollars to extricate Argentina more sustainably from its desperate plight: »To emerge from the crisis, Argentina needs more than financial support, it needs a Marshall Plan,« *Fundación Libertad* concluded.[17]

They may have got the sums right, but last year's IMF credits totalling 28 billion dollars, did little to help, and personally I am convinced that not even a Marshall Plan would help unless a lot of other things, which at present seem highly unlikely, were also to happen. There is no quick fix for Argentina, and, as we have seen, the country's problems are much greater than just eco-

17. Fundación Libertad 2002.

nomic. To tackle the enormous problems of the economy, a new political leadership will have to evolve, with the support and confidence necessary for putting in place the reforms which are needed to consolidate and enlarge on the great progress made during the first half of the 1990s. But at present there is not even a hint of this happening. At the same time we have to realise that, without firm action to alleviate the most acute problems of poverty, there can hardly be any chance at all of achieving the minimum of social stability needed in order to guide Argentina out of the crisis.

There is a great deal at stake now, far, far more than I have touched on here. It is Argentina's future as a democratic society which will be decided within the next few years or perhaps even sooner. So comprehensive and many-faceted is the crisis, that the days of democracy will be numbered unless a way out of the misery can be found. We have to understand that, under »normal« Argentine conditions, a military intervention would have taken place a long time ago. But the military were in such complete disrepute after the Falklands War, the Dirty War and the economic collapse at the beginning of the 1980s, that, for a time, the tragic normalcy of coups d'état was interrupted. At the same time it is not difficult to see that the period of grace may end one day if Argentina goes on plumbing the depths of crisis.

So sad about Argentina, so sad about Evert Taube's Carmencita, who, as the song goes, sat there »on the bench in a mantilla and with a rose at her breast« and only wanted to tango.

Ablin, Eduardo et al. (1985), *Internacionalización de empresas y tecnología de origen argentino*. Buenos Aires: CEPAL/EUDEBA.

Arias, Jorge (1995), *Menem : el rescate de la Argentina perdida*. Buenos Aires: Partido Justicialista (Internet).

Azpiazu, Daniel & Vispo, Adolfo (1994), »Some lessons of the Argentine privatization process«, in *Cepal Review* no. 54. Santiago: United Nations.

Balze, Felipe A M de la (1995), *Remaking the Argentine economy*. New York: Council on Foreign Relations Press.

Bethell, Leslie (1998), *Latin America : economy and society since 1930*. Cambridge: Cambridge University Press.

Bethell, Leslie (1993), Argentina since independence. Cambridge: Cambridge University Press.

Bisang, Roberto & Kosacoff, Bernardo (1993), »Las exportaciones industriales en una economía en transformación : las sorpresas del caso argentino 1974/1990«, in Bernardo Kosacoff (ed.), *El desafío de la competitividad : la industria argentina en transformación*. Buenos Aires: Alianza Editorial.

Bouzas, Roberto (2001), »El MERCOSUR diez años despues : proceso de apredizaje o déjà vu?«, in *Desarrollo Económico*, vol 41:162. Buenos Aires: Instituto de Desarrollo Económico y Social.

Braverman, Daniel, Chisari, Omar & Quesada, Lucía (2000), »La industria de las AFJP en la Argentina«, in *Desarrollo Económico*, vol. 40:158. Buenos Aires: Instituto de Desarrollo Económico y Social.

Brenan, James P (1998), *Peronism and Argentina*. Wilmington: Scholarly Resources Inc.

Bulmer-Thomas, Victor (1998), »The Latin American economies, 1929–1939«, in Leslie Bethell (ed.), *Latin America : economy and society since 1930*. Cambridge: Cambridge University Press.

Bureau of Labor Statistics (2002), *Consumer price index : annual percent changes from 1913 to present*. Washington, DC: U S Department of Labor (Internet).

Business Monitor International (2000), »Argentine 2000«, in *Business Monitor International Guide to the world's major emerging economies : country analysis and forecast reports*. Business Monitor International Ltd.

Calcagno, Alfredo F (1997), »Convertibility and the banking system in Argentina«, in *Cepal Review* no. 61. Santiago: United Nations.

Canitrot, Adolfo (1986), »Teoría y práctica del liberalismo : política antiinflacionaria y apertura económica en la Argentina, 1976–1981«, in Sofía Méndez (ed.), *La crisis internacional y la América Latina*. México: Fondo de Cultura Económica.

Centro de Economía Internacional (2002), *Argentina : principales indicadores económicos*. Buenos Aires: Cancillería Argentina (Internet).

CEPAL (1991), *Statistical Yearbook for Latin America and the Caribbean*. Santiago: United Nations

CEPAL (2001), *Estudio económico de América Latina y el Caribe 2000–2001*. Santiago: Naciones Unidas (Internet).

CEPAL (2001a), *Balance preliminar de las economías de América Latina y el Caribe 2001*. Santiago: Naciones Unidas (Internet).

Chudnovsky, Daniel, López, Andrés & Melitsko, Silvana (2000), »Ha contribuido el MERCOSUR al desarrollo económico argentino«, in *Integración y Comercio* vol. 4:10. Banco Interamericano de Desarrollo.

Cortés Conde, Roberto (1993), »The growth of the Argentine economy, c. 1870–1914«, in Leslie Bethell (ed.), *Argentina since independence*. Cambridge: Cambridge University Press.

Diamand, Marcelo & Naszewski, Daniel (1987), »La deuda externa argentina : origen y consecuencias (1976–1983)«, in Miguel Wionczek (ed.), *La crisis de la deuda externa en América Latina*. México: Fondo de Cultura Económica.

Díaz Alejandro, Carlos (1970), *Essays on the economic history of the Argentine republic*. New Haven: Yale University Press.

Di Tella, Torcuato (1996), »El futuro de los partidos políticos en la Argentina«, in *Revista de la CEPAL*, Número extraordinario. Santiago: United Nations.

Duhalde, Eduardo (2002), *Discurso del Presidente de la Nación Doctor Eduardo Duhalde en la apertura del 120o período ordinario de sesiones del Honorable Congreso de la Nación*. Buenos Aires: Presidencia de la Nación Argentina (Internet).

ECLAC (1990), *Changing production patterns with social equity*. Santiago: United Nations.

The Economist (1990), »Letter from Menemland«, in *The Economist*, 6th October 1990.

The Economist (2000), »Argentina«, in *The Economist*, Survey, 6th May 2000.

The Economist Intelligence Unit (2002), *Argentina*. London: The Economist (February).

Erro, Davide G (1993), *Resolving the Argentine paradox*. London: Lynne Rienner Publishers.

Europa Publications (2001), »Argentina«, in *South America, Central America and the Caribbean 2002*. London: EuropaPublications/Taylor & Francis Group.

Fajnzylber, Fernando (1983), *La industrialización trunca de América Latina*. México: Centro Editor de América Latina.

Fajnzylber, Fernando (1990), *Industrialization in Latin America : from the »black box« to the »empty box«*. Santiago: United

Nations.
Falcoff, Mark (2001), *Argentina votes – but for what?* Washington, DC: AEI Press (Latin American Outlook).
Ferrer, Aldo (1967), *The Argentine economy*. Berkeley: University of California Press.
Ferrer, Aldo (1986), »La economía Argentina al comenzar la década de 1980«, in Sofía Méndez (ed.), *La crisis internacional y la América Latina*. México: Fondo de Cultura Económica.
Freedman, Lawrence & Gamba-Stonehouse, Virginia (1991), *Signals of war : the Falklands conflict of 1982*. Princeton: Princeton University Press.
Fundación Libertad (2002), *Agenda de crisis : situación económica Argentina*. Rosario: Fundación Libertad (Internet).
Furtado, Celso (1970), *Economic development of Latin America*. Cambridge: Cambridge University Press.
Garzón, Juan Manuel & Argañaraz, Nadin (2001), *Por necesidad o conveniencia : déficit cero en provincias*. Córdoba: IERAL/Fundación Mediterránea (Internet).
Gereffi, Gary & Wyman, Donald L (1990), *Manufacturing miracles : paths of industrialization in Latin America and East Asia*. Princeton: Princeton University Press.
Hanke, Steve H (2002), »Legalizad theft : Argentina's rulers cannot resurrect an economy by ignoring the rule of law and plundering private property«, in *Forbes*, 4 mars 2002
Hanke, Steve H & Schuler, Kurt (1999), »A dollarization blueprint for Argentina«, in *Foreign Policy Briefing* no. 52. Washington, DC: Cato Institute.
Heymann, Daniel & Navajas, Fernando (1990), »Conflicto distributivo y déficit fiscal : notas sobre la experiencia Argentina«, in José Pablo Arellano (ed.), *Inflación rebelde en América Latina*. Santiago: CIEPLAN-Hachette.
Hora, Roy (2000), »Terratenientes, empresarios industriales y crecimiento industrial en la Argentina : los estancieros y el de-

bate sobre el proteccionismo«, in *Desarrollo Económico*, vol. 40:159. Buenos Aires: Instituto de Desarrollo Económico y Social.

Hora, Roy (2001), »Terratenientes, industriales y clase dominante en la Argentina : respuesta a una crítica«, in *Desarrollo Económico*, vol. 41:161. Buenos Aires: Instituto de Desarrollo Económico y Social.

IMF (2000), *International Financial Statistics Yearbook*. Washington, DC: International Monetary Fund.

INDEC (1999), *Industria manufacturera : producción, ocupación y salarios 1990–1999*. Buenos Aires: Instituto Nacional de Estadística y Censos.

INDEC (2001), *Tasas de actividad, empleo, desocupación y subocupación : total de aglomerados urbanos 1974/2000*. Buenos Aires: Instituto Nacional de Estadística y Censos (Internet).

INDEC (2002), *Incidencia de la pobreza en los aglomerados urbanos : mayo de 2001*. Buenos Aires: Instituto Nacional de Estadística y Censos (Internet).

INDEC (2002a), *Incidencia de la pobreza y de la indigencia en el aglomerado Gran Buenos Aires : octubre de 2001*. Buenos Aires: Instituto Nacional de Estadística y Censos (Internet).

Instituto de Estudios Económicos (1999), *Análisis fiscal y financiero de las provincias Argentinas*. Rosario: Fundación Libertad (Internet).

Katz, Jorge (1976), *Importación de tecnología, aprendizaje e industrialización dependiente*. México: Fondo de Cultura Económica.

Katz, Jorge (1986), *Desarrollo y crisis de la capacidad tecnológica latinoamericana*. Buenos Aires: Estudios sobre desarrollo tecnológico.

Katz, Jorge (2000), »Cambios estructurales y productividad en la industria latinoamericana, 1970–1996«, in *Revista de la CEPAL*, 71. Santiago: United Nations.

Katz, Jorge & Kosacoff, Bernardo (1989), *El proceso de industrialización en la Argentina : evolución, retroceso y perspectiva*. Buenos Aires: Centro Editor de América Latina.

Katz, Jorge & Stumpo, Giovanni (2001), »Regímenes sectoriales, productividad y competitividad internacional«, in *Revista de la CEPAL*, 75. Santiago: United Nations.

Kosacoff, Bernardo (1993), *El desafío de la competitividad : la industria Argentina en transformación*. Buenos Aires: Alianza Editorial.

Levine, Laurence W (2001), *Inside Argentina : from Perón to Menem*. California: Edwin House Publishing Inc.

Lewis, Daniel K (2001), *The history of Argentina*. London: Greenwood Press.

Little, Ian, Scitovsky, Tibor & Scott, Maurice (1975), *Industria y comercio en algunos países en desarrollo*. México: Fondo de Cultura Económica.

Ministerio de Economía (2002), *Información económica*. Buenos Aires: Secretaría de Política Económica (Internet).

McGuire, James W (1996), »Strikes in Argentina«, in *Latin American Research Review*, 1996:4.

Nogués, Julio (1988), »La economía política del proteccionismo y la liberalización en la Argentina«, in *Desarrollo Económico*, vol. 28:110. Buenos Aires: Instituto de Desarrollo Económico y Social.

O'Donell, Guillermo (1988), *Bureaucratic capitalism : Argentina, 1966–1973, in comparative perspective*. Berkeley: University of California Press.

Page, Joseph (1983), *Perón : a biography*. New York: Random House.

Pastor, Manuel & Wise, Carol (2001), »From poster child to basket case«, in *Foreign Affairs*, november/december 2001.

Penn World Table (2000), *Penn World Table*. Philadelphia: University of Pennsylvania (Internet).

Perelman, Laura C (2001), »El empleo no permanente en la Argentina«, in *Desarrollo Económico*, vol. 41:161. Buenos Aires: Instituto de Desarrollo Económico y Social.

Randall, Laura (1978), *An economic history of Argentina in the twentieth century*. New York: Columbia University Press.

Repetto, Fabian (2000), »Gestión pública, actores e institucionalidad : las políticas frente a la pobreza en los '90«, in *Desarrollo Económico*, vol 39:156. Buenos Aires: Instituto de Desarrollo Económico y Social.

Rock, David (1988), *Argentina 1516–1987: Desde la colonización española hasta Alfonsín*. Madrid: Alianza América.

Rojas, Mauricio (1988), *Latinamerikas sociala och ekonomiska historia*. Lund: Studentlitteratur.

Rojas, Mauricio (1988a),«Reflexiones acerca del debate sobre los orígenes de la industrialización latinoamericana y de su entorno ideológico«, in *Colección Estudios CIEPLAN 23*. Santiago: CIEPLAN.

Rojas, Mauricio & Gunnarsson, Christer (1995), *Tillväxt, stagnation, kaos: En institutionell studie av underutvecklingens orsaker och utvecklingens möjligheter*. Stockholm: SNS.

Sábato, Jorge F (1988), *La clase dominante en la Argentina moderna*. Buenos Aires: CISEA.

Schwarzer, Jorge (2001), »Terratenientes, industriales y clase dominante en el ya antiguo debate sobre el desarrollo argentino«, in *Desarrollo Económico*, vol 41:161. Buenos Aires: Instituto de Desarrollo Económico y Social.

Shachar, Nathan (2001), *Till jaguarernas land*. Stockholm: Atlantis.

Sirlin, Pablo (1997), »An appraisal of capital goods policy in Argentina«, in *Cepal Review*, nr 61. Santiago: United Nations.

Sirlin, Pablo (1999), »El régimen de especialización industrial argentino«, in *Revista de la CEPAL* 68. Santiago: United Nations.

Skidmore, Thomas E & Smith, Peter H (2001), *Modern Latin America*. New York: Oxford University Press.

Sturzenegger, Adolfo C (1990), »Argentina«, in Anne O Krueger (ed.), *Economía política de las intervenciones de precios agrícolas en América Latina*. San Francisco: Banco Mundial.

Taccone, Juan José & Nogueira, Uziel (2001), *Informe MERCOSUR : período 2000–2001*. Banco Interamericano de Desarrollo.

Vitelli, Guillermo (1999), *Los dos siglos de la Argentina : historia económica comparada*. Buenos Aires: Prendergast Editores.

Wynia, Gary W (1978), *Argentina in the postwar era*. Albuquerque: University of New Mexico Press.