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ABSTRACT:

ECONOMIC TRANSITIONS: STATE AND INDUSTRY IN ARGENTINA AND SPAIN, 1975-90

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At the beginning of the 1980s, when the process of democratisation was at best fragile or incomplete in Latin America and Southern and Eastern Europe, economic crisis provoked a debate about the relationship between economic and political transitions. Various questions were posed about the compatibility of democracy and economic development, the possibility of accomplishing political reform during a period of acute economic instability and the practicalities of co-ordinating structural changes in the productive and political systems.

The thesis opens with an examination of the interrelationship between the political and economic transitions. This is followed by an account of structural change in Argentina and Spain in chapters I and II. Particular attention will be paid to events of the last decade but these will be placed in the context of the historical evolution of the international economy from the 1930s to the 1990s. Thereafter, the analysis will focus on changes in the social and productive systems.

Chapters III and IV describe and appraise the process of transition. Emphasis is placed on differences between Spanish and Argentine economic nationalism. In part, the distinct chronology of liberalisation manifest in the two case-studies may be attributed to the specifics of nationalism. This will be illustrated by an examination of the attempts to implement adjustment plans, to reform the state, to stabilise the financial sector, to implement tax reforms and the management of social conflicts. It will be shown that a gradualist approach is more effective than "shock therapy" and that in managing a transition from interventionism to liberalism the key question confronting the state is which sectors to protect -and how. It will also be shown that, notwithstanding policy rethoric, the process of de-regulation has been patchy. Both the Argentine an Spanish governments have been highly selective in targeting sectors to be liberalised.

Chapters V and VI analyze the new productive structures that emerged from de-regulation. The following topics are considered: industrial policy; programmes of industrial restructuring; new levels of integration into the international economy; the process of policy-making; relations between industry and finance; the increasing role of the tertiary and informal sectors. Throughout, contrasts and comparisons will be made between Spain and Argentina and their evolving interaction with the world economy.

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CHAPTER I: POLITICAL AND ECONOMIC TRANSITIONS

The concurrence of democratisation and economic crisis in Latin America and in Southern and Eastern Europe in the early 1980s gave rise to a series of questions regarding the relationship between economic and political systems. Was it possible to carry out a political transition in a period of economic crisis? Was it possible to co-ordinate changes in the structure of production with political opening?

This type of questioning was influenced by the functionalism which ran through the majority of works on political economy which addressed the issue. On the one hand, the liberal tradition considers that the more economically developed a society, the greater its chance of consolidating a democratic system.[1] According to this school of thought, it is economic development which, eventually, permits a more equal distribution of income.[2] On the other hand, the Marxist tradition offers an opposing view of this theory: in order to achieve high rates of economic growth, a government needs to ensure the concentration of capital. This is to say, according to this Marxist school of thought, economic growth is achieved thanks to a regressive distribution of income, which is difficult to reconcile with a democratic regime. An authoritarian government which suppresses popular discontent would be more appropriate.[3] Both traditions are guilty of economic determinism: for both, it is the economic growth which makes it possible (or otherwise) for a democratic

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[1] Lipset, 1960.

[2] Kuznets, 1966.

[3] O'Donnell, 1979.

regime to be established.

More specific studies on the problems of the return to democracy in Latin America in the 1980s point to the unsuitability of economic crisis for a political transition. Although some authors[4] attribute more importance to economic factors, and others[5] attach lesser relevance to certain economic variables, all emphasise that the democratic process was begun in an unfavourable economic context, and that the prospects for democracy were poor due to the foreign debt crisis, the recession and the need to implement severe economic adjustment packages. As it will be argued throughout this thesis, the comparison between the Spanish and Argentine cases shows that the independence of the economic and political spheres from each other is far greater, and the interrelations between them far more complex, than most of the authors cited above acknowledge. Perhaps it would be more interesting to re-focus the terms of the question, and ask which was the most suitable political system for implementing the economic adjustment and restructuring programmes of the 1980s. Discredited military governments that had come to power in the 1960s and 1970s lacked sufficient legitimacy to implement austerity measures by the 1980s. New democratically elected governments, which could put the past aside and which did not bear responsibility for previous bad economic management, were obviously better placed to implement reform. In-coming civilian administrations could claim to be engaging citizens in a new political experiment, involving them in a struggle for civil liberties and thereby making them more

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[4]Malloy and Seligman, 1977; O'Donnell, Schmitter, and Whitehead, 1986.

[5]Gillespie, 1989; Kaufman and Stallings, 1989.

inclined to accept the hardships of economic adjustment.

It is precisely this fact that political survival does not depend exclusively on the results achieved in the economy that is one of the lessons of the Spanish transition. There is a range of "non-economic" policies which can in the short term lead to political legitimacy. This could be seen during the first Socialist Party (PSOE) government in Spain (1982-86), when a severe economic adjustment programme was implemented. F.González's team knew how to promote this "awakening" of civil liberties[6]. Extending the existing social welfare to the entire population, and incorporating the cultural vanguard and the old and new nationalisms within the political arena, the Spaniards saw these achievements as the product of the devolution of civil liberties under democracy. They appeared, then, to be a triumph of the system, and acted as a counterweight to the adverse effects of economic adjustment. Moreover, despite the increase in the level of unemployment and the failure to fulfil electoral promises, PSOE was re-elected with an absolute majority in the

[6]As it will be argued in chapter IV, on the cultural level, religious censorship was abandoned and regional and cultural movements were encouraged, which required little expenditure but whose social effect was nonetheless massive. At the level of medical services, the General Law on Health (1986) gave universal protection, which suppossed a real increase of 6.3 million beneficiaries, while investment on health only increased 1% of GNP in the period 1986-89. At the level of education, 30% more of the 1982 population has enrolled in post-compulsatory education, without a parallel increase on teaching infrastructures, which has created problems of overcroweding. At the regional level, nationalisms were supported and the territorial administrations were expanded. Although this policy was costly in economic terms (25% of public expenditure), it also had important political consequences. On the one hand, it alleviated the national question, which had been one of the problems left unresolved by the first government of the transition (under the UCD). This is true not only in terms of Basque terrorism or of Catalan separatism, but also in the cases of the new regional claims which sprang up in areas which had no previous history of nationalism - among others, in Andalucia, Aragon and Valencia. On the other hand, the extension of local bureaucracy channelled energies, stabilising the democratic regime and the influence of PSOE itself in the country.

following period.

I.1.ECONOMIC NATIONALISMS IN PERSPECTIVE

However, the comparison over the long term between Spain and Argentina reveals a second point which is far more interesting: the degree to which the first questions are shaped by their context. What these nations have experienced is not simply a period of economic crisis and political transition, but rather a profound structural transformation which will be difficult to reverse. This has been a transformation that has altered these countries' patterns of development, their social organisation, their states, their political regimes, and their productive and financial structures, and their level of integration into the international economy.

This transformation has been experienced not only by these two countries, but also by the greater part of the world semi-periphery. For this area, the period 1930-1980 was an epoch of both economic and political nationalism, which began to be dismantled at the end of the 1970s. These forms of nationalism took shape in the period between the First and the Second World Wars, especially after the Great Depression. International economic relations, re-established after the war, were once again interrupted, although this time in a time of peace. The crisis of 1930 gave rise to a generalised lack of confidence in the advantages of international trade and re-enforced the protectionist attitudes present all over the world.

On the financial side, the processes of severe inflation ended in the abandonment of the Gold Standard and the emergence of Central Banks[7]. Financial knowledge was by then much more developed than in pre-war times, and it was put at the service of the Central Banks that arose in Europe, Latin America and South Africa. Each country insisted on determining their own money supply, the state of their reserves being a secondary consideration, in such a way that Central Banks were converted into a basic instrument of state control over macroeconomic variables.

On the production side, after the First World War, these peripheral zones of the East (Japan, India, Australia), Latin America and the South/East of Europe had seen a surge in local incipient industry meeting domestic demand during the war. Many of these industries did not survive the re-opening of foreign trade, but others pushed for and obtained state protection. Many of the tariffs which were initiated in the war period were maintained, re-enforcing both the tendency towards state intervention and the diversification of production.[8] Further, since the First World War there was a worldwide trend towards the adoption of welfare measures to alleviate the adverse social effects of laissez-faire doctrine. As political and economic nationalism expanded to peripheral countries, states enlarged their sphere of protection towards the development of some social

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[7]Kindleberger 1973:247-261.

[8]See Díaz-Alejandro, 1984:19-22; Thorp, 1984:3-9. On the supply side, one of the main ECLA/structuralist arguments was the worsening terms of trade for the periphery in these years. Primary product prices were reduced in the Depression more than they had risen previously. Rigid wages and accumulation of stocks in the Centre meant an important reduction in demand. Recent research on the subject shows that ECLA's thesis may be right in this respect (Thorp, 1984:2-3). The fall in import capacity in the Centre had important consequences for peripheral countries, lowering profits, putting pressure on wages and reinforcing the trends towards diversification of production and state intervention.

welfare institutions.

In this way, in the 1930s the state emerged as an important role player in national economies. However, the technocrats of this period appear to have been guided more by an instinct for survival than by any statist desire to control and intervene. In many cases, the increase in public expenditure was an attempt to prevent economic collapse, in such a way that bankrupt industries and banks were bailed out, and public works in the infrastructure were promoted in order to deal with the problem of unemployment. The growing state interventionism was due to a growing awareness of the failure of market economics.[9] Economists themselves were very active in assigning an interventionist and benevolent role to the state in the correction of market imperfections. However, the assumption that governments would act in an impartial manner was hardly realistic. Firstly, it is rare that there is a single way of overcoming a specific market failure. Secondly, this assumption did not take into account the possibility of political pressures and influence. It is for this reason that today it is considered that most of the economic problems are caused by political errors rather than market failures; nonetheless the principal cause lies within the naivety of the original analysis.

To expand the competence of the state in the economic sphere, the economic systems which took shape had a lot to do with the national internal political alliances of the moment. State interventionism was not simply of a technical character, but also depended on the recent political history and the

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[9]Robinson's theory of imperfect competition (1948), which dealt with the growth of private monopolies, or Keynes' General Theory of Employment (1936) are examples of this.

ideology of the time; thus, the expansion of military budgets was common to the majority of these programmes of national recovery.[10] The majority of peripheral countries initiated ISI (Import Substituting Industrialisation) policies in which the state played a central role in coordinating the interests of business groups at the same time as they were developing systems of social security to benefit urban workers. Only briefly during the Second World War did autarky emerge as a considered strategy in some countries. In the majority of cases, it was a matter of Keynesian states which subsidised both industry -through promotion- and consumption -through redistributive measures to create a domestic market.[11]

In global terms, these nationalist systems tended to go into crisis through two types of disequilibrium: fiscal and balance of payments. The fiscal crisis was due to the fact that public expenditures almost invariably exceeding state receipts. Peripheral nationalisms were systems with a tendency towards inflation, expanding the money supply was a habitual recourse of governments. Eventually a stabilisation was needed which would bring the macroeconomic variables back into line, at least sufficiently to allow governments to continue implementing expansionary policies. The problem of budget deficits was thus corrected but never resolved, since each subsequent expansionary

[10] Examples can be found from the economic experience of the Russian Revolution (1917) to the fascist governments with their autarkic rhetoric in Hungary (1919), Italy, Turkey (1922), Portugal, Poland, Lithuania (1926), Brazil, Chile, Peru (1930), Germany (1933), Austria, Estonia, Latvia (1934), Greece (1936), Brazil (1937) and Spain (1939). Compared to these, the New Deal in the US and pre-Peronist Argentinian policies were among the more moderate practices of the time.

[11] For global comparisons of semi-peripheral and Third World nationalisms, see Abel & Lewis, (Eds) 1985; Anglade & Fortín, 1985; Burnell, 1986; Saunders (Ed), 1984 and Seers, 1983.

period again produced a new crisis requiring austerity measures. This is what came to be called the economics of "stop-go". With respect to disequilibria in the balance of payments, this was due to the same logic of accelerated industrial promotion. Technology and some industrial factors of production had to be imported, such that the balance of trade was not brought into equilibrium by the level of exports, and the level of imports had to be reduced because of the scarcity of foreign exchange reserves.

During the 1960s, a series of corrective measures were adopted into the system of accumulation, described as the "deepening of ISI". The devices varied from country to country, depending on national particularities, but overall they centred on improvements in the efficiency of national production, creation of systems of export promotion to solve the problem of foreign exchange, and improvements in the fiscal system to correct budget deficits. The effect of these reforms was positive in the short run. The semi-peripheral countries recorded higher rates of economic growth than central countries, while at the same time maintaining the various national political alliances. However, the error of developmentalism was the failure to foresee that these distortions would be very difficult to sustain in the face of changes in international environment.

This was the case in the 1970s and 1980s, when a process of liberalisation was launched in the semi-peripheral countries[12].

[12]Here, the term periphery is used in the nineteenth century sense, this is, as a criticism of Classical economics and as part of the paired antinomy core-centre and periphery. In chapter II, there will be a further discussion with respect to Argentina and Spain, where a structuralist approach may have more sense. However, when considering Eastern Europe, the traditional, pre-Prebisch, nationalist and geographical sense of the term may be more adequate. World-system analysis and Dependency theory are not implied here when using the concept "periphery", given the emphasis they give on the international

There are many reasons for this, and many local variations. Nonetheless, two factors are common to the entire peripheral bloc: the increasing awareness of the exhaustion of the dual policies of Keynesianism and ISI, and the effects of international shocks. In the case of Southern Europe, the principal external factors were the two oil crises of 1973 and 1979. In the case of Latin America, the foreign debt crisis of 1982 contributed to the economic difficulties that had been brought about by the rise in crude oil prices. In South-East Asia and Eastern Europe, the most important external factor was the cessation of economic aid from their central allied powers, the USA (1970s) and the USSR (1980s). Other external factors should be added to those mentioned above: the fall in primary product prices, the relocation of TNC investment in central countries, and problems of accessing international markets due to the consolidation of economic blocs.

The impact of international factors has not been the same in all countries, and no single conclusion can be drawn as to the vulnerability of the semi-peripheral countries. Those countries which had substantial internal markets and high rates of economic growth would have been able to alleviate the effects of external shocks.[13] Keynesianism could have been re-corrected and maintained. However, the depth of the crisis was magnified due to the growing awareness of the exhaustion of Keynesian-ISI expansionary policies. Perceptions of reality seem to be the last factors which unleashed the political changes. Throughout the 1970s, the perceptions of the productive crisis were very similar

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division of labour. This may be applicable to Spain, but not so to the Argentine after ISI.

[13]See Chapter II with respect to foreign debt in Latin America.

in the semi-periphery. National debates focused on the scale of economic backwardness, which was attributed to a limited openness to the international economy, overprotected manufacturing industries and rigid labour markets. Just as the greatest impact of the crisis in the 1930s was not its "real" economic effect in the medium to long term, but rather its strong psychological effect which reinforced protectionist attitudes and distrust of the advantages of the international economy, so it was with the impact of the shocks of the 1970s and 1980s. The "real" effect of this impact has been magnified by the fatigue generated by social and sectoral tensions and the dynamics of stop-go that had come to be associated with populism and corporatist distributionism.

I.2. ECONOMIC LIBERALISATIONS

It is arguable whether the macroeconomic crisis of the 1970s and 1980s was profound and inevitable or a sequence of lesser problems the significance of which was magnified by some economic groups who used it to impose a new economic policy agenda. Whatever the case, it is beyond doubt that a new package of economic policy tools -neo-liberalism- appeared during the 1970s. Neo-liberalism offered the promise of an efficient, meritocratic society, free of fetters of corporatism, self-regulating, and with fewer political tensions since the allocation of resources did not depend on the state but rather on the productive capacities of individuals and groups. In addition, it offered the risk of an economic transition, of political conflict provoked by those groups which would find themselves suddenly deprived of the protection provided by state interventionism. However, the perceived benefits were greater than the anticipated costs and a majority of the governments of the less developed countries embarked on processes of economic liberalisation. Although the precise timing may have varied from country to country, it may be asserted with confidence that in Latin America,[14] Southern Europe and S.E. Asia, their programmes of economic liberalisation were followed by processes of political liberalisation. Only in Eastern Europe have the political and economic transitions taken place simultaneously.

Like any concept that is used politically, the term "liberalisation" has been abused. It has been used to denote things as different as modernisation, increasing efficiency, deregulation, and reducing protectionism. State intervention may be depicted as any process designed to modify the operation of market forces. Both the financial and the trade spheres have been/are interfered with, directly or indirectly, by governments. Liberalism has been an orientative goal rather than a reality. Indeed, state action has always been necessary for the further development of liberalism. There is no such thing as a self-regulated free-market economy, because all states are interventionist. The debate is about the degree of government intervention. In this sense, we can define liberalisation as the adoption of policies which reduce state control of market mechanisms. It may be either the complete removal of controls or

[14]Mexico excepted. See Cammack & O'Brien, 1985, and Stokpol (Ed.), 1985, for cross-country analysis of the military abandoning governments. For an analysis of the interrelationship between political and economic liberalisation from the perspective of the effects on economic development, see Haggard, (1990), who compares the Asian NICs with Mexico and Brazil. Nohlen (1989), and specially Alcantara, (1992) compare the various characteristics of the different political transitions which include economic factors, in Latin America, Spain and Eastern Europe. A comparision between the forms of nationalism in Latin America and Eastern Europe at the level of ideology and economic thought can be found in Love (1991).

their replacement with a less restrictive set of controls.[15]

It will be concluded that it is a mistake to analyze the experience of LDCs identified above in terms of dichotomised concepts of interventionism or liberalism/liberalisation. Although it is certain that the ethos of Western policy-makers after the 1970s has been progressively less Keynesian, the world economy is very far from advancing towards liberalism.[16] The crisis of the 1970s led to the attempt to reduce public expenditure. This included the privatisation of the most inefficient companies, the subcontracting of private services, and the reduction of excessive regulations where they had prejudiced international trade. However, as it will be analyzed in the following chapters, liberalisation has not meant a real reduction in the influence of the state on society and on the economy, but rather a re-regulation of the rules of the economic game. Liberalisation has meant ceasing to protect some sectors but not others; only those sectors which for one reason or another have been considered by their governments not to be of national interest have been abandoned to market forces.

The debate between liberalisation and interventionism must therefore be treated with caution, since it could obscure more than it illuminates. Part of the emphasis on this dualist conception is due to journalistic and political language. However, it is also due to the fact that most policy-makers of

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[15]Krueger, 1986.

[16]As it will be further explained in chapter II, the strengthening of the CAP within the EC, the increase in the use of non-tariff barriers, patent systems, and the proliferation of Multifibre Agreements in the 1980s protecting the developed countries against LDC textile products, are some of the examples of the limited success of the principles of liberalisation, non-discrimination and multilateralism advocated by GATT.

the 1980s were educated under the paradigms of benign interventionism of the 1960s.

I.3. PARADIGMS OF THE "BENIGN STATE MODEL" AND ITS CRITICS: THE "NEGATIVE STATE MODEL" OF THE 1970s-80s.

After the Second War World, the ethos was one of world reconstruction, attainable through pragmatic policies designed to achieve economic and social development. As it was indicated above, this global paradigm of benign, welfare-maximising, "positive", corrective states, came from pre-war times, and it lasted for more than three decades, until the 1970s-80s. From the liberal approach, the success of the Marshall Plan fed the idea that development could be guaranteed given sufficient levels of external finance and national planning. From a nationalist viewpoint, state-promoted programmes of industrial expansion were the main means of stimulating recovery from difficulties of the inter-war period. From a Marxist perspective, the rapid development of the USSR raised expectations as to the possibilities of a socialist path. Some social scientists began to focus their analyses on the causes of the relative poverty of Third World countries and their potential for economic and social development. The amount of contemporary and historical data available in the 1940s-50s was, in the opinion of these researchers, sufficient to initiate a new academic field. This was the birth of Development Economics, parallel to Keynesian economics in developed countries. The new sub-discipline evolved in three main paradigms: Modernisation theory, Structuralism and Dependency, depending on their main ideological influence - Nationalism, Keynesianism or Marxism. The three had in common the rejection of Neoclassical analysis as a tool for policy-making in developing countries and the need of a substantial degree of state intervention to promote development.

TABLE II.1.:
Main Paradigms in development.

	MODERNISATION	STRUCTURALISM	DEPENDENCY
IDEOLOGICAL BACKGROUND	Liberalism	Nationalism	Marxism
POLICIES	Difusion of modern values in backward areas, technology and capital imports, integration into the world economy.	Promotion of national industry through protection (ISI); rural and fiscal reform, regional integration.	State interventionism, erradication of poverty, improvement of social conditions.
INSTITUTIONS and AUTHORS	Rostow, Lewis, Hirschman, Myrdal, IMF, most of WB.	UN ECLA(Prebisch, Furtado) Neo-structuralist (Foxley, Bianchi, some WB staff)	Cardoso, Amin Faletto, Frank Baran, Warren, UN Basic Needs approach.

The so-called "Modernisation school"[17] emerged in the 1940s-50s in Europe and in the USA. The success of the Marshall Plan in Europe encouraged among economists the idea that underdeveloped economies could evolve to "maturity" (Rostow's stages) given adequate levels of aid and technical knowledge. Compared to structuralism, "modernisation" understands

[17]. The name modernisation is not very satisfactory, since it referes to Rostow's work but it does not include all the non-structuralist authors (Rosenstein, Rodan, Leibenstein, Hirschman, Bauer, Yamey, Lewis, Myrdal, Myint). Their theories do not conform a unified body, and thus, classifying them under the same label becomes problematic. Some authors have grouped these works under other names: "Positivism" (Preston, 1982; but he excludes Myrdal),"Western theory" (Foster-Carter, 1984; but he includes structuralism in it vs. dependency), "Paradigm of the expanding capitalist nucleus" (Hunt, 1989) or "Development economics" as it appears in textbooks.

development as economic growth, as a transition from a traditional, subsistence-oriented economy to a dynamic market economy. Little attention is given to centre/periphery backward linkages; in general, it can be said that modernisation theorists show optimism about less developed countries overcoming backwardness.[18] In most cases, Modernisation should be associated with the Cold War and the fear of communist expansion into poor areas[19]. There are many contributors to Modernisation theory, the difference lies within their proposed strategies for development[20].

Structuralism was based on the nationalist experiences of Latin America after the First World War and the 1930s crisis when some Latin American policy-makers designed a development strategy to reduce external vulnerability and to encourage national economic activity.[21] The strategy was constructed through the use of three main policies: ISI (Import Substituting Industrialisation), regional integration and rural reform. It is important to point out that structuralism does not oppose international trade, multinational investment or the agricultural development of a country. Rather, ISI policies were designed to artificially promote national industry at a particular period in which international capital (aid or foreign investment) had

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[18]Myrdal and Myint's work being the exceptions.

[19]See Staniland,M. 1985: What is political economy?, New Haven, Yale University Press.

[20]For a review, see Hirschman, 1979; Hunt, 1989; Preston, 1982.

[21]Although these policies are associated with the work of ECLA/CEPAL during the 1950s, they were already implemented in the 1940s. See Love,J. 1980: "Raúl Prebisch and the origins of the theory of unequal exchange" in Latin American Rsearch Review.

priorities different from those of Latin America.[22]

The implementation of developmentalist policies in peripheral and semi-peripheral countries during the 1940s-60s caused contradictory results. On one side, these areas achieved some growth and developed welfare systems. Whether these improvements were a result of the policies or of the changes in the international economic environment, is a debated question. On the other hand, the promotion of "artificial" industrialisation generated many backward linkages of difficult solution.[23] Explanations for the failure to meet policy goals and criticisms to such policies came from new theories (Dependency), from self-questioning by authors of both the structuralist and the "Modernisation" schools, and from Neoclassical political economists of the late 1960s-1970s.

Dependency theory owed much to Structuralist thought. Its point of departure was the same criticism of free-trade liberalism and the centre/periphery model developed by Prebisch, Furtado and other Cepalista authors. The difference reveals itself because it places a major emphasis on the circuit of

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[22]For a review, see Hirschman, 1968 and 1987; Hunt, 1989.

[23]Structuralist authors like R.Prebish were the first ones to complain about the way in which the policies had been implemented. Rural reform never began. States abused their power in nationalising raw material output for exports and also had it overpriced in the international market. The moves towards regional integration were ineffective. States overexpanded, getting into debt in order to cover their budget deficits. Most governments had used and abused such policies without looking for future consequences. A well-known example of this is expressed in the Argentinian president's letter to the Chilean ex-president Ibañez: *"My dear friend: Give to the people, especially to the workers, all that is possible. When it seems to you that already you are giving them too much, give them more. You will see the results. Everyone will try to scare you with the specter of an economic collapse. But all of this is a lie. There is nothing more elastic than the economy which everyone fears so much because no one understands it"* (General Perón, in Hirschman, 1979:65).

surplus extraction and exploitation -in that, Dependency points out the adverse consequences of ISI implementation. Cardoso and Faletto, Chilcote and Edelstein[24], among others, considered that the results of such strategies have been the rapid expansion of light industry without a parallel in basic production, the penetration of multinationals stopping the emergence of national industry, and a demographic expansion (with its subsequent increase in poverty, migration, etc). Warren (1980), criticising the distortions caused by badly implemented ISI policies, even considered nineteenth century imperialism as a necessary step towards development in the periphery. Several authors[25] have pointed out the correlation between ISI and authoritarian governments. Third World poverty is, in the view of the most radical Dependency authors, a problem difficult to solve; some writers support the rupture of all external links through revolutionary processes and the implementation of planned economies as the only alternative.[26]

Marxism was not the only perspective to observe the gap between theory and praxis of the 1940s-60s benign state model. Alternatively, Liberal economists and political scientists of the 1970s started to describe and to analyze conflicts coming from the redistributive tensions of the welfare states. The US Pluralist Liberal tradition offered a good theoretical background

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[24]See Cardoso,F. and Faletto,F., 1969: Dependencia y desarrollo en América Latina, Mexico, S.XXI; Chilcote,R. and Edelstein,J. (eds.), 1974: Latin America: The struggle with dependency and beyond, Cambridge, Mass., Schenkman.

[25]O'Donnell, 1972; Malloy, 1977.

[26]For a review, see Bossert & Klaren (eds), 1986; Cardoso, 1977; Goodman & Redclift, 1981; Hunt, 1989; Mendes, 1977; Roxborough, 1979; and specially Palma in Seers (Ed), 1981.

for this.[27]

Liberal and Structuralist economists have also criticised the degree of state interventionism recommended by previous Development Economists. Thus, there were two main macroeconomic orientations by the end of the 1980s within the main international organisations. The Liberal approach defends the need of major liberalisation and de-regulation processes and the achievement of growth through export specialisation[28]. More specifically, these measures should be accompanied by implementing stabilisation plans, restrains on government expenditure and supply-side reforms to reduce economic inefficiencies. Privatising public assets, reducing labour protection and in general cutting subsidies used to maintain "uneconomic" activities, deregulating financial markets, reforming the tax system, liberalising restrictions on foreign trade and payments were the principal instruments to achieve economic efficiency and macroeconomic stability. This view is associated with the orthodoxy of financial international institutions such as IMF, WB or IDB, although it cannot be extended to all their departments, since some of their staff have started to defend more structuralist policies in order to sustain growth in developing countries.[29]

The alternative view, Neo-Structuralism or Neo-Keynesianism,

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[27]The work of Olson (1965) was very influential in the development of Public Choice theory and the analyses of rent-seeking groups and/or states (Brennan & Buchanan, 1980; Conybeare, 1982; Krueger, 1974).

[28]See Krueger, 1986; Rottemberg, 1986.

[29]See the brief but condensed review essay by Sheanan,A. 1989: "Economic adjustment programs and the prospects for renewed growth in Latin America", in Latin American Research Review.

agrees with neo-liberalism in that there is a need for restraint in government spending and a need to achieve some specialisation in the international market, but it also defends the need to maintain some intervention in development strategy and social matters. Neo-Structuralist authors are very critical of the role of international agencies in developing areas, especially their short-term policy recommendations: by placing too great an emphasis on correcting macroeconomic stability, international institutions are threatening economic survival in the long-run.[30] Echoing Structuralists, Neo-Structuralists argued that the state should be active in guiding the economic evolution of a country. However, they place emphasis on correcting inequality and rural poverty rather than being narrowly concerned with industrialisation. Neo-Structuralist, also, attach greater concern on macroeconomic coherence, give more attention to diversifying export markets, to achieving regional integration and to reducing particular trade restrictions, in part by the application of more effectively targeted protectionist measures. In other words, a selective policy of import substituting that is made consistent with export-promotion.[31] Neo-Structuralism considers that private investment is not likely to happen the given situation of developing countries in the 1980s, namely, external debt, inflation, capital flight, world regionalism. Therefore, these authors regard a new type of Keynesianism as the best means of fostering Third World recovery after the contraction during the so-called "The lost decade".

Without going into the adequacy of the liberalisation and

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[30]Fishlow, 1988:62.

[31]Ffrench-Davies, 1988:41.

economic deregulation strategies, the question which confronted policy makers was that of the most effective manner of implementing these policies. There have been two main points of reflection, which are directly interconnected: the timing and sequencing of reforms, and the distributional effects of liberalising policies. An appropriate sequence of reforms was a key factor in ensuring success. Economic analyses have argued the case for both the necessity of implementing all the reforms simultaneously (Sachs, 1991), others for adopting the reforms gradually (Krueger, 1986, Michaely, 1986). The majority of economists have argued that gradualism seems the most appropriate option from a political point of view, since the deregulation measures lead not only to a regressive redistribution of income but also to a fall in employment.[32] Given that economic liberalisations had been initiated in parallel with democratic transitions in the semi-periphery, the negative distributive effects lead policy-makers to question how to manage the political arena at the moment of policy reforms.[33] As it will be analyzed in the Spanish and Argentine cases, governments had to make a decision about providing some strategic compensations to secure the success of reforms. This leads to one of the key paradoxes of the economic transitions in the 1980s, and the main focal point of this research: it was the state that had to organise the dismantling and de-regulation of state-centred societies.

[32]Krueger, 1986; Michaely, 1986; Mussa, 1986; Wells, 1987.

[33]Atkinson & Micklewright, 1991; Greskovits, 1991.

I.4. ARGENTINA AND SPAIN: REASONS FOR COMPARISON

Both Argentina and Spain are examples of peripheral countries undergoing processes of liberalisation which have meant the deregulation and dismantling of an old system of production in favour of a new system with new priorities and new winners and losers. This will be the central concern of this thesis. The Spain under Franco (1939-75) and above all the Argentina under Perón (1943-55) and later administrations (1955-76) were paradigmatic cases of the forms of nationalism in the semi-periphery. The comparison presents some problems due to the differences that exist in the organisation of corporatism in the two cases. Nonetheless, the focus of interest has been on the processes of liberalisation: the way in which the role of the state has been transformed, the impact of deregulation on the various social sectors, strategies adopted by the various corporate groups in the face of economic restructuring, the political priorities and their implementation, and the form that integration into the international economic setting has taken in the two countries.

Patterns of accumulation in the two countries show interesting parallels in the last fifty years. However, there were large differences before 1940. At the end of the nineteenth century, Argentine exports were much more successful than those of Spain: Argentina was regarded as one of the three fastest developing countries of the time (with Canada and Australia). The paradox, in historical terms, is that Argentina became stagnant during the 1980s, while Spain began to be regarded as one the fastest growing economies in the world.

By the middle of the nineteenth century, Spain had developed a few highly protected industries -iron and steel in the North and textiles in Catalonia. There were some attempts to reduce protectionism in order to develop a more competitive industry, but political instability[34] did not allow coherent policy-making. Power alternated in swings between conservatives and moderate liberals. The latter started some reduction of protectionism in 1841-49 and in 1869, allowing foreign investment, but this was reversed after 1891.[35] It has been said that Spain evolved directly from mercantilism to interventionism, skipping the step of liberalism altogether.[36] For Nadal (1975), the Industrial Revolution did not happen in Spain until the mid-twentieth century.

The radical nature of the economic and political transformation in nineteenth century Spain is understandable since the independence of Latin America had cut the normal flow of revenue available to the Crown. The government became highly indebted, and the pressure to create some domestic wealth grew. However, Spain lacked many of the necessary elements for an industrial revolution. Technology was underdeveloped, natural resources little exploited, entrepreneurial initiative was

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[34]Between the first Borbon restoration in 1814 and the second Borbon restoration in 1875, Spain suffered two civil wars (1833-40 and 1870-75), six constitutions, thirty-five military coups, the abdication of four kings/queens, one revolution (1868) and one republic (1873-74, which in less than a year had four presidents). The twentieth century has not been a case of stability either: although the governments managed to avoid intervention in the two World Wars -which, in fact, reinforced Spanish political and economic isolation-, the country experienced two episodes of monarchy (Alfonso XIII and the current king Juan Carlos I), two dictatorships (Primo de Rivera and Franco) and a parlamentary republic which ended in a civil war in 1936 (Arango, 1978:20).

[35]Fontana, 1973.

[36]Tamames, 1986:201-212.

regarded as sinful, the country lacked capital, and domestic markets were very limited.[37] The main resources of Spain were agricultural (wine, wheat, olive oil, citrus) and mineral production. But mining and agriculture were constrained by the backwardness of the productive system despite a partial agrarian reform implemented during the nineteenth century by successive liberal governments. Although this primary production generated some exports, national development was sluggish and integration into the world economy limited. Spain remained one of the most backward European countries up until the 1960s.

Argentina began to specialise in export production a few decades after independence from Spain, expanding into the rich Pampa region. By 1880 it was already competitively exporting primary goods, mainly animal products and cereals. By the end of the nineteenth century, the main export market was England, which had become the world's principal net importer of foodstuffs. Economic relations between these two countries did not end there: Argentina's lack of capital was supplied by Britain in the form of investment in railways, docks, meatpacking houses, shipping firms, banking and public utilities. The only domestic industry was associated to processing products from the countryside -wool, beef, sugar, wine. Goods were imported from Europe. As in Brazil and Mexico, the Argentine political elite did not have any doubts about the virtues of international specialisation based on the country's comparative advantage. By the beginning of the twentieth century, even trade unions believed in the benefits of economic liberalism. However, Argentina's integration into the world economy meant dependency on European demand. Any

[37]Harrison, 1990:82-86.

fluctuation abroad translated into sharp domestic repercussions. This dependency became clear after the First World War.

The conjuncture of the 1930s crisis and the Second War World badly affected the two countries. Its impact spread doubts about the adequacy of an out-ward oriented model of development in Argentina, and reinforced interventionism and isolation in Spain. With the governments of Farrell and Perón in Argentina (1944-55) and Franco in Spain (1939-75), the countries initiated autarkic policies, based on the transfer of agricultural income to industry and import-substituting industrialization (ISI). Although the two countries had different backgrounds, the policies of autarky presents a starting point for comparison.

The governments of Colonel Perón and General Franco had yet other common aspects. They were backed by the military, who monopolised major civilian offices. Authoritarian measures, though, were more rigid in Spain since the country was just emerging from a civil war. Politically, both are examples of populism. Demagogic nationalist rhetoric was the main technique of their discourses. Ideologically, Perón and Franco regarded themselves as "national saviours", rescuing their countries from the "international red-jew-masonic concubinage" and from "the dangers of treacherous liberalism"[38]. National reconstruction was based in a new multiclass corporatist society, where the state played a central role. Trade unions were encouraged, but only those backed by the state[39], the state provided social

[38]Fascist slogans of the early Franco government.

[39]*Sindicatos verticales* (vertical trade unions), where workers could meet "freely" with the joint assistence of at least one employer, one member of the police and another from the church. Any other form of labour organisation was repressed (Spalding, 1977; Giner & Yruela, 1988:67-124).

security and the benefits of a welfare system[40]. The "New Order" was inspired by fascist societal precepts of the 1930s.

The economic performance of the two countries in the 1940s supposed an improvement compared to the 1930s. However, by the early 1950s it became apparent that expansionary policies were not sustainable. In Spain, *Falange* officials found an opposition in *Opus Dei*. Opus Dei ("God's Work", popularly known as "The Holy Mafia") is a religious group whose members belong primarily to the commercial and financial elites. Their ideology is committed to economic liberalism combined with strict moral puritanism. Franco seemed to have been convinced of the need for alternative developmental programmes, and thus he started substituting Falangist ministers with Opus Dei members. The Vatican's approval of this group may have been an important factor for this change. The Opus Dei project involved a continuing commitment to industrialisation while stressing also the need to reduce regional differences and social inequality. Regional imbalances were never corrected, but there was a successful enlargement of the domestic market. On the other hand, Opus Dei considered it necessary to finish with autarky and progressively to open Spain to the world economy, that is, to Europe. In 1962, Spain attempted to incorporate into the EEC. However, the application was rejected for political reasons. Spain's admittance into the Community had to wait for twenty-three more years. In the meantime, Spain provided Europe with low cost labour, inexpensive holidays, cheap raw materials and, specially, a growing market

[40]This was much developed in Argentina than in Spain. As it can be observed in the statistics, Peron's economic management was further better than Franco's, whose main worry seemed to be "el mando" (the authority). This emphasis on welfare can also be appreciated in the name of Peron's party ("Justicialist") compared to Franco's *Falange* (phalanx, line of battle).

for EEC exports.

In Argentina, Perón left government after a faction of the military threatened him, accusing him of both political and economic mismanagement. The Second Five Year Plan (started 1952) made Perón unpopular since it cut expansionary policies and included a two-year stabilisation plan. Politically, the military were affronted by Perón's proposal that his wife Evita should stand as vice-presidential candidate in the 1952 election and by his anti-church policies[41]. The hard-line general Aramburu came to power in 1955 to eradicate Peronism and to restore conditions for democracy in Argentina. Most of Perón's political policies were reversed. Economically, few steps were adopted. There was a devaluation and the renegotiation of many of Argentina's bilateral debts. Finally, elections were held in 1957. The new president, Frondizi, was a professor of economics committed to the national development of Argentina, and convinced that his mandate was going to be shortened by military intervention -as it so happened. His ambitious economic programme had to be implemented under time pressure. This became a common feature of later presidencies; it makes an important difference in comparison to the Spanish case, where Opus Dei controlled power until the end of the dictatorship in 1975. On the contrary, Argentina had ten further presidencies until democracy was restored in 1983, alternating military and civilian governments (table I.2).

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[41]Contrary to Franco's evolution, Peron became more radical in time with respect to the military and the church. Measures against the latter included legalisation of divorce and control of religious schools; this caused turmoils which ended in the Vatican excommunicating the entire Peronist governmental cabinet.

TABLE I.2.:

Argentinian and Spanish presidents.

YEAR	ARGENTINA	SPAIN
1935	(...) A.P.Justo * 1936:R.M.Ortiz	(...) Second Republic * 1936-39: Civil War
1940	* R.S.Castillo * 1944: E.J.Farrell	* 1939: Gral.F.Franco Falangista (=fascist) economic team
1945	* J.D.Peron	
1950		
1955	* E.Lonardi * 1958: Frondizi	Opus Dei economic team into government
1960	* 1962: J.M.Guido * 1963: A.Illia	
1965	* 1966: J.C.Ongania	
1970	* R.M.Levingston * 1971: A.A.Lanusse * 1973: J.D. Peron	
1975	* 1974: Isabel de Peron * 1976: J.R.Videla	* 1977: A.Suarez
1980	* 1981: R.Viola/L.Galtieri * 1982: R.B.Bignone * 1983: R.Alfonsin	* 1982: F.Gonzalez
1985		
	* 1989: C.S.Menem	

The new government teams in Spain and Argentina began to try new ways of encouraging industrial development. Frondizi (1958-62) in Argentina and the Opus-Dei backed technocratic elite in Spain (1959-75) leaned more in the direction of moderate nationalism combined with some economic liberalism. Their programme involved opening up the economy, reducing government controls and trying to eliminate the most serious economic distortions. There were agreements with the IMF in 1958 in both countries. Stabilisation programmes succeeded in Spain (1959) and later Argentina under the military government (1968-69). The idea was a "developmentalist" one, trying to encourage a more integrated national economy but still rejecting the concept of an international division of labour. Agricultural development would follow the same path as industrial expansion -neither having a preferential treatment, nor subsidising other sectors. The main methods of financing such developments were foreign direct investment, taxation and sovereign debt.

The periods 1958-76 for Argentina and 1959-77 for Spain are ones of relatively moderate interventionism, in parallel with the Keynesian policies adopted in developed countries at the time. The period of the 1960s did not see a radical change from previous interventionist measures but a correction of them. These measures did not work so well as in post-war Europe because of the scarcity of means[12] and the mismanagement of resources. Stronger liberalising measures, in accordance with the world trend, were applied in the following years, under military rule in Argentina (1976-81) and under democracy in Spain (1977-). As mentioned above, the process and the way in which these

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[12]Spain was not included in the European Recovery Program (Marshall Aid) by a UN decision in 1946 to institute economic sanctions to Spain, and ratified by US Senate and House of Representatives in April 1948 (not removed until 1953). After the defeat of Mussolini and Hitler, Franco's Spain was ostracised by the international community, being the only exception Argentina. During 1947-49, Peron's government lent Spain $264.3 million, which Franco used to buy Argentinian wheat, maize and beef. Diplomatic relations were not better between Argentina and the US. Although the UN did not decide to boycott economicly the country, diplomats made clear the US dislike of Peron's government. However, the Cold War changed US policy. Franco and Peron's states were tolerable in the view of USSR expansion, and they were granted with loans; this aid, though, had never the importance of previous Marshall Plans.

liberalisations were implemented will be a central point of this study. What the Argentine economic evolution suggests is that interventionism was preferable to a badly implemented liberalisation. Contrary to Waisman and most liberal social scientists, whose thesis is that interventionism/ISI have been the cancer of peripheral and semi-peripheral countries (Waisman, 1987), the Spanish case could show that a good transition from ISI may be a good path of development.

On the other hand, both countries had a democratic transition: Spain in 1975-82 and Argentina in 1982-89. Economic liberalisation had two important costs for both nations. One was the loss of some control of macroeconomic policy, compensated by economic success. The second has been a social cost, which has endangered political liberalisation of the countries. Stabilization programmes and reduction of protectionism implied, paradoxically, a worsening of the population's living standards, when democracy was raising expectations. In both cases, the new Presidents were unable to carry out their electoral promises.

The comparison between Spain and Argentina is relevant since the two countries show a similar background in economic policy during and after the 1940s-50s. It is not possible to accompany this description of policies with statistical results given the unreliability of data for this decade. Tables I.1, I.3 and I.4 and figures I.1 to I.6 show some comparative basic indicators from 1950/55 onwards. Figures I.1 and I.2 show almost identical economic structures for the two countries in 1953/4. On the other hand, Argentina was more integrated into the world economy, as

TABLE I.1.:

ARGENTINA AND SPAIN: MAIN INDICATORS, 1950-80.

YEAR	ARGENTINA				SPAIN			
	REAL WAGES 1974=100	UNEMPLOY. % active labour force	INFLATION (%)	POPULAT. (000)	REAL WAGES 1974=100	UNEMPLOY. % active labour force	INFLATION (%)	POPULAT. (000)
1950	145.3	7.2(*)	--	15,893	--	2.8(*)	--	27,800
1955	122.2	--	--	17,070	--	--	--	29,250
1960	100.0	--	--	20,669	62.0	--	1.8	30,400
1965	122.6	5.5	--	22,352	49.8	--	9.7	31,600
1970	118.7	5.4	21.7	23,748	176.8	4.1	6.6	34,000
1975	100.0	5.3	335.1	25,383	100.0	16.1	24.0	35,800
1980	128.1	3.2	87.6	27,863	121.4	19.8	15.5	37,600

Sources: Argentina: real wages- INDEC in BAC, 1982; unemployment- INDEC in BAC, 1982; inflation- Dornbuch & De Pablo, 1988.
Spain: real wages- Ministerio de Trabajo in Tamames, R. 1986; unemployment- INE in Rodriguez, J. 1989; (*) UN statistics; Inflation in Rodriguez, J. 1989.

TABLE I.3.:

Argentina and Spain: real GDP per capita and its components, 1950-80, in 1975 U$S.

	ARGENTINA				SPAIN			
YEARS	RDGPpc	% C	% I	% GOV	RGPpc	% C	% I	% GOV
1950	1877	73	14	13	1163	76	15	9
1951	1981	70	20	12	1347	75	16	9
1952	1783	71	18	13	1403	77	14	9
1953	1829	68	18	12	1340	75	16	9
1954	1886	71	17	12	1506	74	17	9
1955	2000	72	18	11	1576	74	18	9
1956	1961	71	16	13	1680	74	19	9
1957	2025	72	17	11	1734	73	19	9
1958	2136	72	17	11	1795	73	20	8
1959	1975	71	23	12	1753	75	17	9
1960	2134	66	23	12	1737	72	18	9
1961	2275	68	22	11	1932	71	20	8
1962	2152	67	19	11	1098	70	22	8
1963	2043	69	21	11	2281	71	23	8
1964	2237	69	21	10	2382	71	23	8
1965	1392	69	21	9	2550	70	26	8
1966	2359	70	19	10	2730	69	27	7
1967	2391	69	20	10	2811	71	25	7
1968	2471	69	21	9	2916	70	25	7
1969	2655	67	23	9	3108	70	25	7
1970	2750	67	24	9	3231	69	25	8
1971	2901	62	27	11	3337	69	23	8
1972	2968	62	26	12	3587	69	25	7
1973	3045	63	24	12	3841	69	26	7
1974	3202	65	24	12	4031	68	27	7
1975	3159	66	23	12	4032	69	26	8
1976	3004	61	25	12	4111	70	25	8
1977	3071	57	28	11	4159	70	23	8
1978	2903	57	27	12	4187	70	22	8
1979	3148	58	28	12	4233	70	22	8
1980	3209	58	30	12	4264	70	22	9

RGDPpc - Real GDP per capita
% C - Percentage of RGDP into consumption
% I - Percentage of RGDP into investment
% GOV - Percentage of RGDP into government

SOURCE: Summers & Heston, 1985.

TABLE I.4.:

Argentina and Spain: indexes of industrialisation, 1950-80.

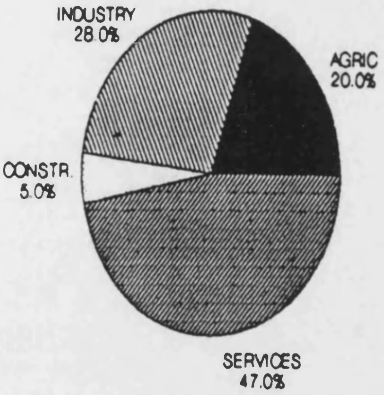
	ARGENTINA			SPAIN		
YEARS	I.I.P.	PG	I.L.pc.	I.I.P.	PG	I.L.pc.
1950	100	100	100	100	100	100
1951	102.6	102	100.6	104.5	100.9	103.5
1952	100.7	104.1	96.7	125.8	101.7	123.7
1953	100.1	106.2	94.2	126.1	102.6	122.9
1954	108.1	108.3	99.8	135.4	103.4	130.9
1955	121.3	110.3	109.9	145.9	104.2	140.1
1956	129.7	112.3	115.5	159.9	105.1	152.3
1957	139.9	114.3	122.4	174.9	105.9	165.1
1958	151.6	116.3	130.3	191.3	106.8	179.1
1959	135.9	118.2	114.9	193.9	107.7	180.1
1960	149.6	120.1	124.5	190.6	108.7	175.3
1961	164.5	122.1	134.8	226.1	109.7	206.1
1962	155.5	123.8	125.6	250.8	110.8	226.3
1963	149.2	125.6	118.8	262.8	112.1	234.6
1964	177.3	127.4	139.2	285.4	113.2	252.1
1965	201.8	129.2	156.2	335.3	114.5	292.8
1966	203.1	131.1	155.1	358.1	115.7	309.5
1967	206.2	132.8	155.2	379.7	117.1	342.2
1968	219.6	134.7	163.1	410.7	118.4	346.9
1969	243.4	136.5	178.3	476.7	119.8	397.9
1970	258.8	138.4	186.9	532.4	121.2	439.2
1971	274.7	140.2	195.9	542.2	122.5	442.6
1972	285.7	142.2	200.9	614.5	123.8	496.3
1973	297.1	144.1	206.2	653.3	125.1	522.2
1974	314.4	146.1	215.3	721.2	126.4	570.5
1975	306.4	147.9	207.1	706.8	127.7	553.4
1976	297.1	149.9	198.1	729.8	129.1	565.7
1977	320.3	151.8	211.1	725.7	130.3	556.9
1978	286.5	153.8	186.2	701.1	131.6	532.7
1979	315.7	155.8	202.6	740.1	132.8	557.3
1980	303.6	157.7	192.5	768.7	134.1	573.2

IIP - Index of Industrial Production (1950 = 100)
PG - Population Growth (1950 = 100)
ILpc - Industrialisation Level per capita (1950 =100)

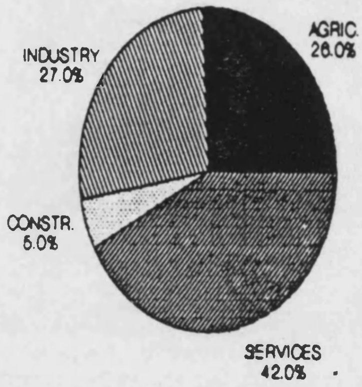
SOURCE: Argentina in Feldman & Sommer, 1986, p.22
Spain in Carreras, 1989, p. 193.

FIGURES I.1-6.:

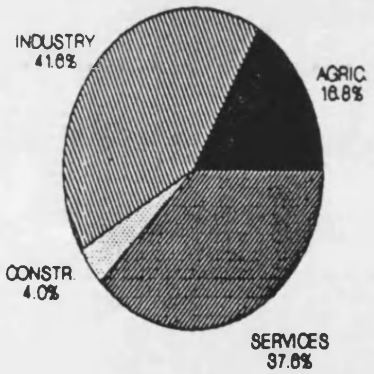
Argentina and Spain: sectoral distribution of economic activity.



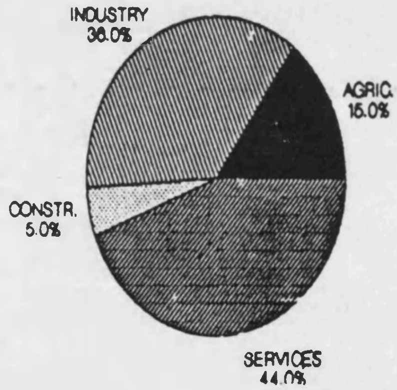
ARGENTINA 1953; source: UN



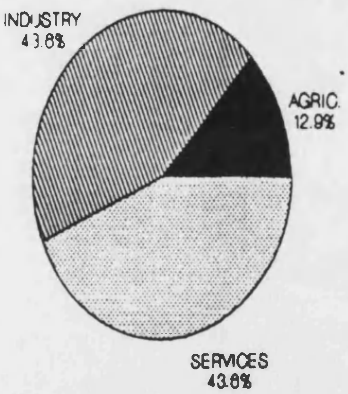
SPAIN 1954; Source: UN



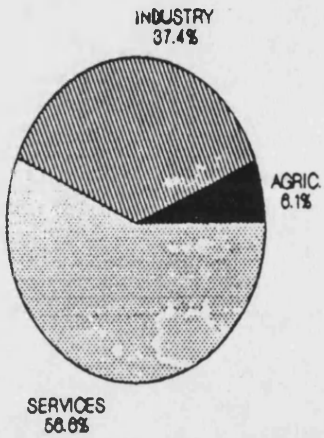
ARGENTINA 1965, Source WB



SPAIN 1965; Source: WB.



ARGENTINA 1986; Source WB



SPAIN 1986; Source: WB.

can seen in the imports/exports columns in tables II.3-II-5[43].

Differences started arising in 1963. It is then that Spanish GDP per capita begins to overtake that of Argentina. Nevertheless, the existence of different demographic conditions should be pointed out. The Argentine population grew 57.7% between 1950-80, while the Spanish increased only by 34.1%. Table I.3 also shows the components of real GDP per capita. Private consumption has been of less importance in Argentina than in Spain, especially after 1976; also, the Argentine government has absorbed more resources than the Spanish. However, the proportion of real GDP dedicated to investment has been higher in Argentina than in Spain (table I.3). The effects of this on the industrialisation of the two countries can be observed in table I.4. Overall, Spain shows higher rates of industrial growth but it must be remembered that at the beginning of the period Argentina was much more industrialised than Spain, hence it may be expected that the lower starting point would be reflected in Spanish growth rates. In fact, the sectorial distribution of economic activity shows than the role of industry has always been higher in Argentina than in Spain (figures I.1-I.6).

These expansive policies found their limits in the imbalances of the Current Account. The constant increase of imports was not matched by export growth, especially in Spain (table II.3 and II.4). The main sources of foreign currency were agricultural exports in Argentina, tourism and workers' remittances in Spain. By the 1970s, domestic and foreign debt would assume an important role.

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[43] See annex.

In 1975, Spain had five times the GNP of Argentina, although Spain also had more serious Balance of Payments problems and rising unemployment. At the time, both countries were suffering high inflation, economic distortions, debt and political instability. Although their rates of inflation were of very different magnitude, it should be noted that Spain was one of the main world borrowers in the period 1975-80 (table II.2). However, the consequences of her indebtness differ greatly for the rest of the developing countries. In the 1960s, Argentina had a higher

TABLE II.2.:

Debt indicators for five large debtor countries: quantity debt + debt service/exports (percentage), 1972-81.

	1973		1975		1977		1979		1981	
COUNTRY	b$	d/X	b$	d/X	b$	d/X	b$	d/X	b$	d/X
BRAZIL	13,8	36,7	23,3	40,8	35,2	48,7	57,4	65,6	75,7	66,9
MEXICO	8,6	28,7	16,9	30,3	27,1	53,6	40,8	67,7	67,0	48,5
ARGENTINA	6,4	19,9	7,9	31,9	9,7	19,1	19,0	21,3	35,7	37,5
SPAIN	5,7	5,2	10,7	9,3	16,3	13,3	22,2	15,7	33,2	19,0
KOREA	4,6	11,5	7,3	12,5	11,2	10,2	20,5	13,9	31,2	18,8

SOURCE: Cline,M. 1983.

proportion of equity than debt, while Spain seems to have been the opposite. The interesting point comes in the 1970s, when

Argentina preferred debt to equity (FDI) in order to have more control of economic activity; paradoxically, it turned out to be the opposite with the 1982 debt crisis and a loss of economic sovereignty to the IMF. Spain shows a more balanced ratio between debt/equity in the 1970s which may explain part of the success in Spanish. This difference in patterns of foreign capital inflow appears to stem from a deliberate policy preference, illustrating that a relatively slow transition from interventionism to liberalism may be a good path of development.

By the 1980s, Spain had seven times the GNP of Argentina and was much more integrated into the world economy. Spain had also changed the structure of its economic activity, reducing agriculture and expanding services. Argentina, on the contrary, maintained its economic structure, but also the slow rate of growth. Hyperinflation was reduced but not solved, and real wages show a dramatic decrease. The reasons for this different evolution will be the core of this study.

However, there are problems involved in such a comparison. Argentina's difficulties lasted longer and were more intense. Although the history of Argentina after 1958 is one of economic reform, it has two periods of [moderate] reversal (1963-66 with Illia and 1970-74 with Levingston, Lanusse and Perón). However, the common factor to all Argentine administrations along these four decades has been -like Spain- the desire to promote industrialisation.

On the other hand, political life has been much more unstable for the Argentine; as a reference, there were twelve different governments in the period 1958-82 (table I.2).

Political repression was also more intense in Argentina than in Spain -especially after the military coups of 1966 and 1976. While in Spain the government seemed to have liberalised to achieve growth and thus legitimacy, the belief in Argentina was that liberalisation could not be carried out without social repression. This difference may give important insights to correct O'Donnell's theory of bureaucratic authoritarianism[44].

Another difference is that the Argentine was more developed and integrated into the world economy in the 1950s than Spain. Also, the proximity of Spain to the EEC raises the question of the advantage of proximity to a prosperous market. Nevertheless, a cross-country approach appears interesting since the comparative examination of certain systematic similarities/ differences can generate insights or suggest hypothesis to enrich the specific studies on both nations. Applying concepts and methods used for Third World analysis to Spain may discover new aspects of the recent developments of the country, and vice-versa.

I.5. THE RESEARCH: OBJECTIVES AND METHODOLOGY

Given that the main concern of the research is the transition from state-centred societies to less interventionist systems, the analyses has focused on the dismantling of import-substituting industrialisation and the changes in industrial protection, the core of economic nationalism in semi-peripheral countries.

There were many similarities between the industrial

[44] O'Donnell, 1979.

structures of Argentina and Spain in the 1970s. The range of industrial production was very wide due to prevailing policies of import substitution. Domestic companies manufactured items from toothpaste to military machinery. At the end of the 1970s, the perception of the crisis in production was similar in Spain and Argentina. Economic backwardness was perceived as a lack of openness to the world market, and associated with problems of both an over-protected and inefficient manufacturing industry and a rigid labour market. Both countries had undertaken ISI policies, reinforced in the 1960s with the developmentalism of Frondizi and his successors in the Argentine government, and by indicative planning in Spain. Only brief periods of the stabilisation plans had interrupted the ISI pattern. In Spain, there was only one such interruption, in 1959. However, these periods of contraction never lasted more than three years, giving way to a new period of expansion -"stop-go".

In continuation, there was a definite realisation on the part of Spanish and Argentine policy makers that the strategy of ISI was becoming exhausted and there was a need to change the pattern of development. It is interesting to note that the literature of the period 1973-88 in both countries refers to crisis. Only very recently has the literature begun to analyze the situation from the point of view of economic change and industrial reorganisation. The increase in the price of oil provoked the OECD countries to bring about changes in industrial structure. Spain postponed the adjustment because of the political conjuncture. The tensions of the transition to democracy caused the government to raise wages. This meant that the Spanish economy ended the 1970s with very high costs and many companies in crisis. Since the government gave priority to politics over economics, the state adopted a protective role for many of these industrial sectors, which were absorbed by the National Institute of Industry (INI). In Argentina, the crisis was overcome by companies accruing debt at a time of negative real interest rates, as it will be seen in chapter II. At this time, neither Spain nor Argentina had seriously confronted the questions of industrial restructuring, raising productivity and industrial competitiveness.

Industrial restructuring would not take place until the 1980s. The difference between Spain and Argentina does not lie in the diagnosis of the problem but rather in the solutions adopted by each country. In both, the state played an interventionist role but, as this thesis will conclude, the Spanish state played interventionism to a much higher degree than the Argentine state, which found itself without resources due to external indebtness. In both cases the strategies of industrial policy had been conditioned by global macroeconomic policy, with priority given to anti-inflationary measures and the reduction of the public sector deficit. In Argentina these emphases have been of a far greater magnitude than in Spain. This explains why the tools used to bring about restructuring in the Argentine case were focused on opening up markets. These industrial policies combined a process of tariff reduction with various measures to stimulate investment (tax holidays, extraordinary credits, regional incentives for areas most affected etc). In both countries, the results have been a process of economic concentration and centralisation, the business strategies of the SMEs being more often closure, increased debt and the growth of the black market economy. In the same way, the absolute losers of the new industrial situation have been the workers, especially in the

Argentine case, who have lost the benefits provided by a corporatist welfare state.

The question of the allocation of public funds is central to the subject of transition from interventionism. State administrations are reducing and/or altering the scope of their activities. In which sectors was/is protection going to be reduced the most? Which groups are to continue to receive state funds, and which ones are to be abandoned to market forces? How can state-centred societies legitimise the dismantling of protection to some social/economic sectors? What new economic groups will take shape in a system that is more integrated into the international economy? What will remain, and what will be created as a result of new strategies? Is there a strategy of industrial promotion in the granting of public assistance?

The available sources for this analysis are as follows. For Argentina, there are the industrial census for 1973 and 1984, the only ones available for the past 20 years. This information has been supplemented with reports from UN ECLA in Buenos Aires, CEDES (Centre for the Study of State and Society), the Ministry of the Industry, FLACSO, Mediterranean Foundation, and studies by the University of Buenos Aires. Also, 29 interviews[45] with various company directors, business and trade union associations in the key sectors (vehicle production, steel and food as well as the textile sector), functionaries from the Ministry of Industry and the other centres listed above. In some of these interviews, statistics were disclosed on sub-sectors over a longer time period (1984-91), which will be added to the official

[45]See annex

series of the industrial census.

For Spain, the system of information on the industrial sector is different. It began with the census carried out in 1978, which has been complemented in the annual industrial surveys. The 1978, industrial census brought together information on 190,262 firms, whereas the industrial survey of 1988 only covered 161,467 companies. This is due to the growth of the informal sector in the last decade, as well as the lack of replies, estimated by the National Institute of Statistics (INE) at 20 per cent.[46] The surveys come out more often than is the case for the Argentine industrial census, but the Spanish surveys are less representative. The information comes from the Ministry of Industry and the INE. In addition, this research draws on 17 interviews[47] with members of employers' and trade union organisations, the National Institute for Industry (INI), functionaries with the Ministry of Industry, the Bank of Spain and academics at the Universidad Complutense in Madrid. Some of these institutions have given supplementary information and some of the series will be extended in time.

Since the point of comparison between Argentina and Spain is to understand the reorganisation of the productive network that has taken place through the process of economic liberalisation, a direct chronological comparison (ie Argentina 1984-Spain 1984) is by no means the most appropriate. Thus, the data do not end with the last year of material available for Argentina, but rather all the available data for Spain are also

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[46]Calculating this 20% would bring the total number of "formal" businesses in Spain at 193,760

[47]See annex.

included.

Regarding the literature on this subject, there are two well noted tendencies regarding the analysis of the changes in the structure of production in the two countries. For Argentina, the leifmotiv is the analysis of the period 1978 onwards as a catastrophe for domestic industry. This was due to the changes in economic policy, the suddenness of liberalisation, the economy's new openness, as well as a long period of inflation culminating in two cases of hyperinflation. For Spain, the general tendency is to see the entry into the EC as the definitive beginning of the longed-for economic development. Both positions contain an element of truth, but are cliches which need to be corrected. As will be shown, the period 1980-90 was a period of restructuring of production in both countries, not an entry into an economic hell or paradise.

From an ideological point of view, the Argentine literature is much more polarised than the Spanish, and is more coherent methodologically, and therefore easier to classify. The dominant emphasis is nationalist, with Marxist (mainly from ATE[48]) and structuralist (UN ECLA[49], CEDES[50]) variations. There are also

[48]State Workers Association (ATE, Asociacion de Trabajadores del Estado). See Lozano *et al*, 1990; Feletti and Lozano, 1990. Some "free-riders" should be included into this group: Azpiazu (especially Azpiazu, 1991), Basualdo (i.e. Azpiazu and Basualdo, 1989, and Basualdo (1991) for ATE), and some analysts linked to smaller research foundations, such as Calcagno, Khavisse and Peralta-Ramos.

[49]In 1991, the Industrial Economics team of UN ECLA Delegation in Buenos Aires was directed by B.Kosacoff and integrated by Azpiazu, Bisang, Carciofi, Gatto, Gutman, Kantis, Katz and Yoguel.

[50]Centre for the Study of the State and the Society (CEDES, Centro de estudios del Estado y la Sociedad). See the works by Canitrot, De Riz, Fanelli, Feldman, Frenkel, Machinea, Mazzorin and Rozenwurcel. Besides them, other institutions should be mentioned: CIEPP (Acuña, Goldbert), CISEA (Ala-

research centres that are radically neo-liberal (Mediterranean Foundation). It is possible that the ideological polarisation is due to the fact that the majority of academics have been involved or are still involved in policy-making. UN ECLA and CEDES were associated with the Alfonsín government, whereas the Mediterranean Foundation is now associated with the Menem administration. The studies published by the Secretary of Industry are more technical, and thereby lose in terms of analytical richness. Moreover, the Argentine literature is more likely to incorporate political factors in economic analysis and vice versa. The majority of studies look at the role of pressure groups, employers' organisations, unions and the government.

In Spain, the style tends to be rather homogeneous, a technical approach of a liberal nature. There is a surprising lack of concern for political questions in economic texts. Even the theme of economic policy is approached from a very clinical point of view. The majority of the studies are commentaries that draw extensively on statistical sources, the calculation of future projections and the elaboration or comparison of models. This seems to be related to the contemporary ethos in Spain. While the 1970s were a time of ideological polemic and criticism, with the consolidation of democracy and integration into the EC, it seems to have been agreed that an allegedly post-ideological era has been entered. There are exceptions, like M. Navarro's analysis of industrial rationalisation[51] or some of the studies collected by Etxezarreta[52] which are more critical and focus

Rué, Lavergne, Huici, Jacobs, Palomino, Schvarzer).

[51]Navarro, 1990.

[52]Etxezarreta (ed), 1991.

more on the contradictions and consequences of the economic transformations that have taken place over the past 20 years. Braña, Buesa and Molero[53] claim to base their work on a Marxist methodology but the result is closer to structuralism than to any other form of analysis. Fuentes Quintana always puts forward a multidisciplinary approach, drawing on insights from -above all- sociology but rarely discussing politics. Tamames began with studies of economic power and continues to present a very critical marxist viewpoint with respect to the Franco regime[54], but he does not maintain this perspective in his analyses of Spain under socialism. On the other hand, there are no attempts to analyze the economy on the part of sociology or political science. Even the studies on trade unions usually restrict themselves to questions of social pacts, the size and representativeness of the unions and so forth[55], but these studies fail to comment on economic policy in the way that the Argentine studies do. One of the few exceptions is Maravall, whose political sociological analyses always include economic factors.

I.6. STRUCTURE OF THE RESEARCH

The book is divided in six chapters. Following this general introduction, chapter II explains the evolution of the international economy 1970s-90. The section does not only provide

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[53]Buesa and Molero, 1988; see also Braña, Buesa and Molero, 1984: El estado y el cambio tecnológico en la industrialización tardía. El caso español. Madrid, Fondo de Cultura Económica; Braña, Buesa and Molero, 1979: "El fin de la Etapa nacionalista: industrializacion y dependencia en España" en Investigaciones Económicas, 9, Madrid.

[54]Tamames, 1979 ans Tamames, 1989.

[55]Most of the studies included in Miguelez and Prieto (1990) are an example of this.

the setting in which Argentina and Spain developed, but also the intention of the chapter is to understand these countries as part of the world semi-periphery. Their processes of stagflation, external debt, regional integration, stabilisation and liberalisation. In one sentence, the dismantling of economic nationalism is a feature shared by many countries in the 1980s.

Chapters III and IV are detailed analyses of the Argentine and Spanish economic and political transitions from 1975 to 1990. Both chapters have similar structures. They open with brief historical descriptions of the logic of their domestic statist/ nationalist systems up to 1975. Following this, an analyses of the dismantling of these interventionism is presented, breaking down the transitions to more liberal systems into their different phases. The main points of attention are the attempts to implement adjustment plans, reform of the state, the stabilisation of financial sectors, tax reforms and social bargaining conflicts. In the light of the two cases studied, the conclusion about de-regulatory strategies is that discriminatory gradualism is the most appropriate strategy in political terms. In carrying out such a strategy a government has to choose whom to hurt and whom to protect in order to guarantee the success of the economic transition. It has, in short, to discriminate on political as much as economic grounds. In this, governments had different alternatives, but both in the Argentine and Spanish cases the preferred policy option has been of a anti-inflationary nature. This is understandable given recent macroeconomic evolution -especially for the Argentine; however, by adopting deflationary measures, governments have dampened domestic industry and employment. SMEs and workers are the absolute losers of these economic transitions.

Following on from this, Spain and Argentina's new productive structures are analyzed in chapter V and VI, looking at industrial policy, the industrial restructuring programmes, the new level of integration into the international economy, the separation between industry and finance and the increasing role of the tertiary and informal sectors. Namely, the structural changes that have taken place in both countries as a result of economic liberalisation, and the re-insertion of Argentina and Spain into the world economy. The analysis of the policy-making process of industrial re-structuring in the two cases evidence the paradox that it has been the state itself which has had to play the leading role in reducing state intervention, in such a way that the rhetoric of liberalisation is out of line with the state's actual discretional "dirigisme" over the economy. States have been selective when dismantling state protection. The degree, timing and even the promotion has not been equal for all economic sub-sectors. De-regulation has been selective and discriminatory; the most adequate term is "re-regulation" of a new national economic system.

CHAPTER II: THE WORLD ECONOMY

This chapter will describe the international setting in which Spain and Argentina have developed. It will examine some theories of the evolution of contemporary political economy, analyzing the effects that these changes have had on the two countries. Both Argentina and Spain belong to the periphery of the world economy, and therefore their degree of control over international economic flows is reduced. In addition, since both countries have liberalised part of their economies, external dependency has increased. Thus, the chapter opens with a review of the phenomena of inflation and recession in the 1970s. The following sub-sections present an analysis of the external debt crisis and the processes of regional integration which took place in the 1980s. One of the central hypotheses of this thesis is the importance of geopolitics in the economy. The proximity of Spain to the EC has been one of the key factors in its recent development.

On the other hand, three decades of strong state intervention have left an important legacy in Argentine and Spanish policy-makers. Most of the policy options presented in this chapter resulted from deliberate decisions by the countries not to adjust existing strategies to new international conditions. Analyzing policies such as Spain's decision to apply for membership of the EC or the sudden liberalisation essayed in Argentina after 1976 simply in terms of liberalism or interventionism may obscure rather than illuminate the nature of these policies. The 1970s witnessed the abandonment of a system of fixed exchange rates which involved the devaluation of the US dollar. These conditions necessitated a response by Spain and Argentina. But it is facile to interpret those responses crudely as evidencing a return to liberalism and internationalism on the part of the two countries. On the contrary, de-regulation in some areas and an opening to the world economy in various sectors was accompanied by new forms of control and intervention in others. In abandoning some industries or social groups to market forces, governments nevertheless continued to support those sectors deemed to be of "national interest".

This emphasis given to the interaction between international factors and state action does not allow to frame this study in a pure Structuralist, Dependentist or World-systems analysis. The importance that Dependentist and World-systems authors[1] give to the international division of labour in the core-periphery relations, may be applicable for Spain but less so to the Argentine. Yet, although states may play and adapt to the changing international scenario, the ability of any single state to transform the situation is constraint by its position in the international balance of power. A clear example of this will be examined in the external debt crisis. Latin American states were aware of the possible solutions, including default and thus challenging the world financial system. However, it was preferred to avoid collective action, to accept the case-by-case approach and thus winning some individual benefits from international institutions. It is not the centre of this study to analyze the evolution of world power; however, there will be an underlying Structuralist philosophy of inquiry, in the sense of examining

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[1]See specially Emmanuel,A. 1969: Unequal Exchange, London, Monthly Review Press, and Hopkins;t.K. and Wallerstein,I. 1982: World-Systems analysis, Beverly Hills, Sage.

the "structural" factors which configure the Spanish and Argentine systems of accumulation.

II.1 THE 1970s: INFLATION, THE OIL CRISIS AND RECESSION

By the end of the 1960s, the Bretton Woods System was no longer functioning effectively. Because the US dollar was the principal international currency, the Federal Reserve had become the world's banker. International liquidity was dependent on the US balance of payments and the USA had been experiencing a deficit since 1959. The deficit continued to grow in the following decades due to two main causes: increased public expenditure associated with the maintenance of military forces all over the globe for the Cold War and the conflict in Vietnam; and also because of the expansion of TNC -investing overseas, these companies transferred production abroad, reduced the amount of exports and increased the trade deficit[2]. R. Triffin, observing this phenomenon at the time, pointed out the contradiction that existed between the dollar liquidity and global economic growth[3]. Despite this and other contemporary commentary, international confidence in the USA continued in the 1960s. While the system was functioning, the USA took advantage of its role as world banker, leaving aside the fact that its deficit was financed through European and Japanese demand for US dollars. The Johnson administration met the deficit by printing dollars without gold backing. This created excess international liquidity, but the USA still held large gold reserves. In order to correct the growing international monetary disequilibria, inflation and speculation against the dollar, a number of

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[2]Kenwood and Lougheed, 1989:282-283.

[3]Gilpin, 1987:149.

measures were taken which widened the role of the IMF, notably the General Arrangements to Borrow and the Special Drawing Rights. The Japanese and the Europeans criticised US economic policy, but the fixed exchange rate system continued functioning as it benefited everyone.

However, the situation changed under President Nixon. In 1970, the Nixon administration reduced interest rates in an attempt to stimulate the US economy. At the same time, the West German Bundesbank increased its rates, in order to avoid an increase in inflation. The result was a flight of US dollars to German banks. Confronted with a scarcity of dollars at home, the Nixon administration printed additional currency. This simply fuelled inflation, intensified the world recession and brought down the Bretton Woods system. The German government challenged the US authorities to change its dollars into gold. Nixon, lacking sufficient reserves, suspended the convertibility of the dollar and launched a number of protectionist measures and controls over wages and prices. The USA lost its control over the international monetary system in 1971, when the system of fixed exchange rates was abandoned in favour of floating rates.

There are four main interpretations of these developments. Liberal, realist and some Marxist writers, basing themselves on the work of Kindleberger, see it as an indication of the decline of US hegemony. The liberal writers underline the emergence of competing economic powers, and, given the danger of a return to economic nationalism, call for collective action.[4] Realism

[4]Keohane, 1984:36-37. Also, in Keohane, 1984b: After hegemony: Cooperation and discord in the world political economy, Princenton, Princenton University Press.

adopts a more critical view, emphasising errors in the management of the US economy as the fundamental cause of the decline. Realist writers understand the current tendency towards protectionism as a tool for global survival. Rather than the aggressive economic nationalism of the nineteenth century and the 1930s, realism accepts this "benign mercantilism" as the best solution for the world economy from the 1970s onward[5].

For the Marxist writers, the world economy entered a cycle of depression from the 1970s, increasing the contradictions of capitalism. Before the oil crisis, Baran predicted that the expansion of social welfare would create increasing public deficits and thus would lead capitalist countries towards inflationary processes and crisis. Further, the change in the structure of US production from consumer durables to volatile high-profit sectors like military production and financial services has accelerated the process of the loss of hegemony[6]. In the 1980s, the world political economy as being restructured, towards a new system which not clearly defined. Wallerstein (1982) predicts its organisation around two axes, Washington-Tokyo-Peking and Bonn-Paris-Moscow. From this perspective, the major problem with global reorganisation is that there is little space for the Third World. Even the "economic niche" occupied by the semi-periphery may be jeopardised as the centre becomes increasingly self-absorbed.[7]

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[5]Gilpin, 1987:404.

[6] See Davis,M. 1984: "The political economy of Late-Imperial America" in New Left Review, n. 143, p. 6-38.

[7]Not all Marxist writers accept the theory of hegemony. Amin (1982) and Arrighi (1982) consider that there are insufficient grounds to demonstrate that the liberal-capitalist system needs a hegemonic figure; the cases of England in the nineteenth century and the USA in the twentieth century are to

Structuralism considers that liberal, realist and some Marxist accounts exaggerate the importance of both the Bretton Woods System and the decline of US hegemony. Firstly, the Bretton Woods system was more rhetoric than reality until 1958. For pragmatic reasons, the treaty was put on ice until the countries of Western Europe were able to maintain fixed parities of their currencies. Thus, the system only really functioned for a period of about fifteen years, from 1958, when Europe had recovered due to Marshall Aid, until 1971. Then it was abandoned, but not through any kind of economic breakdown, but rather through a deliberate political decision not to implement the adjustment measures necessary to maintain the dollar at its parity value. In words of Strange, "It was the pursuit of short-term instead of long-term national interests that sowed the seeds of monetary disorder and financial instability"[8]. Instead of carrying out the adjustment, the USA preferred to abandon exchange rates to market forces. The USA did not emerge from this particularly badly: the world economy continued to be based on the dollar. The disadvantage of the "paper dollar" standard was volatile exchange rates, which was much less important for the USA than for the rest of the world. In fact, the new "non-system" allowed the printing of dollar IOUs without gold backing, such that the US government saw itself able to foster economic growth in the short term without needing to ease credit conditions nor reduce taxes, as the Ford and Reagan administrations later did. So, according to structuralist writers, there is insufficient evidence of a

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be understood as historical particularities. The theory of hegemony may have been an intervention in the Cold War to justify North American world domination.

[8]Strange, 1988:102.

dramatic decline in US hegemony. Analyzing the military, productive, financial and knowledge structures, Strange concludes that the power of the USA, when all factors are taken into account, has increased. Although from the 1970s, the USA share in world production had fallen due to the recovery of other countries, the USA continues to be the prime centre for military and economic decisions[9]. The financial structure, according to Strange, requires a more subtle interpretation: it is certain that Nixon's abandonment of convertibility indicated a weak financial position, but it is also an example of the power to take decisions, since West Germany did not get its gold in exchange for dollars. Not only this, but the US government imposed a 10% tariff on all imports in order to try to rectify the balance of payments deficit, justifying itself in terms of the injustice done by the system of convertibility system. Thus, the Bretton Woods System was modified in the 1970s and 1980s, but survived. In fact, it never functioned properly, because of the (unresolved) conflict between two contradictory strands within US policy making -the liberalism of the economists and the realism practised by the State Department. But the system continues, largely through inertia, lack of effective alternatives and a residual common interest[10].

The main effects of floating exchange rates were overvaluation of the dollar and excess international liquidity. Since the world operated under the "dollar standard", most countries began to accumulate a large part of their reserves in

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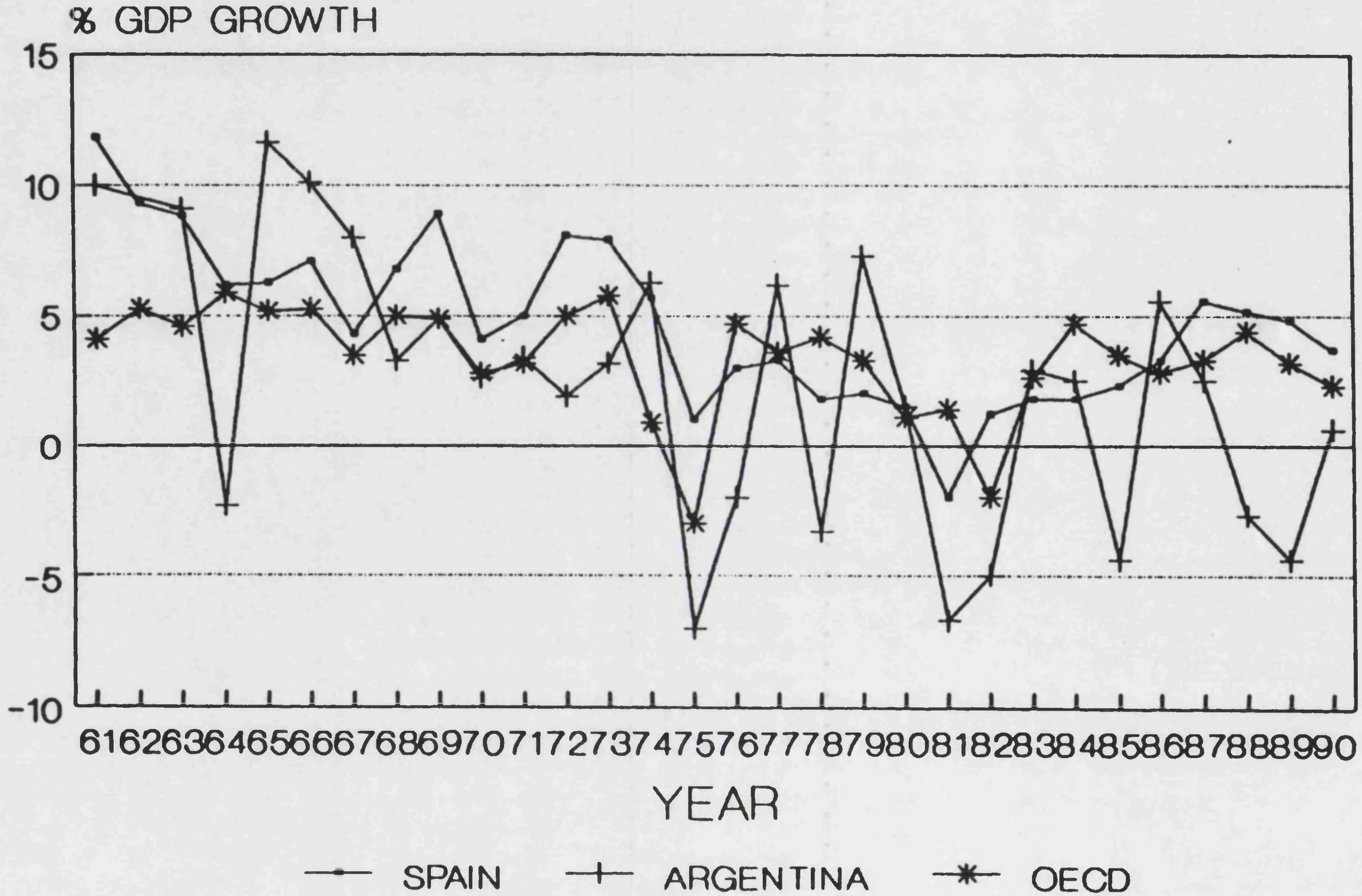
[9]For example, it is the home of the TNCs and international agencies, and dominates the knowledge structures (technology, research, universities, the media etc).See Strange, 1988:43-135.

[10]Strange, 1988:106.

FIGURE II.2.:

Argentina and Spain: GDP growth at constant prices, 1960-90.



Source: IMF Statistics, 1991.
UN CEPAL, 1991

dollars. Continuing world demand for the dollar kept the exchange rate high, and put pressure on US domestic prices. The US government tried to rectify the situation through small devaluations at various times, which explains the dollar's fluctuations. The successive depreciations of the dollar are some of the reasons which motivated OPEC to increase oil prices[11]. The major problem in international monetary affairs is that short term fluctuations prevail at the time when corrective measures have to be carried out, resulting in new problems on a world scale.

The rise in oil prices between 1973-74 and between 1979-80 increased the inflationary tensions in the world economy. The West entered into the worst recession of the post-Second World War period, which was aggravated in the following years. Growth rates were negative in 1975 and 1981-82 (-3% and -2% for the OECD countries, as it can be appreciated in figure II.2). Most developed countries began to implement deflationary policies and make adjustments in their system of production. With respect to the latter, the aim was to reduce dependency on oil by discovering new sources of energy and energy-saving technology. On the other hand, attempts were made to increase national comparative advantage through export-led strategies, adopting protectionist measures (non-tariff barriers) and achieving significant increases in productivity via adjustments in staffing levels and technological investment. The greater part of the industrial workforce was absorbed into the service sector. Whereas the ethos of the Bretton Woods System had been domestic Keynesianism and free international trade, the new ideological

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[11]For a review, see Gilpin, 1987:142-151; Kenwood & Lougheed, 1989:283-288 McCormick, 1989:122..

TABLE II.4.:

Spain: exports and imports by country of destination/origin, in percentages, 1973-86, selected years.

	EC	US	RestOECD	OPEC	CMEA	LatinAm	Rest
EXPORTS							
1973	48.5	13.9	7.8	6.2	3.0	7.0	13.6
1980	49.7	5.6	5.8	12.8	3.0	7.7	15.4
1986	60.1	9.2	7.7	5.6	2.9	2.9	11.1
IMPORTS							
1973	43.2	16.1	11.1	11.8	2.6	7.3	7.9
1980	30.9	13.1	7.5	29.7	2.2	8.2	8.4
1986	50.2	9.9	11.4	11.3	2.0	6.5	8.6

Source: Alonso,J. 1991.

TABLE II.5.:

Spain: composition of trade by areas and products, in percentages, 1985-86.

	EXPORTS				IMPORTS			
	EC	US	RestOECD	RestWORLD	EC	US	R.OECD	R.WORLD
ENERGY	7.8	12.8	4.1	7.5	4.8	11.0	4.2	64.4
FOOD	16.8	14.3	21.4	10.2	7.2	8.5	5.8	12.1
INTERME. GOODS	29.3	34.1	42.8	51.0	40.0	44.5	38.7	17.5
CONSUMM. GOODS	25.8	24.9	14.0	10.1	6.5	2.7	16.6	3.5
INVESTM. GOODS	19.7	12.1	16.5	20.7	34.5	32.5	34.2	2.3

Source: Alonso,J. 1991, based on data of Spanish General Customs.

line would be Smith at home and protectionism abroad.

Stagflation and growing public deficits made economists turn their attention from demand-side to supply-side policies. Thus, monetarist policies were preferred to Keynesian ones from the late 1970s, with states gradually reducing their sphere of activity, including privatising assets, reducing their budgets and their control over the economy. From a governmental point of view, the contradiction was that the 1970s depression involved states in higher social security and welfare payments, which required more public expenditure while GNP continued to fall.

The effects on countries like Spain or Argentina were immense. Spain did not take part in the fixed exchange rate system until 1959; nor did Spain possess the institutional means to carry out an independent monetary policy. It was with the 1959 Stabilisation Plan that the exchange rate was set at a more realistic level, and therefore it was susceptible to the effects of a floating system. From 1970 to 1973 the balance of payments went from negative to positive, and US$6.7bn in foreign exchange reserves were accumulated. This affected domestic liquidity. In 1973 the money supply grew by 28% and domestic prices rose by 14%. On the other hand, both Argentina and Spain are oil-importing economies, and therefore were very vulnerable to the fluctuations in oil prices. The balance of payments deficits can be seen from tables II.4 and II.5. Spain was more affected than Argentina, the imports of OPEC crude accounted for 30% of the total imports in 1980.

The crisis in Spain was made more complex due to the democratic transition and the return to the implementation of a

TABLE II.3.:

ARGENTINA: EXPORTS BY COUNTRY OF DESTINATION, IN U$S, 1976-80.

COUNTRY	NON-INDUSTRIAL	INDUSTRIAL	TOTAL	%
Netherlands	432,232	191,600	623,692	11.5
Italy	399,703	95,291	494,995	9.1
W.Germany	262,437	88,581	351,018	6.5
UK	90,389	90,319	180,708	3.3
France	147,743	28,726	176,470	3.2
Belgium	65,801	15,894	81,695	1.5
Greece	46,267	2,256	48,522	0.9
EC	1,447,572	512,528	1,960,100	36.0
Brazil	361,935	260,980	622,835	11.5
USSR	520,345	48,621	568,966	10.5
US	166,410	336,895	503,305	9.3
Japan	251,223	49,551	300,774	5.5
Spain	252,030	48,541	292,571	5.4
Chile	83,719	122,912	206,631	3.8
Uruguay	32,317	108,190	140,507	2.6
Paraguay	21,601	106,727	128,328	2.3
Venezuela	22,729	95,919	118,648	2.2
Bolivia	28,945	82,910	111,855	2.0
China	87,668	19,534	107,203	1.9
Mexico	33,073	62,569	95,642	1.7
Others	110,040	116,452	226,952	3.2

Source: IMF, 1985.

compensatory policy. Contrary to other OECD countries, labour costs rose. This was due to the paternalist policy of the Francoist vertical unions (see Chapter IV); wage increases for any given year were based on the previous year's rate of inflation plus two or three percentage points. In addition, social security expenditure increased markedly. This brought the paradox that in terms of wages and employment, workers were better off under Francoism, leaving aside the difficult task of adjustment for the democratic transition. Also Spain suffered from a grave backwardness in terms of production and technology. Figure II.1 shows the different rates for Spain and the EC. Although the difference between the two rates was 43 points in 1975, technological backwardness had increased in Spain in 1984, the difference having risen to 47.8.[12]

With respect to Argentina, it is interesting to note that its levels of productivity changed in the opposite way to the rest of the world. Instead of reducing employment and labour costs, it increased production. Since the scale of production in Argentina was small, due to its restricted market, its technology -imported from countries with greater levels of production- was always underused. While the OECD countries were in recession, Argentina had fluctuating rates of GDP growth, from -7% in 1975 to +7.3% in 1979 (figure II.2). The big shock for Argentina was to come as a result of the rise in US interest rates due to the monetarist policies of the 1980s. This requires a more direct consideration of the problem of foreign debt.

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[12] Martin & Romero, 1991:543.

II.2. THE 1980s (I): EXTERNAL DEBT

The US banking sector underwent several transformations during the 1970s, after what has been called the "banks' identity crisis".[13] The beginning of this crisis dates from 1967, when the First National City Bank of New York was changed into a holding called Citicorp, in order to extend its operations beyond traditional fields of activity. During the 1960s, TNC finance requirements were less intense than in previous decades, given that Third World nationalism reduced the rate of expansion of corporations into LDCs. Citicorp was the first bank to react to this problem of lack of demand for accommodation from traditional clients, a situation that would confront almost all banks in the 1970s. Citicorp became the first "money centre bank", reducing the importance of clients' deposits and instead buying and selling off-shore money, especially in the euro-dollar market. The transformation was also due to the convenience of diversifying currency holdings given the volatility of exchange rates. Increasing the scale of off-shore activities also enabled US banks to "escape" practically from the control of domestic banking regulations while the need to recycle the profits coming from the increases in oil price -petrodollars- provided another incentive to expand overseas operations. Between 1970 and 1980, the Citicorp concept was adopted by the 50 most important banks of the world, increasing competition in the oligopolistic financial market. But profits also increased. Banks were able to speculate with floating exchange rates due to the rapid mobility of capital from one country to another. New deposits came from OPEC members, whose revenues from oil were neither invested nor spent in their own countries. This increase in the money supply

[13]Lombardi, 1985:100-103.

reduced interest rates and initiated a push towards new channels of lending.

Banks extended lending to governments who sought to cover increasing public deficits associated with the continued application of expansionary Keynesian policies by borrowing. Once developed governments had been met, the prospect of financing developing countries began to appear attractive. While OECD economies were stagnant, some developing countries had 7% and 8% growth rates, and their governments were craving for further finance. The risk factor was overlooked in the belief that nations do not become bankrupt. However, states do not borrow under any legal framework and do not offer any pledge or guarantee. "Is not Mexico more valuable than $85,000 million?" the president of Citicorp asked in 1982. The fallacy of this reasoning is that no institution has the legal capacity to appropriate Mexican assets.[14] However, the quality of credit appraisal declined as competition between the banks increased. A lack of good statistical information about LDCs did not help.[15] Not even the strategy of financing programmes was followed. Loans were given "for the general purposes" of government use, without even ensuring that the funds were to be used in a productive way. In the 1970s, sovereign lending was made without the minimum prudence.[16] The only measures taken

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[14]See Mujica, 1989.

[15] Lombardi describes how a loan to Costa Rica was based on an article about the country in "Time" magazine! (Lombardi, 1985).

[16]This was an important shift in lending to developing countries. International agencies grant long-term loans for development plans (usually for 20 years on average with grace period of 10 years), whereas commercial banks before were just offering self-liquidating loans or advance payments for future sales.

were the diversification of risk through so-called syndicated loans, wholesale lending and jumbo loans, that allowed minor banks to participate in the process of financing development. Thus, in 1982 it was discovered that 1600 banks were involved in the case of Mexico's debt alone.

However, naivety is not characteristic of banks' behaviour. The so-called "debt trap"[17] referred to the type of interest applied to these easy loans. Credits were only made available at floating rates of interest, the London inter-bank offer rate, the LIBOR. This method of calculating interest allowed the banks to adjust to changes in the financial market. Over and above the LIBOR, banks added risk premiums. Bank profits were also enhanced by commissions and handling fees. Thus, medium-term loans were made with funds deposited in the banks on a short-term basis. The shift from fixed to floating interest rates (up to this point most LDC official borrowing had been financed by the international agencies at concessionary rates) does not necessarily imply a shift of risk-bearing from creditors to borrowers. If nominal interest rates are adjusted in line with inflation, the shift should not affect real interest rates. Nevertheless, despite the system of variable interest rates attached to sovereign lending, for much of the 1970s real interest rates were low or negative (-3% real interest rate in 1975, as seen in figure II.6). However, when US "Reaganomics" started to change its fiscal policies, the situation was reversed[18].

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[17]George, 1988.

[18]Thorp and Whitehead, 1987:346; for a more extended analyses, see Cline, 1983.

The second oil shock at the end of the 1970s triggered a search for new ways of overcoming the crisis in developed countries. In the USA, the Reagan administration adopted Lafferite policies. The Lafferian argument is based on the assumption that a reduction in taxes encourages growth. Since this has also been a very suitable argument for electoral gains, it was uncritically adopted by most conservative governments during the 1980s -such as the Republicans in the USA, the Socialists in Spain and the Peronists in the Argentine. Thus, just after Reagan took the presidency in 1981, the Economic Recovery Tax Act changed the fiscal system. The shift was not only with respect to taxes, but also in the government's budget: expenditures increased, especially in the area of defence. Reagan's economic advisers agreed to this "anti-Lafferian" fiscal deficit if it could be financed by public borrowing and if the Federal Reserve Bank would maintain strict control over the money supply. Thus, Wall Street soon had its market full of bonds, which drove interest rates up in the process in order to attract investors. The high demand for the dollar pushed its price up further relative to other currencies.

US monetary restriction and fiscal expansion had immediate consequences. Both measures had the effect of further restraining world growth. Industrial countries had to increase their interest rates in order to avoid capital flight to the USA. This stifled investment. The overvaluation of the dollar increased international inflation -already present because of the second oil shock. The OECD countries found themselves in the worst recession since the Second World War, registering negative growth rates in 1982. Developing countries were left with their debt increased and exports notably reduced. Given that real interest rates rose from -3% in 1975 to 6.09% in 1982 (Figure II.6), and public spending expanded largely in the period, Third World government debt rose massively. The rise in the value of the dollar further reduced the ability to service and amortize old debt, increasing thereby the real costs of foreign debt. New loans were required to maintain interest payments on old debt.

The effects of this on Spain and Argentina can be seen in Table II.2. In a period of eight years, external debt increased six-fold. In 1973, it was US$ 6,4 bn. for Argentina and US$ 5,7 bn. for Spain. In 1981, just before the debt crisis, the amount had risen to US$ 35,7 bn. and US$ 33,2 bn. respectively. The size of the debt is similar for the two countries, but the difference comes with the ratio of debts to exports. Spain's ratio is half that of Argentina, 19% of exports as compared to 37,% for the Argentine.

In Argentina, most loans were used for non-productive activities. An important part of the debt went to public expenditure, which increased before and after every change of government (military or elected). Thus, in the 1970s governments bought their legitimacy through borrowing.[19] Military expenditures were also very important during the campaign against guerrillas (the so-called "dirty war") and in the preparation for foreign conflicts such as the Falklands/Malvinas. Overseas borrowing also financed inefficient state companies and overambitious development projects. Some of the credits were also spent on mere imports of consumer goods, and the rest paradoxically went through capital flight to OECD banks, where

[19]See Ames (1987) on expansionary cycles in Latin America.

interest rates promised safe and good returns. Thus, the external debt did not bring about an expansion of the economy. On the contrary, when the debt crisis emerged it left the country at the crossroads. The blame can be put as much on the blindness and corruption of Latin American elites as on the international financial groups. Latin American governments should have foreseen that the easy availability of capital was only a result of the conjunctural position of the developed countries' banks. However, the temptation was very strong to take the easiest way out of their complex domestic situations.

By 1980, it became clear that foreign financing had overexpanded. The international banking system became aware that financial dependence was a two-edged sword, and that the crisis would not only affect borrowers but was also showing the vulnerability of the developed countries' banking system. Banks realised that the logic of their previous behaviour was wrong, and that, what was beneficial for one bank, applied collectively ended up damaging the system as a whole. However, governments and the financial community remained blind to the danger of bankruptcy until August 1982. At that point Mexico ran out of foreign exchange and declared that it could no longer make debt repayments. International bankers, already worried because of the Polish and Turkish experiences of 1981, started to panic.

The likely consequences of the declaration of moratoria by developing countries have been subject to several interpretations. Cline (1983) considered that it might jeopardise the stability of the whole world economy. On the other hand, Marxist authors such as S. George (1988) argue that the importance of the LDCs debt in relative terms was not so great.

Total Third World debt stood at about U$s 1 trillion in 1986, which represented only one eighth of the OECD annual GNP, or just one half of US public debt at that time[20].

However, from the banks' perspective, immediate action was required. Banks -and governments- of the developed world rapidly organised themselves in groups such as the Paris Club or Bank Advisory Committees. The IMF came forward as a lender of last resort to fill the gap between creditors and borrowers. Banks lacked the power to impose economic measures to increase liquidity in developing countries in order to repay debt. However, the IMF had this capacity through the "conditionality" clause, which linked the granting of new loans to the adoption of specific policies that were regarded by the institution as the most appropriate to improve economic performance.[21]

The IMF has played and still plays today a major role in the debt rescheduling process. Prior to 1982, it had remained in the background, dealing with temporary balance of payments problems and small uncreditworthy countries. After 1982, the Paris Club decided to expand the IMF's resources, stressing that IMF assistance should continue under the "conditionality" clauses. IMF packages comprise credit and fiscal restraint, with targets for the reduction of the fiscal deficit and the money supply, and the "correction" of prices including exchange rates. There have been several criticisms of the IMF's role, ranging from technical to moral.[22] Deflationary measures have notably reduced domestic

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[20]George, 1988:11-28.

[21]For a critical view of the Fund, see Milivojevich, 1985; Pastor, 1987.

[22]Some criticism have emerged from within the IMF itself -vid. Donovan, Reichman and Stillson in Pastor, 1987.

activity and growth, and therefore adjustment policies seem neither efficient nor sustainable. New IMF loans are used to service old debt, rather than helping to create new ways of development that will allow future payments. The austerity programmes have also caused social conflict, since they promote reduction of public expenditure and wage restriction. The levels of unemployment, income inequality, food prices, malnutrition, mortality, homelessness and other problems have increased dramatically in developing countries trying to stabilise their economies[23]. The decline in growth and the increase in social tension have eroded economic confidence, which has stimulated capital flight and distrust of the new TNCs.[24] Defenders of the Fund deny that the IMF is such an uncritical agent of creditor banks. It has obliged them, they argue, to make "involuntary loans" for the debt-rescheduling operations. However, it should be remembered that these new loans went to pay back accumulated interest. The IMF is dependent on western countries not only in its organisation and financial resources, but also for intellectual support and guidance. Thus, it should not be expected to have a very critical approach to western interests.[25]

Fearful of not being able to maintain essential imports, developing countries became resigned to their indebtedness and

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[23]Cornia et al, 1987; Loxley, 1986.

[24]Some authors have argued that even in the case that the IMF was successful, the result would be a return to the previous situation, and thus developing countries would need new external financing, becoming debtors again (George, 1988).

[25]Thorp, 1987:338. This type of argument also corresponds to the analysis of external debt as a bargaining game. See bellow, especially note 27.

started negotiating with the IMF, accepting its case-by-case strategy and refusing any attempt at organising themselves as banks did[26].

In fact, the debt rescheduling process became a highly politicised financial diplomacy. It has often been described as a bargaining game[27], in which two main fronts are defined: debtors, and the coalition of creditors. The latter is formed by banks, G-5 governments and the IMF, sharing the interest of avoiding disruption of the financial system through rescheduling and adjustment for debtors. They have rapidly organised a kind of "cartel", offering immediate finance but also threatening sanctions to prevent cooperative action by debtors[28]. On the other hand, debtors developed little coordination, accepting the case-by-case philosophy instead of exploiting the vulnerability of creditors to obtain concessions.[29] This strategy was not caused by any kind of political naivety nor dis-organisation. In November 1982, the Mexican president López- Portillo initiated secret meetings with his Argentine and Brazilian counterparts to discuss the possibility of a multilateral response to the debt crisis; but his plan was rejected by the Brazilian government[30]. Later attempts to organise a debtors' cartel, such as the Quito

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[26]See Ffrench-Davies, 1987, and specially Kettell and Magnus, 1986:90-97,130-134.

[27]See Griffith-Jones, 1988; Holley, 1987; Kahler, 1985; Kettell & Magnus, 1986.

[28]Kettel and Magnus, 1986:127-130.

[29]It has been claimed that the Mexican and Argentinian delegations were in the same bank on the same day negotiating their debts with neither delegation aware of the other's presence (O'Brien, 1986:48).

[30]Details of Latin American external debt crisis diplomacy can be found in Milivojevic, 1985.

Declaration and the Cartagena Group, showed a radical rhetoric but in practice debtor members accepted the case-by-case approach[31]. The Prisoners' Dilemma could be applied to debtors: collective action could benefit all the countries, but they have preferred to act individually rather than taking risks. By threatening banks with the possibility of a debtors cartel, the large Latin American debtors were also able to get some reductions in repayments, and still remain friendly to the West. At home, by blaming the USA and increasing the already extended "anti-yankeeism", Latin American administrations were able to take unpopular measures to try to adjust and liberalise their economies.

[31]The first meetings calling for cooperation were promoted by small countries, since they were the ones which suffer most from the costs of adjustment, as their exports were constrained by the decline in commodity prices and they were unlikely to regain their creditworthiness. Thus, in the first attempts at Panama and Caracas (March and September 1983), larger debtors showed their lack of interest. However, in 1984 the new Argentinian government started playing a more active role, since president Alfonsin was worried with the prospects of adjustment for democracy. In January 1984, the Quito Declaration asked for a continuing flow of information and action between the Latin American countries, for debt repayments to be linked to export earnings, for longer grace and amortisation periods, for no increase in the cost of the debt because of the negotiations and for an increase in IMF resources. Internal disagreements reduced the effectiveness of the Declaration. Mexico, Brazil, Venezuela and Colombia disapproved of the radical stance taken by Argentina and the smaller countries. In March, when Argentina was close to its deadline for payment of interests to US banks, despite the Quito Declaration, these countries "rescued" Argentina by granting her loans. This generous example of Latin American cooperation can also be interpreted as unwillingess to challenge creditors. In June 1984, as interest rates continued to rise, Latin American countries met again in Colombia, forming the so-called Cartagena Group, which managed some consensus to send a signal to the London summit of the industrialised countries. It was relatively successful considering the later approach by the IMF and the US Federal Reserve. The Cartagena Group has continued its meetings; however, it never concluded any decisive solution. When the oil price fell in 1985, Mexico and Venezuela found themselves in a critical situation, while non-oil producers benefited. Mexico called or a new meeting of the Group (Punta del Este Feb. 1986), where it played a much more aggressive role, while Argentina was conciliatory. The reversal of roles can be explained by the fact that Argentina had at the time an increasingly improved balance of trade and was also trying to implement successfully an anti-inflationary programme. Divergences have made the Cartagena meeting ineffective (O'Brien, 1986:48-52).

In short, there were three main solutions to the debt crisis from the debtor's point of view. The radical one, lead by the Cuban president Fidel Castro, was to form a debtors' cartel and not to repay the debt. As described above, this solution was mostly used as a threat to creditors but never adopted. Secondly, there were several formal solutions, different arrangements with the IMF to pay debt back, implementing to some degree the "conditionality clauses" while receiving further financing. The Baker and Brady Plans, explained below, are example of this. Finally, there were local attempts to implement adjustment programmes -heterodox plans, such as the Cruzado and Verâo Plans in Brazil and the Austral and Primavera Programmes in Argentina.

Responding to criticisms of IMF policies and the plight of the main debtors who considered that the burden of adjustment should not only be borne by LDCs alone, the USA announced new programmes, the Baker and the Brady Plans. These were supposed to increase lending to Latin American countries in order to make repayment in parallel to sustainable growth. Development institutions such as the WB and the IDB were to play a more active role within what would still be a case-by-case approach. In fact, these plans were designed at the end of the 1980s, when the international banking system had recovered from the financial crisis. Their reserves were enlarged due to the lending to European governments and to the rise of international interest rates. The result might have been debt forgiveness, but the financial community and G-5 governments preferred to take a small risk, promoting some further lending while securing "good behaviour" of LDCs, stopping nationalist experiments and reenforcing the opening of LDCs markets and economies. With respect to the first one, the Baker Plan, external factors such as the election of a new WB president delayed its effectiveness.[32] The Brady plan was applied initially to Mexico. Once again, geography proved to be an important factor in economics: the proximity of Mexico to the USA made the country the recipient of international organisations' aid. It was only much later, in the 1990s, a decade after the 1982 debt crisis, that Brady agreements would be signed for Costa Rica, the Philippines and Argentina.

II.3. THE 1980s (II): THE FALL IN PRIMARY PRODUCT PRICES.

The fall in the prices of primary products and the increasing protectionism in the developed countries led to even greater deterioration in the position of LDCs.[33] The decline in real prices can be seen from Table II.7. If oil is excluded, prices of primary products fell from 100 in 1980 to 60.8 in 1986. The effects of this on Argentina have been very important. Although at the end of the decade the share of agricultural products in total exports had fallen to 62%, for the period 1980-86 rural commodities made up 73% of Argentine exports. The key

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[32] Further, there was no later agreement between world institutions. The director of the IMF, M.Camdessus, and major international banks disagreed with the new plans and the more political approach advocated by the US Secretary of State J. Baker, WB director B.Conable and many academics such as J.Sachs (Morales, 1991:42-43).

[33] The decline of prices of primary products is a complex phenomenon. It has been caused by several factors, such as the trend towards technological substitution of primary products by synthetic products (copper by optic fibre, zinc by plastics ...), the increasing tendency of developed countries to produce their own primary products (from oil to tropical fruits) or even changes in consumer preferences (replacement of sugar by artificical sweeteners, of coffee by coke). Some conjunctutal factors are also important, such as the increase in interest rates (which raises the costs of storage) or the expectation of further falls in primary product prices (which delays sales). Of Latin America's 20 most important primary product exports, in only one case did the price rise in the period 1980-85: oil, and its price subsequently fell in November 1985. It should be borne in mind that gas and tin are the main resources of Bolivia, copper and cocoa are the main resources for Chile, oil for Mexico and Venezuela, etc.

year was 1986 when the anti-inflationary Austral Plan was launched, and reserves did not reach the levels expected by the Central Bank (table III.1).

The debt crisis, combined with the fall in primary product prices, had a devastating effect in a country like Argentina that was accustomed to redistributive policies. The military government fell from office in 1982, after the Falklands/Malvinas conflict and the external debt crisis. The two democratic administrations -under Alfonsín and Menem- had to bear the burden of debts incurred by the previous governments. The implementation of plans for the stabilisation of the economy and the reform of the state had to be carried out without credits and under pressure to service debts. Korea, Turkey, Mexico, Chile, Indonesia and Thailand, in contrast, all received external economic aid. Since taxes on primary export products were the principal source of fiscal revenue, the Argentine state found itself short of funds. Whereas the Chilean government could rely on copper exports, and the Mexican and Venezuelan governments on oil, the government in Buenos Aires found itself unable to maintain state transfers: the Argentine government failed to secure a sufficient share of agricultural sector income which was in any case lower due to the fall in primary product prices. The resulting fiscal gap ensured that the only alternative for the government was to create internal debt, issuing bonds guaranteed by the state.[34] External debt payments were halted during the Alfonsín government, during and after the implementation of the Primavera Plan (August 1988). At first, the adjustment programme had the approval of international organisations, but in February

[34]Frenkel *et al* 1990:22-32; Graziano, 1990:129.

1989 credits were stopped because of the plan's failure.

On assuming Office in 1989, the Menem administration considered that Argentina's future was at the crossroads. Therefore, it launched a privatisation programme[35], where half of its capital went to service the debt, at the cost of reducing industrial subsidies and social and welfare expenditure. From 1980 to 1990, Argentina's GNP fell by 9.9%, its industrial output by 19.9%, and industrial wages by 32.8% while open unemployment rose from 2.6% to 7.8%. Not all these ills can be attributed to external debt, as will be seen in Chapter III, there were many mistakes in the implementation of the adjustment plans and economic policy. Nonetheless, the point is that the international situation has in no way been favourable for Argentina.

The difference with Spain is marked. With an absolute level of debt equal to Argentina's (though not equal in relation to export earnings as shown in table II.2), Spain's democratic transition and economic adjustment was carried out without an echo of the existence of external debt. The prospect of Spain's entry into the EC has been an important factor.

II.4. THE 1980s (III): REGIONAL INTEGRATION.

As was seen in section II.1 of this chapter, the recovery in Europe and Japan after the Second World War reduced the relative share of the USA in the world economy. This change in economic relations after the 1960s evolved towards a situation of multipolarity, in which three main blocs, each with its own satellites/peripheries, have become apparent: the EC and Eastern

[35]Law n.23.696.

Europe, Japan and the Asian NICs, and the USA-Canada-Mexico[36].

Since international competition by the 1970s and 1980s was no longer based exclusively on the reduction of production costs, but is also included competition for access to markets, the blocs tended to adopt protectionist measures. The successes in the liberalisation of world trade in various GATT rounds have been achieved at the same time as a growth of non-tariff barriers (NTBs), such as voluntary restrictions, anti-dumping regulations and other measures. UNCTAD noted that at the start of the 1980s, 98% of world production was protected in some way or another[37]. This neo-protectionism and the tendency towards economic regionalisation have been gathering pace in the course of the 1980s, to such a degree that the last GATT talks, the Uruguay Round, took eight years to reach an agreement (1986-94).

The rise in protectionism has provoked relocation of TNCs, which are looking to penetrate these protected markets through siting their subsidiaries in the developed countries. The reduced importance of the international division of labour due to neo-protectionism and technological development has seriously affected the LDCs. Their prospects have been twice worsened by external debt and the scarcity of international finance after the rise in interest rates in the developed countries. The adoption of neoliberal policies in the LDCs is closely linked to the attempt to attract investment and capital. In the absence of this, the majority of developing countries are trying to integrate themselves into the nearest economic bloc.

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[36]Whose satellites may also be Israel, Saudi Arabia, Latin America and once again the Asian NICs.

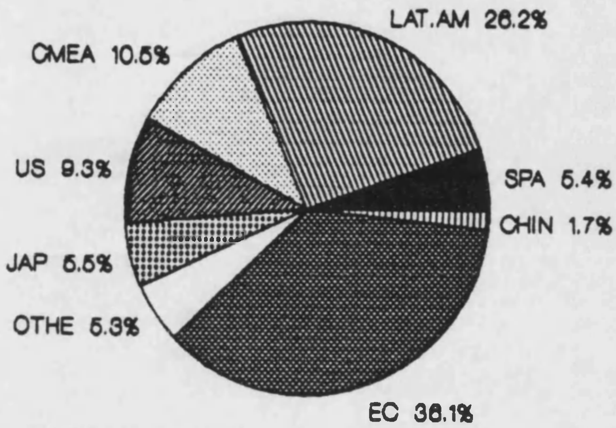
[37]See Sebastian, 1987.

Paradoxically, in a world which is increasingly interconnected, belonging to one or another bloc is conditioned by geographical proximity. Geopolitics is one of the factors which most distinguishes the Spanish case from the Argentine; whereas Spain has the possibility of incorporating itself into the EC, Argentina finds itself with no alternative but to rapidly integrate with Brazil.

The EC is the example par excellence of regional integration. Launched in 1948 as an agency of the UN, the Organisation for European Economic Recovery (later the much enlarged OECD) distributed Marshall Aid that was loaned to Europe by the USA between 1948-52. There were two motives behind US policy: the Cold War and the expansion of communism in Europe, and the need to coordinate economic and social policies in a Europe suffering from problems of inefficiency due to the scale of its markets and economies. There were a number of attempts to create a customs union, which failed because of tensions between different countries, above all with the UK, given its ties to the Commonwealth. Finally, in 1957, the six members of the European Coal and Steel Community (ECSC)[38] signed the Treaty of Rome. The basic objective of the treaty was to create a supranational body which would regulate a real economic union and common market. The member countries had a 12 year transition period to dismantle intra-community tariffs and to implement common policies. The areas covered by these policies were: trade with third countries, agriculture, transport and coordination of economic policies, the avoidance of problems in the balance of payments. A social fund and a European Investment Bank were also established, as was a

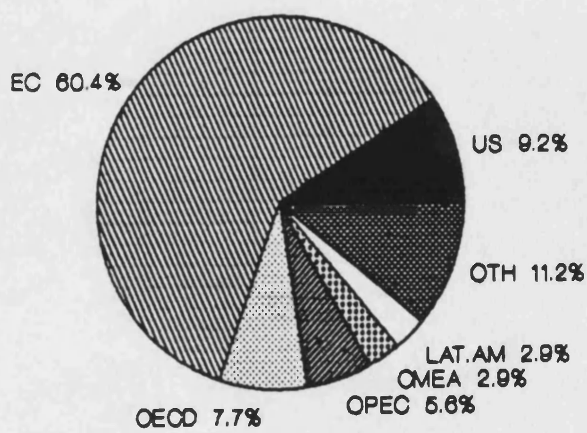
[38]West Germany, France, Italy and the Benelux countries.

FIGURE II.7.1.:
Argentinian markets, 1976-80.



Source: Table II.3

FIGURE II.7.2.:
Spanish markets, 1986.



Source: Table II.4

body of institutions -the European parliament, the Council of Ministers, the Commission and the Tribunal of Justice. In 1973, Denmark, Ireland and the UK left the European Free Trade Area (EFTA) and joined the EC. Subsequently, Greece (1981), Portugal and Spain (1986) were also admitted.[39]

Spain's entry was vetoed because of the economic sanctions imposed by the EC against General Franco's dictatorship. Contrary to what Whitehead (1986) maintains, the role of the EC in the democratic transition should not be exaggerated. Spain signed a Preferential Agreement in 1970, when the dictatorship was in full swing. The treaty's content was purely commercial, and was very beneficial to Spain rather than to the EC.[40] As can be seen in table II.4 and II.5, and figure II.7.2., already in 1973 around 45%-50% of both imports and exports were of European origin. This is, Spanish dependency on the EC was happening much earlier than 1986, the year in which the country formally joined the Community.

The entry of Spain into the EC dates from 1986, and was seen as a victory for democracy. Membership into the EC was on the mind of every Spaniard, as a result of the developmentalist mentality of the 1960s-early 1970s that encompassed the idea of becoming European. This explains why Spain sought rapid

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[39]For a historical review, see Buchan,D. and Colchester,N. 1991: Europa relanzada, Madrid, Plaza y Janés; Fontaine,P. and Malosse,H. 1991: Les institutions Européenes, París, Retz; Nicoll,W. and Salmon,T. 1994: Understanding the new European Economy, London, Harvester; Nugent,N. (ed.) 1993: The EC, Oxford, Blackwell & Journal of Common Market Studies.

[40]The tariffs on Spanish products were reduced by between 40% and 70%, while those on EC products fell by just 26.7%. Thus, the agreement represented a substantial increase in exports for Spain, in exchange for a simple substitution of imports in favour of EC products (Montes, 1991:243-244).

integration into the Community on fairly onerous terms. Entry into the EC was in the programme of all political parties given that its benefits were unquestioned, never debated, assumed by everybody, and above all taken to signal the end of Spanish underdevelopment. However, the advantages of integration have not yet shown themselves in the short run.

The trade deficit has grown since 1985, rising from 1.4% of GNP to 5.7% of GNP in 1992 (figure II.3). From 1985 to 1989, total imports grew 127.7% (169.3% for those coming from the EC) while exports grew by just 33.3% (75.7% for exports to the EC)[41]. Moreover, entry into the European Monetary System (EMS) has forced the government to keep an overvalued parity for the peseta at the price of a loss of autonomy in determining domestic economic policy.

The core of the Spanish-EC agreement was the industrial and agricultural sectors. The agreements in the agricultural sector were the most complex and far-reaching, since this was the most protected and regulated sector in the EC (receiving 67.2% of the total EC budget) and Spanish competition signified some social and economic disturbances for some countries in the EC. The incorporation of Spain and Portugal into the EC involved an increase of 30% in the cultivable area and a 25% increase in the agricultural workforce, while the increase in the number of consumers was just 14%, and their level of consumption was substantially below the community average. The Common Agricultural Policy (CAP) does not affect all agricultural products equally, but mainly regulates products from the

[41]Montes, 1991:261-262.

temperate zone. Much of Spain's produce is of a Mediterranean nature, and therefore is subject to lower levels of protection. Thus, wine, fruits, vegetables and oils compete with European agriculture. This has meant that these are precisely the businesses that are most vulnerable, and that have been regulated by very long periods of transition -ten years instead of seven- to the detriment of Spanish producers. With respect to meat and dairy produce, Spain has found itself at a disadvantage in the EC.[42] Altogether, the Spanish government did not adequately negotiate the conditions of entry into the EC[43].

With respect to the industrial sector, the conditions have been the same for Spanish and EC producers. A reduction in tariffs in eight stages over a transition period of seven years was agreed. In the period 1985-89, imports of consumer goods grew by 296%. However, the imports of investment goods also grew by 201%, although the most marked increase within this group was for transport materials rather than investment in machinery[44]. Concerning exports, the increase has been much more modest, with, paradoxically, transport materials standing out at -100.8%. This will be further dealt with in Chapter V. Summing up, integration into the EC has been negative for Spanish industry. Foreign direct investment was attracted but national industry could not compete with the rapid reduction of tariffs and the overvaluation

[42]Reig, 1991:164-173; see also Barceló, 1989.

[43]Not all negative aspects can be blamed on the Spanish government. Interviews with EC officials reflected that part of the bad negotiation comes from the existence of parallel markets. The existence of a large black economy in Spain (see chapter IV) make that Spanish quotas are smaller than they should be, given that quotas are based on official data (from interview to M. Landabaso, DG XVI, Commision of the EC).

[44]Montes, 1991:161.

of the peseta.

This brings us to the European Monetary System (EMS). The PSOE government could have pushed for a more prudent policy concerning the peseta's position among the other EC currencies. However, a political gesture by the socialist government to show Spain's pro-European good faith brought the country's rapid entry into the EMS in June 1989. Because of the banks' high interest rates then prevailing, the exchange rate[45] was also high: imports have been boosted further and exports hindered. The government should have counted on the fact that 65 pta/DM was an unreal exchange rate even when considering the 6% fluctuation band mechanism of the EMS. Further, the supposed anti-inflationary effects have been minimal, and after 1989 the government sacrificed the possibility to use the exchange rate as an anti-inflationary tool.[46]

Once tariff and tax (VAT) matters were considered nearly harmonised, the European economies' points of convergence began to centre themselves on matters such as: the levels of inflation, budget deficits, external debt, exchange rates and long term interest rates. There have been no political attempts to harmonise balance of payments deficits, returns on capital, regional inequalities, employment, welfare or other social matters. These objectives indicate the balance of power within the EC: priorities are based on Germany's economic and political interests[47]. However, the options for a country like Spain on

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[45] 65 ptas to the DM.

[46] Alburquerque & Curbelo, 1992:120-124.

[47] Alburquerque and Curbelo, 1992:119.

the periphery of Europe have not proved to be great. An initial balance shows that the effects of integration have been negative. Defenders of the EC argue that the Spanish GDP growth rate was 4.8% for the period 1987-90 compared to only 1.4% during 1981-86 (figure II.2). However, as is explained in chapter IV, this high figure is due to a large expansion of the service and construction sectors, which raises the question of Spain's future international economic specialisation. The sectors that have suffered most from integration have been agriculture and some industrial sectors which have faced drastic restructuring, with high costs in terms of national employment. This again will be dealt with in Chapter V.

For Argentina, the question of regional integration was a much more doubtful alternative. There have been various such initiatives since the 1950s, showing no notable success. The first attempts were launched by ECLA/CEPAL, and were of a technical-economic nature, aimed at taking advantage of economies of scale in production and coordinating trade policies. This took form in 1960 with the creation of the Latin American Free Trade Association (LAFTA) including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The main reasons for its failure were the absence of regional industrial policy and the proliferation of bilateral instead of multilateral treaties. In 1969, the Andean Group[48] strengthened its internal ties in an attempt to reduce the influence of countries like Argentina, Brazil and Mexico, that had a higher level of development. However, the Andean Group did not confront structural questions either, limiting itself to a series of

[48]Bolivia, Colombia, Chile, Ecuador and Peru.

commercial treaties of little relevance. Meanwhile, Argentina and Uruguay signed the CAUCE (the Argentina-Uruguay Agreement on Economic Cooperation 1974), based on a limited programme of tariff reductions between the two countries. Finally, in 1980 there was an attempt to revive LAFTA through the creation of a new agreement, the Latin American Integration Association (LAIA) by the same member states. The debt crisis diverted attention from the attempts at integration, although they did register certain successes. Given that some of LAFTA's failures were corrected[49], intra-regional exports in 1983-85 were 9% of the region's total exports and imports were 15% of the overall import bill. With respect to Argentina, 26.2% of its exports were destined to the region before the debt crisis (figure II.7.1).

The major force for economic integration in South America is MERCOSUR (South American Common Market), between Argentina, Brazil, Paraguay and Uruguay. In 1985, Argentina and Brazil found that their economic problems and strategies were very similar. Both countries were experiencing a transition to democracy, while suffering from very high inflation and large public deficits. The two countries were also experiencing balance of payments deficits, and needed to restructure manufacturing in the direction of exports'. Large external debts, and exposure to IMF "conditionality" were further shared problems that had to be confronted when it came to implementing any desired economic policy. Furthermore, both countries needed economic stabilisation and a package of structural industrial reforms that would allow a degree of economic growth. In 1985 the Austral Plan and the 1986 Cruzado Plan were initiated in Argentina and Brazil

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[49]Multilateral agreements instead of bilateral, tariff barriers against third countries, etc (Mairal, 1989).

respectively to carry out the perceived necessary adjustment. In July of the same year, presidents Alfonsín and Sarney signed the Act for Argentinian-Brazilian Integration in Buenos Aires, that was later ratified in 1988.

Initially, the treaty was an agreement which proposed cooperation and industrial and commercial sectoral adjustment in line with ECLA structuralism. However, in 1989, new presidential elections took place in both countries, and the new Argentine government of Menem and Brazilian government headed by Collor were firmly committed to liberalisation and opening up the economy. This meant a change of direction for MERCOSUR, whose central objective came to be the reduction of tariffs and NTBs, aiming at zero tariffs by December 1994. The date for economic integration was brought forward, abandoning the initial progressive, flexible and gradualist line. Anew series of protocols, signed in successive rounds, was centred on a linear and automatic reduction in tariffs, supposing that the countries would restructure themselves "automatically". In this respect, the differences between Argentina and Brazil are now important. Argentina barely possesses industrial policy tools and its output is in general less competitive than Brazil's. In addition, Brazil has not suffered such a sharp process of deindustrialization as Argentina, and can count on a flexible system of credits to alleviate the counter-productive effects of opening up the economy. Nonetheless, both countries to date have kept to the timetable of tariff reductions.

Ala-Rue and Lavergne[50] classify the 23 protocols signed by

[50]Ala-Rue and Lavergne, 1991:16.

1991 into five thematic categories: (a) those oriented towards stimulating intra-market trade; (b) scientific and technical agreements; (c) infrastructural accords; (d) agreements governing structural and sectoral coordination, the creation of a single currency in the long run etc; and (e) other measures of a cultural nature (table II.6). It is important to point out that up to 1991 social aspects have remained absent. Not a single protocol has been drawn up on labour regulations. However, protocol XXIII assumes the free mobility of people between borders by December 1994. This is greatly detrimental to Argentine trade unions. Despite the fall in real wages, open unemployment is still low in Argentina compared to Brazil, Paraguay and Uruguay. Argentine and Brazilian unions are trying to coordinate their efforts, but because of their lack of resources and their different organisational structures, progress has been slow. As will be seen in Chapter III, Argentina's trade union structure is centralised and hierarchical; in that, all the unions in the various economic sectors are coordinated through the CGT (General Workers Union). In contrast, in Brazil each region has its own independent union structure. In various interviews that have taken place, Argentine trade unionists have pointed out the problems with coordinating two such different organisations. [51]

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[51] On the other hand, from 1989 the CGT has been split into two factions -the official San Martin CGT, which supports Menem's policies, and the opposition Azzopardo CGT. Since the finances are controlled and distributed by the official faction, there are no funds available to organise contacts with Brazilian unions on the question of integration. Hugo Rojo (non-governmental trade unionist UOM Argentina) comented how his faction was communicating with their Brazilian counterparts by regular post! CGT Azzopardo had many problems in financing meetings. In many cases, they were assisted by international social-democratic institutions (as the Ebert Foundation).

TABLE II.6.

MERCOSUR PROTOCOLS.

PROTOCOL	A	B	C	D	E
I. Capital Goods	*				
II. Wheat	*				
III. Food Supplies	*				
IV. Trade Expansion	*				
V. Binational enterprises				*	
VI. Finances				*	
VII. Investment Funds				*	
VIII. Energy			*		
IX. Biotechnology		*			
X. Economic Studies				*	
XI. Information and mutual aid in case of nuclear accidents and other emergencies		*			
XII. Aeronautic Cooperation		*			
XIII. Metallurgy	*				
XIV. Land Transport			*		
XV. Sea Transport			*		
XVI. Communications			*		
XVII. Nuclear Cooperation		*			
XVIII. Cultural					*
XIX. Public Administration				*	
XX. Currency				*	
XXI. Vehicle Industry	*				
XXII. Food Industries	*				
XXIII. Regional Frontiers					*

Source: Ala-Rue, P. & Lavergne, N., 1991.

KEYS:

A. Trade related protocols, aimed at stimulating intra-MERCOSUR trade.
B. Scientific and technical protocols.
C. Infrastructural protocols.
D. Protocols governing structural and sectoral coordination, the creation of a single currency in the long run, etc.
E. Others.

If Argentina is less prepared economically for integration than Brazil, its social losses promise to be dramatic. What are the Menem administration's motives for taking the initiative and speeding up the formation of MERCOSUR? There seem to be two reasons, namely a recognition of the lack of economic alternatives, and the dismantling of the corporatist system.

The recognition of a lack of economic alternatives lies at the very root of "Menemism". The debt crisis, the failure of Alfonsín's heterodox stabilisation plan, the two harsh periods of hyperinflation and the fall in real wages during the democratic transition gave rise to an opposition which called for orthodox liberal strategies. This came to be the case with C. Menem, who paradoxically put forward his candidature from the Peronist Party, which has a long tradition of state interventionism. "The Latin American 'Bohemia' must be done away with; the countries of the region must modernise themselves and join in the developed countries dynamic"[52]. This rhetoric coincided, not accidentally, with "conditionality" proposals of the international organisations. However, the advantage of a strategy of liberalisation and economic opening up was more theoretical than practical. Figure II.7.1. and table II.3. show Argentina's export markets in the period 1976-80. The major market is the EC, which absorbed 36% of Argentina's exports, of which 73.8% were non-industrial products. Other important markets were Brazil (11.5%), USSR (10.5%) and the USA (9.3%). Argentina's process of liberalisation in the 1980s coincided with a problem of markets. The USSR disintegrated, while trade with the EC and the USA, overwhelmingly agricultural, has held up but still dependent on the results of the GATT negotiations. On the other hand, the opening up threatens industrial production if it is not balanced by compensatory policies. The only other trading partner to note is Brazil, whose 41.9% of exports are industrial.

[52]C.Menem, in Alá-Rué and Lavergne, 1991:21.

Integration with Brazil is, in addition, part of the dynamics of regionalisation in the world economy. President Bush indicated the possibility of creating a continental union in the future -the Initiative for the Americas. The origins are to be found in the Republican Party's critique of Carter's foreign policy. The Santa Fe Documents (SFI and SFII in 1980 and 1988 respectively) condemned the passivity of the Carter administration towards the advance of communism in Guyana, Jamaica, Granada and Nicaragua and towards the guerrillas in El Salvador, Guatemala and Peru. Therefore the documents proposed forging closer relations within the continent, based on the establishment of bilateral relations between the USA and the 21 countries from Canada to Argentina. According to these documents, the USA would have to offer preferential tariff treatment to all Latin America's agricultural and some of its industrial products. This would generate foreign exchange which could then be used to service foreign debt, thus reducing the need for new credits. The documents condemned statism, and advocated liberalisation, privatisation and the integration of those countries which are most similar, like Argentina and Brazil. In 1988 SFII also maintained the emphasis on anti-communism, and underlined the need to support democratic governments.

In June 1990, Bush met Latin American ambassadors at the White House officially to discuss the Initiative for the Americas, promising in addition to provide support in the GATT talks. This is related to the dynamics of the Uruguay Round itself. Faced with EC reluctance to liberalise agriculture, the USA has threatened to strengthen its measure of protectionism. The Initiative for the Americas, then, is a USA catch-phrase in case the Uruguay Round fails. If this does not happen, the USA will have lost nothing, since for the moment there have only been promises of cooperation, and the development of a Latin American market is, in any case, in the interests of the USA.

We turn now to the political rationale of integration. One of the key problems in liberalising such an interventionist economy as Argentina's is its corporatist social organisation. By highlighting the lack of economic alternatives and speeding up the process of integration, the Menem government has been able to take decision making power away from the usual channels. In a country where both businessmen and trade unions have substantial power to lobby the government, this can be a useful means of implementing liberalisation policies. Businessmen have responded differently to the moves, depending on whether their sector has benefited from integration or has lost out. In general, their attitude has been to wait and see, given the lack of compensatory finance made available by the state. The vice-secretary of state for industry stated that Argentina's businessmen were well suited for competition, since they had survived "Martínez de Hoz's exchange table, two hyperinflations etc ...; they are not going to have problems with this challenge."[53] Argentina's budget deficit does not allow, in reality, large-scale compensation. Entrepreneurs have intervened in the drawing up of the protocols, seeking to ensure favourable conditions. This fact has no parallel for the unions, as has been noted earlier. Integration with Brazil has been used by the government as part of its manoeuvres to reduce union bargaining power. The dismantling of the very paternalistic labour system and the promise of lower labour costs has been a way of

[53]Pereyra de Olazábal, in Ala-Rue & Lavergne, 1991:41.

compensating the business sector without increasing the budget deficit.

In conclusion, the increased global integration has brought with it an increase in dependency. The room for manoeuvre for governments on the periphery or semi-periphery gets less as time goes by. Whereas the countries of the Centre like Japan, Germany, and the USA (which has maintained its hegemonic leadership in the world), retain degrees of mutual interdependence, the non-central countries maintain a unilateral dependency. If they find themselves more or less integrated into the world economy, their internal policies are easily influenced by changes taking place in the Centre. Such is the case with both Argentina and Spain. The former has seen itself sharply affected by the external debt crisis and the fall in primary product prices, and the latter by the oil crisis and integration into the EC. Moreover, the processes of economic liberalisation carried out by the governments of both countries have increased their relative degree of dependency in the last decade.

This does not mean that these states are totally vulnerable to outside developments. As will be shown in Chapters III and IV, the governments of both countries have known how to use external conditions as a justification when implementing adjustments in domestic policies. The Menem administration is using the argument of a lack of economic alternatives to abolish subsidies to certain industrial and social groups, and is using integration into MERCOSUR as a means to assist the dismantling of Argentina's corporatist state. In Spain, the idea of modernisation and entry into the EC have been present throughout the democratic transition, and have been presented as justifying every transfer of economic power from one group to another.

The processes of liberalisation, that is to say the dismantling of an old system of production to regulate a new one with other priorities and different social winners and losers, will be analyzed in Chapter V. Looking at the transformations in the productive structure, the new tendencies for Spain's and Argentina's international specialisation will be indicated. As has been pointed out throughout these pages, it is an error to analyze these countries in terms of the interventionism-liberalism binomy.

The ethos of western policy makers after the 1970s recession has been increasingly liberal, and given global interdependence has been extended to the majority of countries. However, the world economy is very far from advancing towards liberalism. The strengthening of the CAP in the EC, the increased use of NTBs, the patents system, the proliferation of Multifibre Agreements during the 1980s, the protection of the developed countries against LDC textile production... these are some of the examples of the scant success of the principles of liberalisation, non-discrimination and multilateralism advocated by GATT. The 1970s crisis brought with it an attempt to reduce the scope of state activity in the economy, privatising the most inefficient companies, subcontracting to private firms and reducing excess regulation when they impeded international trade. But in most countries liberalisation has meant the removal of protectionism from some sectors to promote others; the only sectors that have been abandoned to the fate of market forces have been those that for one reason or another were considered not to be of national interest by their governments. The result is that the debate on interventionism vs. liberalism has to be treated with care, since it can obscure more than it clarifies. In peripheral countries like Spain and Argentina, economies that in the 1960s and 1970s were examples of Keynesianism in accordance with the rest of the western countries, liberalisation and modernisation have been political tools to take protection away from some sectors in favour of others.

CHAPTER III: THE ECONOMIC TRANSITION IN ARGENTINA

This chapter will focus on Argentine economic policy-making. It will concentrate on domestic developments that should be understood in the context of the world economy as discussed in chapter two. It is not the intention of this chapter to separate internal from external factors, nor to adopt a liberal or *dependentista* perspective. Following the international macroeconomic setting analyzed in the previous chapter, special attention will be given here to domestic institutional factors that conditioned policy outcomes. For this discussion, it will be necessary to first provide a brief review of the features of the Argentine model of growth. The next sub-section deals with the subsequent corrections of ISI policies. This presupposed the alteration not only of the economic structure but also of the political system. The chapter will show that the "liberal" economic policy by the 1976-82 military regime prompted political change. A badly implemented liberalisation programme provoked political crisis, ending with the Falklands/Malvinas conflict, the nationalisation of external private debt and the military themselves abandoning government. Precisely, this analysis will look at the interaction between politics and economics in order to appreciate the shifts in the model of accumulation. The next section will consider the evolution of macroeconomic policy under the democratic regimes of Alfonsín (1983-89) and Menem (1989-). It analyzes attempts to control macroeconomic variables and the structural changes resulted from initial liberalisation and subsequent de-regulating impulses. However, it is too early to determine whether a new model of accumulation has emerged. If the 1930s crisis created ISI and corporatism, the 1980s crisis is generating a new system that is not yet fully evident. This topic will be further analyzed in chapter V.

III.1. THE ARGENTINE ACCUMULATION MODEL, 1945-82

As seen in chapter I[1], Argentina's successful agro-exporter model created some conditions for industrialisation. It generated an internal market whose demand was initially satisfied by importing goods. However, the two World Wars plus the thirties depression reduced the volume of international trade, and allowed the emergence of some local manufacturing. Faced with this situation, the government had two alternatives: either to wait for the recuperation of international markets or to try a new pattern of development. Although the state represented agrarian interests, it started supporting secondary and tertiary activities after 1930 as an emergency measure[2]. After the 1943 *coup*, these activities were encouraged through programs of deliberate import substituting industrialisation (ISI). An associated enlargement of the state caused strong opposition among the agricultural elites. However, growth in the role and size of the state was politically feasible due to the support of both entrepreneurs and workers[3]. Thus, Argentina developed a new social order, in accordance to the world trend of promoting welfare through Keynesian policies.

A model of accumulation based politically on co-optive

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[1]See section I.4.

[2]The most relevant one being F.Pinedo's keynesian style project, the "Programme for the reactivation of the National Economy" of 1940. The Plan Pinedo was based on the idea that the state should purchase those agricultural surpluses that could not be sold in the international market. Pinedo's team knew that this would not be enough to reactivate the economy, so an extensive program of public expenditure was also started, mainly for housing. In parallel, the role of the Central Bank was changed in a way that it could provide easier medium and long term credit to help stablished developing industries. However, few of Pinedo's policies were implemented, given the primacy of agroexporter interests.

[3]See Bergquist, 1987.

social pacts and economically on the taxation of agricultural surpluses[4] was consolidated under colonel (later general) Perón during the latter part of the 1943-46 period of military rule and more particularly after his victory in the 1946 elections. This model also supposed the creation of a nationalistic civil-military order based on an expansive economic policy. In this way, Argentine society evolved as a constellation of conflictive sectors grouped around the state. These groups organised their interests in corporations which were coordinated by the government. Major economic "guilds" were (and are): SRA (Argentine Rural Society), UIA (Argentine Industrial Union), CGT (General Workers' Confederation), ADEBA (Association of Argentine Bank Businesses), CAC (Confederation of Argentine Commerce) and CACON (Cofederation of Argentine Construction). Distribution conflicts amongst these sectors, without the moderating element of the international economy, created sharp alterations in prices, persistent inflation and sceptical social behaviour based in the short-run decision making.

After 1951/52, when the country had the first balance of payments crisis since the promotion of ISI, the model led to periodical crisis after which short-term stabilisation plans were required. This appears to be the main reason why Argentina had so many changes in government. After an economic expansive stage, a new administration would follow with restrictive policies. Usually, the new government would be constituted by some group of the military less committed to all embracing social alliances (i.e., including the strong Peronist trade unions). However, although there are many ideological differences in the fourteen

[4]See the classical study of Smith, 1968: Politics and beef in the Argentine.

administrations that have held power since 1945, there has been much common ground, notably a general commitment to ISI. The system may not have been very efficient, but it succeeded in creating a growth in national industries, an enlarged market and more extensive welfare provision. Nevertheless, efficiency was not Perón's goal nor many of his successors: Argentina's inward-looking industrialisation was institutionalised by the military and thus nationalistic values conditioned development (i.e. promotion of steel, atomic energy, etc). The model worked in cycles of expansion and contraction -the so-called economy of stop-go. One of the central problems this created, the fiscal deficit, was only corrected but never solved. Since the state was at the core of Argentine development, fiscal resources lagged behind expenditures and governments were compelled to increasingly make use of borrowing and inflation taxation.

III.1.A. THE PUBLIC SECTOR

Over several decades, the Argentine economy developed thanks to state intervention. This was done through subsidies to both industry and consumption, i.e. income distribution measures. The public sector expanded notably during Perón's presidencies (1946-52, 1952-55). This expansion was financed from reserves accumulated during the Second World War (especially during the early years of his first presidency), revenues from the social security system and the consumption of public capital. One of the instruments for this policy was state banks (Banco Industrial and Banco Hipotecario, which supplied more than 50% credits absorbed by manufacturing and house building). In 1951/52 the state encountered its first external crisis and an important fiscal deficit. This was to become a constant in Argentine economic history. After 1952, governments had to obtain funds either from borrowing or issuing paper money -the so-called inflation tax (1952, 1959-61, 1971-onwards); the levels of inflation and/or debt depended largely on the extent to which an administration was prepared to pursue expansionary policies.

The Argentine tax system is legally sophisticated but operationally ineffective. This lack of congruence results mainly from the country's high rates of inflation (therefore consequent collection lags) and the quantity of tax incentives and exemptions. In the last twenty years, tax collection covered only 56,6% of public sector expenditure. The most effective reform was implemented in 1979-80 when Martínez de Hoz headed the Ministry of the Economy, and the collection coefficient reached 75% of public sector expenditure. However, after 1980 this proportion declined again. Table III.2 shows the structure of the Argentine tax system from 1970-82. Income and capital gains taxes are relatively unimportant and most revenues come from social security and consumer taxes, mainly VAT[5]. This bias in the system towards indirect taxation is worsened by the fact that the tax evasion rate was calculated at around 50-90% (depending on the years and sources). Taxpayers behaviour seems to be influenced by an expectation of periodical *blanqueos* (tax amnesties) that were applied by most new governments on assuming power.[6] Thus, it appears that Argentina economic development fully justifies increasing direct taxation.

With respect to public expenditure, table III.1 shows the

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[5]The general rate of VAT was 20% until 1983 after which it was reduced to 18% by decree n.2,555.

[6]Even when *blanqueos* were not given, the tendency to levy interest charges on tax debt below the market interest rate still made tax evasion profitable.

important expansion in the period 1970-83. The state increased its role into the economy as a way of encouraging economic activity. This was achieved by subsidising prices to industry[7], actively promoting particular industrial sectors[8] or provinces[9], generating domestic demand[10] through housing development programs[11], the extension of social security benefits[12] and by the expansion of state employment. By 1975, this had created an inflationary boom and short-run external debt. In terms of percentage, the main items of this expansion in public expenditure were: allocations to provincial administrations (49%), grants to public enterprises (26.4%), national administration expenditure (20.2%) and social security (4.2%)[13].

The Argentine fiscal deficit has been a constant feature of the political economy since the 1950s. However, to evaluate fiscal policy only from the viewpoint of its deficits would be an oversimplication. Before the 1982 debt crisis, the Argentine state had overall deficits, but still accomplished many objectives: it met social needs, stimulated employment, developed

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[7] i.e. energy charges by law 17,597/67, and distribution costs through the creation of the National Fund for Transport Infrastructure (FONIT) in 1972.

[8] Law n. 14,781.

[9] Law n.19,640.

[10] The "buy national" law n.18,875/71.

[11] The creation of the Housing National Fund (FONAVI) in 1972 by law n.19,929.

[12] Law n.18,610/67.

[13] Ministerio de Economia BA, 1989.

TABLE III.1.:

ARGENTINIAN PUBLIC SECTOR FINANCING AS PERCENTAGE OF GNP, 1970-86, SELECTED YEARS.

	1970	1975	1980	1981	1982	1983	1984	1985	1986
Resources	23.3	15.8	27.8	25.5	23.4	23.6	22.8	27.9	28.1
* Tax	19.4	13.6	23.3	20.4	18.7	18.7	18.1	22.0	22.9
Others	3.9	2.2	4.5	5.1	5.0	5.0	4.7	5.9	5.2
Expenditure	25.1	31.2	35.3	38.9	38.5	40.4	35.6	33.8	31.7
Fiscal Deficit	1.8	15.4	7.5	13.4	15.1	16.8	12.8	5.9	3.6
Way of financing deficit:									
* Borrowing	0.9	1.8	3.4	8.3	6.4	-1.5	-1.1	0.6	2.9
* BCRA (*)	0.9	9.8	3.5	5.1	4.8	15.4	5.8	2.3	---
* Others	---	3.8	0.6	0.1	3.9	2.9	8.1	3.0	0.7

(*) Central Bank issuing paper money ("inflationary tax")

Source: Presupuesto General de la Administracion Nacional, 1987.

industry, promoted welfare and redistributed income.[14] Although fiscal deficits were a source of macroeconomic instability, it does not imply that a fiscal balance would have been the optimal solution. The system worked in its own way, meeting short-term solutions to imbalances. However, when the state took on the responsibility of the external debt by nationalising it, the mechanism no longer functioned effectively. It was as if the state became a bankrupt company that could not meet its obligations. Table III.3 shows the resultant reduction in public investment in the 1980s compared to the 1970s. The most affected sectors were industry (100% reduction from the 1971-75 level), social security (93.5% reduction), defense (79.6% reduction), administrative services (52.4% reduction) and transport (45.6% reduction from the 1971-75 level).

On the other hand, table III.1 also shows the evolution of

[14]See Mesa-Lago, 1977.

TABLE III.3:

EVOLUTION OF ARGENTINIAN PUBLIC INVESTMENT: TOTAL AND ECONOMIC SECTORS, 1976-85, BASE 100 = MEAN 1971/75.

3.1. ECONOMIC SECTORS:

YEAR	TOTAL	ECONOMIC SECTORS						
		TOTAL	ENERGY	TRNSPT.	TELEC.	INDUST.	AGRIC.	OTHERS
1976	125.4	123.1	143.8	122.3	43.8	122.3	88.2	36.7
1977	141.2	133.8	155.8	120.6	125.1	111.6	117.6	41.3
1978	132.6	121.5	153.5	106.4	115.6	45.1	117.6	45.9
1979	120.2	108.6	126.5	102.2	146.9	45.1	117.6	36.7
1980	111.2	108.2	127.1	82.9	203.1	53.6	58.8	36.7
1981	101.2	95.5	120.8	71.2	184.4	6.4	58.8	32.1
1982	98.4	102.2	141.6	70.4	143.8	2.1	58.8	27.5
1983	91.5	93.7	127.1	62.8	143.8	2.1	29.4	50.5
1984	76.3	87.7	111.9	85.4	90.6	0.1	29.4	41.3
1985	68.4	78.4	111.5	54.4	71.9	0.0	88.2	41.3

3.2. SOCIAL AND OTHER SECTORS:

YEAR	SOCIAL SECTORS				OTHER SECTORS		
	TOTAL	HEALTH	EDUC.	SOC.SEC.	TOTAL	ADMINIST.	DEFENSE
1976	98.6	300.1	80.1	77.9	165.6	35.7	185.9
1977	109.3	250.1	100.1	116.9	223.5	95.2	243.5
1978	111.1	350.1	113.3	90.9	231.5	119.1	249.1
1979	77.1	250.1	113.3	19.5	242.8	142.9	258.4
1980	78.9	300.2	106.7	19.5	162.4	107.1	171.1
1981	53.8	250.1	106.7	13.0	184.9	95.2	198.9
1982	39.4	100.2	86.7	6.5	123.8	83.3	130.1
1983	48.8	150.1	106.7	13.1	114.1	107.1	115.2
1984	30.5	100.0	73.3	0.0	35.4	83.3	27.9
1985	37.6	100.0	93.3	6.5	24.1	47.6	20.4

Source: Informe sobre la Inversion Publica Nacional, 1986.
Contaduria General de la Nacion, en Carciofi, 1990.

the fiscal deficit. In 1980 it was 7.5% of GNP, relatively low compared to 1975 figure (15.4% of GNP). Although fiscal expenditure increased in the period under Martínez de Hoz, fiscal resources also grew thereby making it easier to manage the fiscal deficit. However, in 1981 and especially in 1982-83, the fiscal deficit expanded greatly (16.8% of GNP in 1983), because previous policy commitments, the Falklands/Malvinas war and the transition to democracy. When borrowing became negative in 1983, the only alternative was to make use of the inflation taxation. The Alfonsín government was left at a crossroads, where the management of inflation had become a political promise of the democratic government, and needed to be corrected. However, there were no other means to finance the state. The only solution was to cut state expenditure. Under Menem's presidency, the public deficit was reduced to 5.1% of GNP in 1990 and has been calculated at 2.17% for 1991 and 0.17% of GNP for 1992,[15] this is, the lowest deficit since 1970. The paradox of the Argentine political transition has been that democratic governments had have to effect reforms based on the most regressive income distributional measures of the last decades and to cease making transfers that promote economic and social equity.

III.1.B. THE INDUSTRIAL SECTOR

Going back to the 1940s, the key to Perón's new economic strategy was the development of an industrial sector and a parallel welfare system. Domestic industry was encouraged not only for the supply of goods it could provide, but also by its

[15]UN CEPAL estimations, 1992. Estimations coming from pro-Menemist research centres increase even more the reduction of the Argentine public deficit, -1.8 million of Oct.1992 pesos in 1990 (this is, 1.8 million pesos surplus), -1.6% million peso in 1991 and -2,8 million pesos in 1992 (CEI, 1993:46).

capacity to distribute income and to create national demand. In this way, an expanded industrial urban sector absorbed 72% of the economically active population by 1947, leaving unemployment at only 2.8%. In 1980, non-agricultural activities occupied 85% of the work force.[16] *Per contra*, protected Argentine industries were not internationally competitive. Their development depended on the extension of the domestic market. Even in the case of progressive income distribution policies aimed at increasing demand, the national population is/was relatively low: in 1950, 15 million, in 1980, 27 million -see table I.1. This defines one of the main characteristics and constraints of Argentine industry: its small-medium scale given the small size of the domestic market.

Moreover, the industrial sector faced other problems. On the one hand, while part of the industrial expansion strategy 1945-75 was executed in order to create an internal market, there seldom was an excess labour supply. Thus, entrepreneurs did not accumulate on the basis of low labour costs but rather on subsidised credits and loans. Since inflation became a chronic phenomenon in Argentina after 1943, real interest rates became negative and fixed by the state. Without them, there would have been insufficient investment. On the other hand, the industrial sector was unable to export and thus, unable to obtain foreign exchange. Yet it still required technology, capital goods and various inputs which had to be imported. Moreover, in view of the scale of industry, these technological imports may not have been totally appropriate since they were created for large-scale industries.

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[16]Palomino, 1987:36.

Prices did not reflect these structural inefficiencies. Prices were fixed within the logic of domestic oligopolistic markets, adding an entrepreneurial profit rate to costs. Both wages and profits were subject to collective bargaining, supervised by the state[17]. This system of social pacts created the paradox that both profits and wages did not depend on market performance but instead on bargaining power.

It is important to note that the "logic of industrial investment" is very different from that of developed market economies. The environment is highly unstable, and entrepreneurs are even less able to predict or control the evolution of relative prices, the balance of payments situation and inflation. This high risk could only be compensated by state subsidies and fiscal relief. This can only be provided by a strong state able to supply such resources. It will be argued that this is why the system came to an end when the government nationalised external debt in the 1980s and the fiscal deficit became even less manageable.

III.1.C. THE AGRICULTURAL SECTOR

Compared to the protected industrial sector, the main benefits for the agricultural sector came from exports. The agricultural sector supplied not only the domestic market but also international demand. That is, until the 1980s, it was the main source of foreign currency to the country -along with external borrowing, FDI and private remittances. This demonstrates one of the particularities of the Argentine economy: it fully depends on the success of the primary sector. From the

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[17] Cavazzoni *et al*, 1984:15-25.

agro-export sector, the state got not only foreign currency but also a constant supply of tax resources to finance industrial development. Further, another way of transferring capital from rural to industrial activities was the use of relative prices. The state would retard the exchange rate in relation to the inflationary increases of both wages and industrial prices. This would affect not only agricultural exports but also the balance of payments, which required periodic short-term stabilisation plans to correct their resultant imbalances.

Agricultural prices are mainly determined by the price of primary commodities on the world market: Argentine producers are price-takers. As described in chapter II, this is why a reduction in the world price of primary products would seriously affect state policies. This is not only related to taxable benefits but also to wages. In 1960, 60% of family income was spent on food and beverages; in 1974, 46.3% and in 1988, 40.1%[18]. Although these figures show the reduction as it relates to family expenditure on food, it should be noted that these national averages do not reflect social differences, so the percentage for working-class families would be much higher. Thus, a rise in primary prices causes a fall in non-food real income and therefore a fall of domestic demand for industrial products.

Up until the mid-1960s, the agricultural sector had a fixed supply. Economic cycles were not only linked to world prices but also to climatic changes. This was due to an unhelpful state policy for rural development. Making comparisons with Australia and Canada, Argentine land-owners rarely introduced fertilisers,

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[18] INDEC, 1989, on Gutman & Gatto, 1990:18.

machinery or any other technologies. This was a result, firstly, of heavy taxation in Argentina, while Australian agriculturers were getting subsidies to improve productivity as part of the Commonwealth policy of international specialisation. Secondly, the concentrated structure of land-ownership in Argentina seems to have reduced entrepreneurial incentives since annual family profits were secured[19]. In fact, the quantity of meat and corn exports was determined by the surplus above domestic market demand. Rural entrepreneurs did not plan trade strategies: the simply exported whatever was not consumed nationally.

III.1.D. THE DYNAMICS OF STOP-GO

Based on a simplified two-sector model of the Argentine economy, several economists have pointed out another characteristic of the system: it functions on short-term cycles of expansion and contraction[20]. Looking at the evolution of Argentina's rate of growth, its cyclical pattern allowed social scientists to talk about the dynamics of "stop-go".

Until the mid-1970s, the dynamics of the system were the following. In an expansive stage, there was a fast development of industrial activities which increasingly demanded more and

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[19]For a comparative perspective of institutional factors between agroexporter countries (Argentina, Australia, Canada), see Fogarty, 1985.

[20]Braun and Joy, 1968: "A model of economic stagnation. A case study of the Argentine economy" in The Economic Journal, n.312; Canitrot, 1981: "Teoria y practica del liberalismo: Politica antiinflacionaria y apertura economica en la Argentina 1976-81" in Desarrollo Economico, n.83, vol.21, Buenos Aires, IDES; Díaz-Alejandro, 1963: "A note on the impact of devaluation and distribution effect" in Journal Political; Sidrauski, 1968: "Devaluacion, inflacion y desempleo" en Economica, vol.XI, La Plata; Thorp and Eshag, 1965: "Economic and social consequences of ortodox economic policies in Argentina in the post-war years" in Bulletin of the Oxford Institute of Economics and Statistics, vol. 27, n.1. For a good critical review of these papers, see Katz and Kosacoff, 1989: El proceso de industrializacion en la Argentina: evolucion, retroceso y prospectiva, Buenos Aires, CEPAL.

more imports, until there was a balance of payments deficit, as the costs of technology imports became higher than the foreign currency reserves and earning provided by primary exports. In parallel, this growth of urban industrial activity generated an increase in employment and real wages. The positive effects of boosting demand had negative aspects as well. This results from the fact that, up to a point, demand boosting led to an increase in the consumption of primary products, followed by a reduction in agricultural exports. This would reduce the quantity of foreign exchange available and worsen problems in the balance of payments.

At this point, the recommended measure was a devaluation of the peso. Theoretically, a devaluation would modify the relative prices of both imports and exports, which would automatically correct deficits of the balance of payments. A Classical analysis would also point out that a devaluation would increase the competitiveness of exports, which would have an expansive effect within the domestic economy. However, theory and reality are often mismatched. The particularities of the Argentine system meant that devaluations generated a fall in economic activity, and an increase in inflation and unemployment. This is what Díaz-Alejandro and others[21] started analyzing by the mid-1960s. A devaluation promoted a relative fall in agricultural prices. However, this would not automatically produce an increase of exports since output only responded sluggishly to price signals. Only a reduction in the levels of domestic demand could facilitate a quantum growth in exports. On the other hand, industrial prices should fall, but in reality, did not; what did

[21]See footnote *20*.

fall was industrial output. Entrepreneurs adjusted through production volume and not through prices. Instead of responding to the reduction of demand by cheapening products, what factories reduced was their output. Moreover, prices had a tendency to rise since imports were more expensive. This is the main cause of the so-called "structural inflation". The contraction of industrial activity increased unemployment. Further, it promoted a regressive distribution of income; as domestic prices increased, nominal wages were stable but wages in real terms fell.

Whether the consequences of devaluation were or were not fully understood at the time, the fact was that devaluations solved problems in the balance of payments. On the one hand, the drop in productive output reduced the demand for imports. On the other hand, the contraction of real wages reduced domestic demand and thus increased agricultural exports. Then, a new expansive cycle could be initiated.[22]

III.1.E. CORRECTIONS OF ISI

This is how economists saw the Argentine economy by the 1960s. The question that arose was how to solve these structural imbalances. There were several answers and all of them were applied at different times between 1960-80. The first solution was to expand the supply of agricultural products by increasing productivity and thus generating more exports. The second solution was to modify industry. This was done by encouraging increased competitiveness and the promotion of manufactured exports through new state subsidies and industrial deepening, namely, domestic production of basic goods and technology so as

[22] Katz & Kosacoff, 1989:45-66.

to lessen the need to import. The third solution was a totally different alternative: to reduce state intervention and to specialise internationally in primary commodities; that is, to abandon previous policies and to welcome liberalism. It is very interesting to note that all political parties agreed on the first two solutions, regardless their ideologies. Peronists, Radicals and military administrations in power during the late 1960s-early 70s supported economic programmes to implement such policies. The third solution was one which caused conflict. It was only supported by some neo-liberal sections of the military, and was finally but irregularly implemented under dictatorship of 1976-82.

The static supply of agricultural products was modified during the 1960s-70s. All parties became aware of the slow erosion of the Argentine natural competitive advantage in agriculture, and the importance of changing supply and efficiency via technological innovation. Governments encouraged substantial structural changes. The creation of the INTA[23] in 1957 and of the CREAs[24] promoted the introduction of genetic, biotechnological, mechanical and chemical improvements for primary production. On the other hand, the state granted rural credits for the use of these technologies and to promote exports. Governments also encouraged the extension of the mix of agricultural products. New agroindustries were created and the use of new marketing techniques were encouraged[25]. An increase

[23]National institute of Agro-fisheries Technology (Instituto Nacional de Tecnologia Agropeacuaria).

[24]Rural Councils of Experimental Agriculture (Consorcios Rurales de Experimentacion Agricola).

[25]Gutman & Gatto, 1990:45-46; Nun, 1987:94.

in productivity was soon achieved and thus supply became more flexible. However, exports did not increase at the desired level given international factors, analyzed in chapter II.

The deepening of ISI was also promoted by all political parties. What became clear however was the fact that while ISI policies had led to a more extensive industrial network, they still had left some empty holes. These gaps were mainly capital goods and basic industrial inputs, which had to be imported and thus generated a pressure on foreign currency reserves. In 1958, under Frondizi's administration, the law 14,781 on industrial promotion replaced the previous decree 14,630 of 1944. This legal framework articulated the exploitation of Argentina's natural resources and the equilibrium of the balance of payments through the self provision of industrial inputs such as steel, paper and petrochemicals. This law was adjusted several times up until the end of the 1980s, expanding its action to increase the competitiveness of particular industrial sectors and to promote preferential regions and small and medium enterprises (SMEs), but overall it kept its original sense of developing an Argentine basic industry. This will be further analyzed in chapter V.

III.2. THE MILITARY (1976-82): LIBERALISM AND SOCIAL ORDER.

Until a further initiative was attempted in 1986, Perón's death in 1974 was taken as marking the failure of the last social pact. From 1955 to 1972, nine different governments repressed Peronism, although corporatism was structuring the Argentine society. Finally, Perón was allowed to return from his exile in Spain and take government again. He came back with a political project inspired on the ideas of social democracy. He tried to build a structured party from the Peronist movement, and to cooperate with other political parties. As the new president, he also tried a social pact to restore economic order. However, the reality he found in Argentina was very different from the one he left in. 1955. In 1945 Perón had a relatively weak and split labour movement, which he converted into a monolithic organisation loyal to his government. In 1973, the CGT was a very strong and powerful trade union, accustomed to leading opposition to government policies. On the other hand, entrepreneurs were not especially committed to Perón, given that most previous administrations had favoured their interests. Although the social pact was signed, it soon disintegrated. Twenty days before his death, Perón threatened to resign from the presidency if social actors were not able to control their corporatist attitudes and try to commit themselves to some common agreement.

However, most social groups did not trust Perón's government. Political parties were not capable of mediating between social groups. There was an erosion of democratic politics. Congress was marginalised. Terrorism increased. This contributed to the problem of governability manifest by the early-1970s[26]. The most important aspect of the crisis, though, came in the economic field. In 1975 prices were rising at an annual rate of 700%, the balance of payments was in deficit, productivity had fallen, lock-outs and strikes had risen and capital flight had increased. Perón's government was condemned, and many social sectors called for the return of the military.

[26]From the 1960s several terrorist groups started oppossing to government's policies. The ideology of these revolutionary armed groups was either catholic or marxist. The most important of them was the so-called Montoneros, linked to the left side of the Peronist Youth. Peron himself used this group from exile as a political tool to desestabilise military governments. However, these groups were incompatible with Peron's socialdemocratic administration, and they kept acting on their own. See Poneman, 1987; Rock, 1987.

Trade unions were disorientated in view of some business strategies[27]. In short, there was a general loss of confidence in existing institutions and policies.

Once in power, the military felt that the problem was deeper than the question of uncontrolled political freedom. The core of the matter was the whole Argentine economic and social system, based as it was on the primacy of an inefficient industrial sector and a general dependence of different social groups on the state. The military were particularly concerned about the power of trade unions. If the legacy of Peronist corporatism was structural imbalance, the most efficient way to eradicate an unsustainable social order was to introduce liberal measures. Many denunciations have been made of the violent political repression carried out during the following years. State terrorism has been itemised in the shocking pages of the Sabato's Report *Nunca Más* (Never more). Labour officials and rank and file members constituted between one half and a third of the disappeared. Military "red-phobia" and its bloody repression of anyone and anything considered radical cannot be forgotten when a balance of the 1976-82 period is attempted. However, the most effective dismantling of labour's power was achieved through freeing market forces[28]. Liberalism promised an ordered, efficient, self-regulated and non-conflictive future in place of acute economic and political crisis. This is how the Armed Forces

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[27]There is evidence, for instance, of businessmen offering higher wages than the increase demanded by trade unions, with the intention of speeding up inflationary processes and thus a change in government (Canitrot, 1983:20).

[28]This supposedly anti-ideological background of liberalism is one of the most stressed points of Argentine Sociologist and Political Scientist, as reflected in the interviews to Cavarozzi (MIT), Iturrieta (AIETI), Rusell (FLACSO) and Schvartzer (CISEA).

embraced liberalism. Liberalism was to become the new right-wing ideology, eclipsing traditional paternalism and nationalistic, autarkic ambitions. At the time, liberalism did not have a political representation in Argentina. However, as a philosophy it increasingly commanded the attention of centre/right intellectuals, the press, businessmen, the military and even some industrialists. The relationship between nationalism and social/economic ideology in the Argentine spectrum may be represented as follows:

	LEFT	CENTRE	RIGHT
NATIONALISTIC	Montoneros	Developmentalism (Frondizi's type)	TraditionalRight Peronism
NON-NATIONAL.	--	Radicals	New Liberal Right

This new liberal right has a parallel in Spain's Opus Dei. How the Armed Forces, or a faction of them, changed their nationalistic ideology, is an interesting point. The main key seems to be the anti-corporatist effect of monetarist policies. There are, however, other factors. The Cold War redefined nationalistic conceptions. The East-West conflict led the Argentine military to stablish close links with the USA. The relationship was further encouraged by the doctrine of National Security, which considers that national internal conflicts are or can be a result of world conflicts -that is, communism. In this project, obtaining new and efficient military technology from the USA was a priority[29].

[29] Peralta-Ramos, 1987:47; Schvarzer, 1986:243.

In the period 1976-83, the military were split into three main factions: (a) The faction led by Admiral Massera which proposed the creation of a nationalistic atmosphere to regain "national cooperation" through armed conflicts such as the Falklands/Malvinas or Beagle Channel; (b) Generals Suárez-Masón and Menéndez who proposed old-style repression of Peronist unions; (c) Generals Videla and Viola, the faction which took power, were the least nationalistic, and wanted to promote economic change and recovery through liberal measures[30]. However, all of them retained some interventionist attitudes. Their conception of the state was not precisely one of having a small, subsidiary role into the economy. Martínez de Hoz, appointed minister of economy, adopted what he called "a pragmatic point of view". That is, to allow the military to expand public expenditure for their activities, even when he was trying to reduce the fiscal deficit. Although Martínez de Hoz was dexterous in handling the military, it has to be said in his defense that they were often an obstacle to the implementation of some of his policies. In other fields, the military totally backed the minister. The military had an unclear view of their role. They defined their government as transitory, and their mission to stabilise the country in order to return power to a democratic government. Once they had performed violent political repression during the first months, their role was simply to back all of the economic reforms. Thus, Martínez de Hoz's economic program was turned into a political program. The military supported him for almost five years[31]. This time span is unique

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[30]Rock, 1987: 369-370.

[31]From 1945 until 1982, only two ministers had half of this time to implement their programmes. These were A.Gomez Morales (33 months, 1952-55) and A.Krieger Vasena (29 months, 1967-69). In the last 30 years, Argentina had 36 ministers of economy, and the rest of the administrations never reached

in post-Second World War Argentine history, and in an unstable country evidences the power of the regime and the support that it enjoyed from some sectors.

III.2.A. MARTINEZ DE HOZ' COMMERCIAL POLICIES

Martínez de Hoz made a similar diagnosis of the Argentine economy as had his predecessors. The novelty of his philosophy was a monetarist approach to the balance of payments, the reduction of role of the state in the economy, and the scant regard given to aspects such as employment, technology or the existence of monopolistic markets.

Martínez de Hoz's commercial policy was based on a program of tariff reduction. The paradox came in that, although his ethos was liberal, state intervention was not reduced in the field of industrial promotion. In fact, industrial promotion increased in the area of intermediate goods. This sector was the one promoted after the 1960s with the "deepening" of ISI, and it kept and improved its level of governmental support. However, subsidies in the area of consumer goods were cut, given that the state was developing an anti-inflationary policy.

On the other hand, trade policy involved the equalisation of all import tariffs and a general 40% reduction in their level[32]. The government also had in mind the abolition of non-tariff barriers (NTB). This will be further analyzed in chapter V. For the moment, what needs to be stressed is that the effects on the Argentine industrial structure were very significant.

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more than 24 months on power (Schvarzer, 1986:19).

[32]From 93.7% in 1976 to 52.7% in 1977. See Lucangelli, 1989:43-46.

During the initial phase of the reform program (1976-78), most domestic producers were only mildly affected by import competition due to significant redundancy in the tariff system. However, a second set of measures introduced in late 1979 increased firms exposure, and badly affected SMEs. Larger firms, particularly holdings and conglomerates, were financially more flexible, had easier access to credit and had more market power, thus facilitating their survival. This started a process of industrial concentration[33]. Overall, all surviving industrial sectors gained in efficiency; however, the consequences of concentration in industrial output and income distribution were regressive. Industrial output per capita fell from 1,058 US$ in 1975 to 764 US$ in 1982[34]. However, deeper examination shows that more than de-industrialisation was occurring. The process was one of industrial re-structuring: the surviving sectors changed the pattern of Argentine economic development.

III.2.B. THE FINANCIAL SECTOR

The second pillar of Martínez de Hoz's liberal policy was financial reform. The law 21,526 stated that the Central Bank (BCRA[35]) would no longer control interest rates. They would be free and fixed by each bank. The idea underlying this reform was that national banks would match international rates. This policy, together with the belief that domestic prices would match world prices thanks to trade opening, was implemented as an anti-inflationary measure[36].

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[33]Katz & Kosacoff, 1989:63-64.

[34]UN Statistics, in 1985 US$

[35]Banco Central de la República Argentina.

[36]Palacio-Deheza, 1981:82-84,148-168.

The second reason for this financial reform was to stop the state from transferring capital to industry, leaving this role to market forces through financial institutions. The misconception in this reasoning was the expectation that banks would even finance industry, particularly in an inflationary environment and under an open trade regime. Argentine financial institutions were too accustomed to working in the short-term rather than investing in the dubious future competitiveness of national industry. Playing with the exchange rate, speculation and retail lending and borrowing, gave much higher returns.

The financial sector had a spectacular expansion (see table III.4). This was a result of law 21,526, against financial over-regulation, which allowed commercial banks to open new branches, subject only to the requirement of notifying BCRA three months in advance. This was modified in 1983[37] when prior authorization by the Central Bank before new branches could be opened. However, even then the number of branches increased[38]. What was not predicted by the 1977 reform was that finance was going to become the most profitable short-term business and thus finance would take a dominant position in the Argentine economy. This therefore still left the question of long-term industrial investment to the state. It was a miscalculation to free the financial market so rapidly, but the policy was implemented given that it was the least politically costly liberalising measure -at least when compared to trade or labour.[39] However, having an over-expanded financial sector in an inflationary economy reinforced short-term

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[37]Law 22,871.

[38]Arnaudo & Buraschi, 1987:2-10; Gutiérrez, in Casas, 1989:77-81.

[39]Peralta Ramos, 1987:47-50.

tendencies[40].

III.2.C. THE CLOCKWORK ANTI-INFLATIONARY MECHANISM: *LA TABLITA*

Finally, the last point of Martínez de Hoz's economic program was to control inflation. For this, four different policies were implemented, although none achieved their aim. Initially, the minister froze wages and liberalised prices (April 1976-February 1977). From April to July 1977, the government tried a price reduction pact with industry and business. The next measure was an active monetary policy combined with liberalised prices and wages (July 1977-April 1978). Finally, in December 1978, as the annual rate of inflation was still 150%, the government started a new program. The plan was based on a devaluation of the real exchange rate combined with a passive monetary policy.[41]

The idea was to foster a convergence of domestic and international interest and inflation rates by manipulating the exchange rate. This would be done thanks a pre-announced schedule of progressive devaluations -the so-called *tablita cambiaria* (table of exchange). The Central Bank was in charge of keeping this constant evolution of the exchange rate, in order to allow entrepreneurs to make future predictions. The Department of Trade became another important instrument of this anti-inflationary policy, since it would sanction any economic sector raising its prices to compensate for future losses. Combined with the trade policy, this was expected to affect internal prices. Eventually,

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[40]For D'Alessio, one of the key problems of the Argentine is the short-term mentality as a result of rapid government changes since the 1960s and specially since inflationary upheavals (Interview to D'Alessio, Sociology Dept., University of Göttingen).

[41]Dornsbusch & De Pablo, 1989:48-64.

it was expected that domestic and international prices would be matched in "one price". This would lead to a decline in the price of imports and a rise in the price of national products, that is, a real appreciation, without the negative effects of stabilisation, that is, wage reduction.

The whole program was a clockwork mechanism. Any disjuncture in the synchronisation of rates of inflation and timetabled adjustment to the exchange rate would signal the failure of the overall liberalising experiment. Martínez de Hoz was aware of the fact that there would be imbalances in the external accounts at the beginning, given that the tariff reduction would cause imports to increase. However, for the first time in Argentine history, the "magic" solution of increased international liquidity and negative real interest rates prevailed: external debt would level the balance of payments. This is why there was the need for a rapid liberalisation of finance, as explained above.

The end of the story is well-known: the plan failed. The exchange rate was indeed appreciated, but it was not accompanied by the expected effects. Inflation only responded gradually, declining from 170% in 1978 to 87% in the last quarter of 1980. Consequently, the currency became overvalued as rates of inflation exceeded the real exchange rate. Indeed, there was a huge appreciation of the exchange rate, a large current account deficit, important changes in the economic structure and a massive external debt. These became constraints for future state macroeconomic policy-making.[42]

Bad timing was the main cause of the failure. Although tariff reduction started in 1976, its effects were not seen until after September 1978. The reasons for this were various. Firstly, the existence of tariff redundancy. Secondly, the so-called "privatisation of tariffs", by which a distributing company would start importing goods when they were cheaper than national products, and fix prices at the same level as those of protected domestic products (thereby gaining excess profits) until new distributors entered the market and forced prices. Thirdly, there was the lobby capability of industrial sectors (i.e. steel, motorcars), which pressed on the government to retain NTBs. This delay in the effects of tariff reduction meant that domestic prices were kept high, and thus inflation did not decrease to the expected level. Thus, the *tablita* mechanism did not work[43].

The overvalued rate represented a consumption subsidy for imports and for Argentines travelling abroad. Moreover, it was a subsidy for anyone transnationalising savings, that is, shifting their wealth out of the country. The opening of the financial markets allowed easy capital flight. This could have been corrected through adequate capital controls, as imposed at the time in Brazil, but to control finance would have meant abandoning the plan, and so the Martínez de Hoz' team would not

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[42]In a way, it is a paradox that Martinez de Hoz's liberal plan "...according to the Latin American tradition... could be labelled 'populist' (increasing real wages, appreciation of the exchange rate, large deficit in the current account), but with one serious difference: the way it was financed, together with capital flight, left behind the burden of external debt" (Machinea, 1990:11).

[43]See World Bank, 1985

countenance capital controls[44]. In 1979-80, the Central Bank had to borrow large sums of foreign currency from international banks in order to cope with the high demand for dollars. An important percentage of debt financed imports, luxury consumption, foreign holidays and external private asset accumulation went abroad. Capital flight is difficult to calculate, but the Central Bank[45] estimates a quantity of U$S 21,500 m. in 1982, equal to almost half the total external debt at the time (1982, U$S 43,600m). There was the circle of debt: Banks in New York, Zurich or Tokyo were lending to the Argentine government which was financing capital flight which ended as deposits in the same foreign banks.

The evolution of real wages was also unpredicted. It was assumed that wages would be determined by the performance of the country's exports. Perhaps this prediction was theoretically correct, but it did not apply for Argentina. The opening of trade affected some industrial products, especially consumer goods and the evolution of real wages for these sectors was from 60 in 1977 to 71 in 1980 (1970=100). However, in the rest of economic activities real salaries went from 60 in 1977 to 119 in 1980 (1970=100). These sectors, from industry to services, were less affected by the state price policy, and could translate wage increases into prices. In other activities, international competition forced a reduction in labour costs through economising on the number of employees. Industrial employment was reduced 26% in the period 1976-80, and productivity increased 21%. Nevertheless, the military were committed to full employment

[44]Calcagno, 1988:66-71; see also Thorp & Whitehead, 1987.

[45]BCRA, 1984, in Carciofi, 1990:37.

and industrial workers moved to services and SMEs, improving notably their income[46]. This overall increase in real wages was another cause of the failure of Martínez de Hoz anti-inflationary programme. The lesson from the experience is that it is not possible to discipline unions only by the opening of the economy in imperfect markets while keeping full employment. The Chilean case is an interesting point of comparison since its economic liberalisation undermined union power and inflation. This was achieved due to a restrictive monetary policy and huge cuts on fiscal expenditure. The costs were the dismantling of the industrial sector plus 20% open unemployment. This result was not unintended by the Chilean government, since it was embarking on a new policy of international specialisation. However, the Argentine military were not convinced about abandoning the inward-looking development strategy. On the contrary, the regime wanted to discipline the social behaviour of both unions and entrepreneurs. Nevertheless, while the policy mix failed to achieve these objectives, Argentine industry was restructured.

Bad timing was not the only cause of the Plan's failure. Throughout the Martínez de Hoz's period there was a lack of fiscal discipline. Notwithstanding the project to liberalise, the public sector increased. The military *junta* pursued its own agenda, buying the major airline -Austral-, the electric company -Italo- and several other business. F.M. (*Fabricaciones Militares*) were consuming 21%-30% of the national budget during the period. Officially, F.M. produce weaponry, explosives, chemicals, steel and electrical conductors, employing more than 40.000 workers. But F.M. also owned shares of mixed companies

[46] From intrview to Palomino, CISEA Buenos Aires.

(private-state owned), especially in the areas of steel and petrochemicals. In addition, it had interests in companies producing armchairs, transport equipment, sporting guns and much else besides. Even Martínez de Hoz could not act against military monopolies. The minister tried to privatise some marginal state industries, but few buyers were found and most were just dismantled, while others were "emptied"[47]. Around 150 state companies were closed or sold during the period but overall there was an increase in state industrial holdings and public expenditure grew massively (see section on public sector). This included the financing for the 1978 World Cup, motorways connecting Buenos Aires to holiday centres and others[48]. Equally wasteful but more tragic was the financing of military technology and weaponry for both domestic (war against subversion) and international use (1982 Falklands /Malvinas conflict).

Ultimately Martínez de Hoz was forced to resign when the first president of the *proceso*, Videla, completed his term. Later, as the military regime began to collapse, General Galtieri assumed the presidency. Galtieri belonged to one of the nationalistic factions of the Army for whom the promotion of national unity became a political priority, even if it called for war. In the period March 1981-December 1983, four economy ministers took office: Sigaut, Alemann, Dagnino-Pastore and Wehbe. The overvaluation of the peso (1979-82) had left the country in a difficult situation. Their administrations were

[47]"Emptying companies": In the Argentine "economic slang", was an speculative action where companies were undervalued; then someone would buy them from the state and sell shares. Once those were sold, the company was declared bankrupt, so shares did not have to be paid back or, they were sometimes supported by the state (Interview to Bisang, UN CEPAL-ECLA).

[48]See Khavisse *et al*, 1987.

handicapped, and their main objective (for the last two ministers) was to create the necessary conditions for the transition to democracy. An assessment of their performance is complicated. They could not reduce inflation, but at least they did not make the economic situation of the country worse. A further difficulty, however, was the debt crisis in 1982, which stopped the influx of loans to Argentina. The government deficit was difficult to cover, and inflation (given the necessary devaluation) became endemic. Sigaut and Alemann tried to stabilise the economy, but their attempt was accompanied by bankruptcies, declining industrial output, real wage compression and unemployment. The Malvinas/ Falklands conflict increased the economic deficit and reduced the international standing of the country. Dagnino-Pastore and Wehbe tried to reduce debt and improve employment, at the cost of massive inflation[49]. This was the legacy inherited by the incoming civilian regime in 1983. The problems assumed by the Alfonsín government were deep rooted: debt, high inflation, unexpectedly high real wages and the popular belief that there were good times to come with democracy.

III.3. ECONOMIC POLICY IN THE ALFONSIN PERIOD, 1983-89

Raul Alfonsín took power in December 1983. There were six main objectives for his administration: (a) To be in presidency for the full six-year term and to hand over power to another democratically elected president; (b) to reduce the power and scope of the military and keep them out of the political arena; (c) to brake the link between trade unions and Peronism, this is, to "democratise" unions; (d) to restore economic stability; (e)

[49]Di Tella and Dornbusch, 1989:299-303.

to "foster freedom" by, amongst other things, reducing the influence of the Church; and (f) to restore the international image of Argentina. When making a judgement on Alfonsín's government, it should be remembered that there were many objectives. The president managed a relative success in terms of (a), (b), (e) and (f), but his administration did not restore economic stability.

III.3.A. GRISPUN (1983-85)

During his political campaign, just like any presidential candidate, Alfonsín promised solutions to all the country's problems, from political instability to inflation. Alfonsín's economic program was designed by B.Grispun, a Keynesian who had been in government during Illias's presidency (1963-66), Grispun's programme was based on controlled wage rises, the renewal of credits and tax reform to correct fiscal deficits. Since wage increases were desirable at the beginning of the democratic transition, Alfonsín kept Grispun as his minister of Economy and devoted his first year in the presidency to political matters. Meanwhile, real wages and production increased slightly, but inflation was higher than 20% per month. By the end of 1984, during his visit to Washington, Alfonsín was advised by P.Volker and the economic team of the Federal Reserve to end this expansionary policy[50]. Domestic business and union groups were not happy with the economic situation either. In February 1985, Juan V.Sourrouille replaced B.Grispun.

[50] Morales, 1991:255

III.3.B. SOURROILLE'S TECHNOCRATIC TEAM (1985-89)

Sourrouille and his team[51] found themselves in need of a stabilisation plan but were aware that half of the government was against the principle and political consequences of an anti-inflationary shock. One of the problems confronting the Sourrouille team was a lack of support inside and outside the administration. The team was a group of competent technocrats viewed as untrustworthy by business groups and trade unions. Part of the blame can be credited to Alfonsín's ideas on citizenship. The president wanted to break with the traditional pattern of Argentine politics, where "guilds" would appoint ministers to defend their corporate interests (SRA>M.Agriculture, CGT>M.Labour, the Church>M.Education, etc). Thus, the president wanted his cabinet to be formed by independent technocrats, in order to avoid the tensions of social bargaining when there was a need to implement adjustment. A further difficulty in the policy-making process was that half of Alfonsín's government had a similar background to Grispun's. The Presidential Secretary and the Ministries of Public Works, Industry, Agriculture, Internal and External Trade were initially in the hands of a group of Radicals marked by the influence of E.Blanco[52] and the experience of Illia's presidency.

Sourrouille first idea was to design a "correct" stabilisation plan. For this, he considered external approval to be vital. Once the plan was sketched out, the minister met Volker, Baker and Larrosiere in Washington. All of them, the

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[51] M.Brodersohn, J.L.Machinea, R.Elbaum, D.Heymann, among others.

[52] Eugenio Blanco, keynesian economist at Buenos Aires University, minister of the "Freeing revolution" and one of the main executors of the Prebisch Plan.

president of the US Federal Reserve, the Secretary of Treasure and the IMF director, respectively, ended up agreeing with the programme. This was the heterodox Austral Plan, based on the control of income policies (freezing of basic prices: exchange rate, wages, industrial prices) combined with a set of monetary and fiscal measures. The control of the main macroeconomic variables (wages, prices, interest rates and the exchange rate) was not enough as to secure the success of adjustment. The government agreed to reduce the scale of monetary emissions hitherto used to cover fiscal deficits. To compensate, there would be tax reform and an increase in public utility tariffs. Monetary policy included a reduction of regulated interest rates (they were fixed at 4% monthly), a major devaluation and a currency change: the austral would replace the peso. Initially, the plan worked as expected, and monthly inflation went from 30,5% in June to 1,9% in October. Industrial output increased 20% after a period of turbulent price upheavals. Argentines backed Alfonsín's policies, and the Radicals won the parliamentary elections of November 1985. In February 1986, the second stage of the Austral Plan was set in motion. Unfortunately, it did not succeed.

Globally, the evolution of inflation was positive for the plan. Wages and industrial prices had been frozen. However, consumer prices continued to increase by 2% to 3% monthly. These rises were concentrated in sectors that were difficult to control (mostly, services and fresh food). Inflationary expectations was one of the main obstacles for stabilisation. Contracts were still being done by month, predicting future rises on wages. Sectors escaping government control continued indexing, just in case. But this "residual inflation" was not the main cause for the Plan's failure. There were three more reasons: the price of cereals in the international market, the fiscal deficit and the nonexistence of a social pact supporting the program.

As explained in chapter II, international prices of primary products fell 35% on average in 1986[53] and the Argentine terms of trade worsened by 20%. Although this was unrelated to the Austral Plan, the agricultural associations -SRA, CONINAGRO and CRA- claimed and finally obtained tax relief and a reduction in export "retentions"[54]. Since export taxes were one of the main sources of revenue, the government found itself without funds to finance the stabilisation plan. In this, Argentina differs greatly from other Latin American countries. Despite the fall in primary product prices, the Chilean state had direct access to copper sales revenue and the Mexican and Venezuelan governments to oil export profits to finance stabilisation plans and external debt service. In Argentina, the traditional source of foreign exchange earnings, the agricultural sector, was on private hands and with the decline of international prices and compensatory reductions in taxation, economic transfers to the state fell precipitately[55]. The other alternative source of finance used by the government was internal borrowing, issuing government-guaranteed bonds.

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[53]Wheat, 25%; corn, 40%; soya, 30%.

[54]Politically, the plot was much complicated. Keeping with the Argentinian way of policy-making, through a policy of demonstrations and lock-outs, the SRA managed to substitute the Minister of Agriculture and Fisheries, L.Reca, by E.Figueras, who represented the interests of the sector and kept a very critical attitude towards government's economic policies. Given the electoral weight of the sector in some provinces, the radicals ended with the tax reform program in the rural sector and with further reductions in export retentions in 1987 (Golbert & Acuña, 1990:38).

[55]Frenkel *et al*, 1990:53-55.

On the other hand, what became clear at the end of 1986 was that correcting the public deficit required of a full scale reform of the state. In the second stage of the Austral Plan, Sorrouille announced a set of measures known as the "July Program" (20/07/1987). These included privatisations in petrochemicals, de-regulation of state monopolies (transport and communication), the matching of domestic and international petrol prices, the restructuring of the financial sector and a program of export promotion as tariffs were reduced. In Sourrouille's words, "What the Argentines are experiencing... is the crisis of a... populist model, that is, of a centralised model linked to a semi-closed economy" ("La Nacion, 21/07/87 in Acuña, 1990:48). The problem was not only inflation, but the system itself, and modifying the model's balance of power was not easy for a democratic government.

A social pact was never achieved. Sourrouille's group was sceptical that this would happen, knowing the conflictive tradition of Argentine politics. As technocrats, Alfonsín's team planned an appropiate strategy and attempted to collaborate with various sectors, most obviously by organising the CES (Conferencia Economica Social) in July 1985, one month after the plan was already started[56]. Initially all groups agreed with the Austral Plan. There was a 22,6% wage rise; however, salaries were not further indexed. Unions feared hyperinflation and therefore accepted this wage freeze. Business groups also consented to the price controls since profit rates were not immediately threatened. Fearing that there was no alternative and observing

[56]Acuña, 1990:33.

US approval of the plan also encouraged business support[57]. Sourrouille's team predicted this need for "security" in early 1985 when discussing the Plan with the IMF and the US Federal Reserve. In this regard, it is important to distinguish between different business associations. There are many entrepreneurial groups, but the most politically relevant at the time were ADEBA (banks), CAC (commerce) and an informal group of industrialist called "Captains of Industry".

The "Captains of Industry" were a group of major industrial entrepreneurs, who wanted to have more influence on the government's decisions after their isolation during the Martínez de Hoz period. Thus, the "captains" pressed to repeated meetings with Alfonsín in the first years of his presidency[58]. Table III.5 shows a list of these fifteen main Argentine entrepreneurs. As it can be appreciated, their areas of interest were very different and thus the informal group soon split. In the second stage of the Austral Plan, entrepreneurial support for Alfonsín vanished. Most business complained about tax increases, but the main problem was the programme of state privatisation. By December 1987, when economic indicators were showing signs of stagnation and Peronism won provincial elections, all business associations doubted government resolve to implement thorough-going reform and united against the implementation of tax reform. Thus, Sourrouille's structural measures could not be pursued (the July Program), and Alfonsín's economic policy was relegated to the short-termism[59].

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[57]See the collection of polls to enterpreneurs in CEPNA, 1988.

[58]See Ostiguy, 1990.

[59]Machinea, 1990:63.

Trade unions also initially accepted the Austral Plan.[60] However, by April 1986, unions started questioning the credibility of the Plan. The conflict between government and agricultural producers made them realise that they were involved in a zero-sum game. Steel workers (UOM) were the first to demand a return to wage indexation. After a thirty-three day strike that resulted in a loss of 1,5% of GNP, the government finally asked ADIMRA (the steel entrepreneurs association) to solve the conflict as soon as possible, fearing repercussions in the rest of the union sector. This had to be done by the Secretary of Commerce subsidising the increase of labour costs, thus breaking the intention of the Austral Plan. The UOM was one of the most powerful and active unions (see table III.6). From then onwards, there would be an average of 250 labour conflicts/year (of which thirteen were general strikes) for the remainder of the Austral Plan period (Figure III.1). There were strong reasons for such a reaction. Real wages fell 28% in industry, 35% in commerce, 24% in the public sector and 10% in banking in the period 1984-88[61], and, as table III.8 shows, kept decreasing. During the two hyperinflation crisis in 1989, 60% caloric deficiencies were reported in workers families' diets. Prices changed daily and there was looting of shops and supermarkets in Buenos Aires, Rosario and Tucuman.[62] In 1989, when monthly prices changed from 9,5% (January and September) to 196,6% (July), index adjustments

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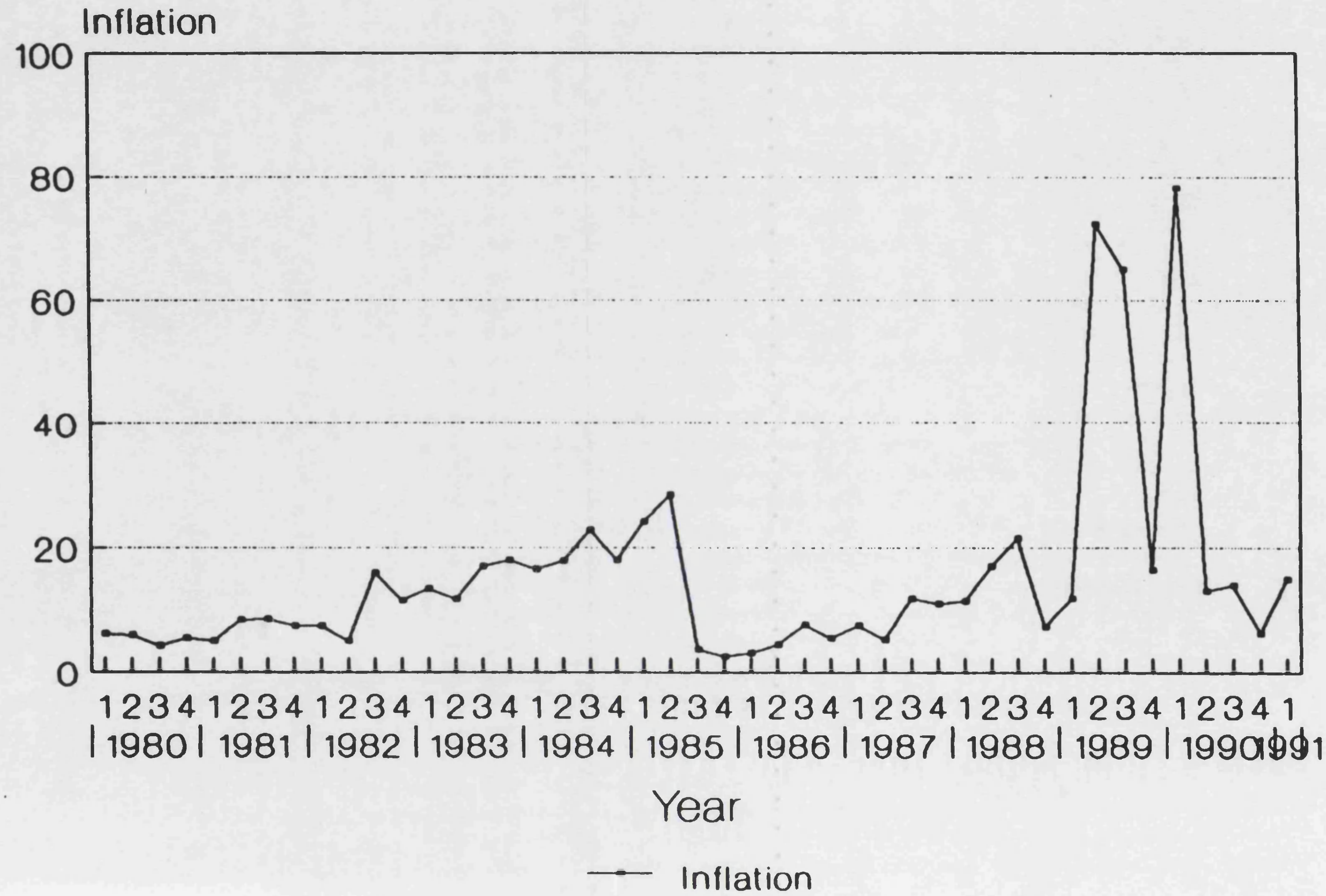
[60]Unions were traditionally peronist and they would not give too much trust to the radicals. One of Alfonsin's objectives was to break the link between unions and peronism. For that, he promoted internal elections, encouraging the vote of apolitical leaders; but this did not give expected results, and peronist leaders were re-elected. A faction of the CGT dennounced Alfonsin for being "communist" and "having sold out to imperialistic powers". See Poneman,D. 1987.

[61]Beccaria, 1989:19-23.

[62]Aguirre, 1990:24.

FIGURE III.2.:

Argentinian monthly inflation rates, 1980-91, by quarter year.



Source: UN data.

became difficult to calculate. Wages were literally paid with bags full of depreciating paper money.

Initially, one of the social effects of the 1989 hyperinflation was political confusion and apathy. Life became a fight for survival that necessitated family support and strategies of cooperation. The economic crisis did not seem to cause political confrontation but individual panic. Collective hysteria reached all social groups in the panic to spend and consume. Spending and hoarding became part of the survival strategy of virtually all classes. This reaction had, and will continue to have, an important impact on future policies, given that so many years of inflation have erased any tendency to save. On the other hand, social or class struggle fades, since there is nobody to blame but the government. Table III.7 shows how major union-industry conflicts have occurred when the economy has been temporarily stabilised, that is, at the beginning of anti-inflationary plan, both in the Alfonsín and the Menem periods. This has always been an added difficulty for policy-makers. During the first hyperinflation crisis January-May 1989, when inflation was increasing an average

TABLE III.7:

ARGENTINIAN MONTHLY LABOUR CONFLICTS, 1985-90.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1985	52	24	48	42	28	26	24	12	19	31	16	22
1986	17	21	33	45	55	69	52	52	67	66	54	32
1987	13	12	13	11	28	39	42	48	51	56	50	35
1988	25	27	51	56	53	66	48	47	37	55	45	31
1989	21	31	38	32	71	52	58	50	51	48	68	60
1990	54	69	92	56	62	68	61	57	-	-	-	-

Source: Palomino, H., in "El Bimestre Politico y Economico", 1985-91. Buenos Aires, CISEA.

72.2% by trimester[63], the number of conflicts was actually reduced. However, this was not the case during the second hyperinflationary cycle (February-March 1990). The past experience and the recent elections strongly politicised the population, and labour conflicts rose again.

In April 1988, annualized rate of inflation was 606,5%, the fiscal deficit continued to grow and external debt repayments had to be suspended.[64] IMF pressure increased, and the government began the last stabilisation program, the Primavera Plan (Spring Plan, August 1988). The Spring Plan was an "emergency" plan in an attempt to adjust macroeconomic variables before the Alfonsín mandate came to an end. In the face of political crisis, the Sourouille team sought to avoid intensifying the tax reform. Thus, fiscal policy was not based on domestic taxes but rather on a double exchange rate, a fixed for agricultural exports and a floating rate for industry and finance. The Austral was devalued 11.4%, VAT reduced 3%, public tariffs increased 30%, public investment reduced, the exchange rate adjusted, 3,000 trade tariffs eliminated, prices controlled for 180 days, and a wage freeze applied after a 25% increase in salaries. The plan also had external element. The approval of the IMF, the WB and the US Secretary of Treasury was sought in an attempt to secure the renewal of a U$S 2,500 million credit.

The Plan Primavera had rapid results: monthly inflation declined to 11,6%, 9% and 5,7% in September, October and November, respectively. However, it had also immediate effects

[63]CEPAL data.

[64]External debt repayments were interrupted from then until April 1990, when Menem's goverment made an initial disinbursement of U$S 400 m.

among business groups. Agricultural producers denounced the Plan and particularly the double exchange rate as acting against national interests, considering it as a return to discriminatory corporatism. On the other hand, entrepreneurs who had initially accepted the plan on the conditionality of VAT reduction, started to disagree with the government's commercial policy and to boycott the Plan.[65] The IUA (Industrial Union of Argentina) split, some entrepreneurs supported the opening of the economy, and others called for protection. This was the context in which the Peronist opposition candidate, C.Menem, initiated his presidential campaign, promising a "productive revolution", based on industrial subsidies and wage rises[66]. In parallel, entrepreneurs took profit from the "low" austral and the supply of dollars by the government, leaving the Central Bank with few reserves. By December 1988, the Primavera Plan lacked credibility both for internal and external actors. On the 6th February 1989, the government suspended the supply of dollars. The effect on the black market was virtually instantaneous: the parity U$S/Austral rate changed from 1/17.92 in January to 1/47.9 in March (the official rates being 1/13.94 and 1/15.82, respectively). The monthly rate of inflation rose from 8.9% in January to 17% in March. Exporters refused to use the official exchange rate and business groups no longer accepted price controls. On the 3rd of March the World Bank announced that it would not make available

[65]The progressive tariff reduction that involved monthly cancellations of import tariffs effected under the Primavera Plan will be further analyzed in chapter V.

[66]One of the reasons why the US kept offering economic aid to Alfonsin's government may be the untrust on Argentinian political outcomes. The US Department of State initially feared C.Menem as another possible fundamentalist, in accordance with the 1980s world trend. L.Einaudi's advisory team on Latin American politics gave bad reports on the peronist candidate, which seem to have been confirmed during G.Schultz's visit to Buenos Aires in 1988 (Morales, 1990:36).

the U$S 350m credit tranche previously promised.

III.3.C. THE END OF THE ALFONSIN ADMINISTRATION (1989): PUGLIESE AND RODRIGUEZ.

Sourrouille had to leave office. His two successors, J.P.Pugliese and J.Rodriguez, had an average of 45 days each to solve the economic crisis. Inflation tripped into hyperinflation. The rate was 33.4% in April, 78.5% in May and 114.5% in June, and the average U$S/Austral exchange rate was 1/79, 1/290 and 1/540 for each respective month. Presidential elections were held in May 1989, and the Peronist candidate, Carlos Saul Menem, won with 47% of the vote. Inflation kept rising: 196.6% monthly in July and 3610,2% in August. Alfonsín was forced to resign the presidency before the end of his term.

There were various reasons for the hyperinflation. The Central Bank had to pay off U$S 400 m. of BONEX'82 (bonds of public external debt) in January 1989, which had to be financed trough domestic reserves since there was no external credit. This was exasperated by the fact that the government had been increasingly issuing short-term new bonds since 1987 (BARRA, BAGON, TIDOL, LEBO, TICOF I and II, TACAM I and II) and thus could not issue long-dated paper. By 1989, internal debt was 291.000 million australes while M1 was only 75 million australes[67]. The only way to finance expenditure was to issue more money to cover the fiscal deficit, and to postpone the problem of the re-issuing of new bonds. This had a boomerang effect, since U$S 300m. of TACAM II had to be paid off in May 1989. Some analysts have also commented that hyperinflation was

[67]Graziano, 1990:122-123.

a market *coup d'etat* by financial groups accumulating wealth in dollars and entrepreneurs raising the prices of their products, since they wanted Alfonsín to departure from office as soon as possible[68].

III.4. PERONISM AND LIBERALISM: ECONOMIC POLICY UNDER MENEM, 1989-

Menem took the presidency on August 1989, five months ahead of the official date. Soon, he had to acknowledge publicly that his populist-style project of a "productive revolution" had to wait. Before this, a programme of economic austerity was needed. After the economy was liberalised, the state would be reformed and inflation and public deficit corrected. Only then would it be possible to reach a new social pact and to boost domestic growth. This was a return to Alfonsín project but now there was no other political alternative. Menem called for a realist view, asking Argentines for short-term sacrifices and promising the "productive revolution" in a couple of years time. For this, he had the support of most industrialists, financial groups and unions, whose major figures were called "The twelve Apostles". Although Menem was forced by circumstances to implement economic austerity measures, he still wanted the state to coordinate and reconcile all social groups in the purest Peronist style. Initially, not only economic groups supported him, but also the Church and the military -to whom he promised amnesties from the Radicals' trials and "justice". This co-optive attitude was reflected in his first cabinet, under the so-called "strategic

[68]Feletti & Lozano, 1991:10

alliance"[69]. But this approach could not be sustained.

III.4.A. RAPANELLI (1989-90): FROM BUNGE&BORN TO STATE REFORM

The new Peronist economic program was suggested by the Argentine multinational group Bunge & Born[70]. J.Born refused the Ministry of Economy but appointed J.Roig to implement Plan Cero (Plan Zero). Only four days after Menem took office, the government entered its first crisis: prices had risen from 50% to 150% and Roig died of a heart attack.

N.Rapanelli replaced Roig both on the B&B Board and in government. Rapanelli's first measures were conjunctural. First, a 250% currency devaluation (1U$S/655Australes) was implemented. This bought official and black market rates closer. Secondly, public utility charges were increased massively so as way to cover the fiscal deficit[71]. Finally, there was a 90 day price/wage freeze. The effects were positive: Hyperinflation turned into inflation (5.6% monthly in October), the Central Bank

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[69]M.Roig, linked to the Argentinian MNC Bunge & Born, took over the Ministry of Econonomy; J.Gonzalez-Fraga, linked to foreign banks, the Central Bank; R.Frigeri, linked to the unions, the Chancellor of the Exchequer; J.Dromi, linked to the military, M.Public Works; Triaca, linked to the unions, to Labour (originally football referee G.Marconi was appointed in the post, but after many complaints he was reassigned to secretary). From L.De Riz interview, CEDES)

[70]The group never had a peronist filiation. Quite the contrary, peronists always found B&B untrustful since the holding had more foreign than domestic investments (Green & Lauent, 1988:172). However, B&B has informally being close to most governments, advising but adopting a non-interventionist attitude. When J.Born substituted M.Hirsch in B&B's presidency, the company policy changed. J.Born was opposed to friedmanite policies, and inspired his "Plan Cero" in Klein post-keynesian economics.

[71]There was a 600% rise in petrol, 736% in energy, 335% in transport, 282% in telecomunications prices. These large increases have to be understood coming from a tradion of a subsidiary state to public services, and from the current need of state revenue. Given the inadequacy of the tax system, utility charges are a substitute for more conventional fiscal devices.

kept building up reserves (from U$S 100m. in June to U$S 2,000m. in November), and internal debt was punctually paid. However, external debt was not paid and the IMF did not credit U$S 1,400 as promised.

In August 1989 the Menem government passed laws 23,696/89 on State Reform and 23,697/89 on National Economic Emergency. The objective of both was to reduce state expenditure. The Economic Emergency law had two effects: it reduced industrial promotion subsidies by 50% and curved state purchases[72]. Menem pictured the state as a bankrupt enterprise, which could not play a redistribute role to which it was accustomed. New Peronism seems to have made an incorrect assumption by considering that a regressive distribution of income would guarantee reinvestment. Stopping welfare and industry subsidies will certainly help to correct the state deficit, but it will in turn concentrate wealth. If the state has any concern for Argentina's future, it should take responsibility for the way this capital is used. A danger is that an important share of income could be transferred to the volatile world of finance[73].

On the other hand, to call for National Economic Emergency was attempt to gain state autonomy in policy-making. This is rather ironical when one considers that Rapanelli belonged to B&B, one of the "Captains of Industry". Alpargatas, Techint, Pérez Companc and some other "Captains" were resigned to the cut in subsidies, but minor industrialist claimed protection from the government. As will be analyzed in chapter V, most producers

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[72]The"buy national" laws n.5340/63 and 18.875.

[73]Azpiazu, 1991:41-42.

depended in one or another way on state subsidies; only industries with some international exporting focus remained supporters to the government. The UIA was flooded with complaints. At the UIA elections in January 1990, the inward-developmentalist candidacy of Mahler won against the liberal Montagna. It could be argued that these divisions within the UIA indicated that the Menem team accomplished the dismantling of industrial corporatist interest. Liberal policies had begun to break up what Wynia described as one of the main characteristics of Argentine politics; economic groups with direct claims on the government. The case of industrialists forming a "lobby" group to pressure for change may be direct proof of this.

Law n.23.696 on State Reform and Restructuring of Public Enterprises, was centred in three main points: (a) The privatisation of state assets (b) Tax reform (c) Administrative reform. Tax reform[74] stablished an increase in the VAT (up to 13%) and the reconstruction of fiscal federalism (a transfer of resources to the provinces). With respect to the Administrative reforms, the "reduction of hyper-bureaucracy", real wages declined notably partly because indexation was delayed. This meant that the alternative was to rationalise the number of state employees. Decree 2.476/90 virtually abolished tenure for civil servants. Several state agencies were scheduled to be dismantled, meaning unemployment for nearly 68.300 bureaucrats. Social costs were supposed to be covered by either voluntary retirement or a program of absorption of public workers by the private sector[75].

[74]Law n. 23.905

[75]Ministerio de Economia, 1991

With respect to the privatisation of state assets, in 1985 there were 297 state enterprises. These were owned by either the eight different ministries (82 companies) and provincial and municipal governments (215 companies)[76]. Unlike Eastern Europe, Argentina was a Keynesian mixed economy which had been correcting ISI promotion policies from the 1960s onwards. Thus, various governments have successfully privatised state-owned companies since the first fiscal crisis in the 1950s. Prior to Martínez de Hoz, 45 companies had been transferred from the state to the private sector. Paradoxically, the absolute and relative quantity of public investment increased during the Martínez de Hoz's liberal period[77], although some 150 state companies were either privatised or closed. However, these companies were relatively marginal within the context of the public sector. The real debate on privatisation in Argentina started in 1983 with the return to democracy. The fiscal deficit meant that the state could not cover public enterprises losses.

In 1990, the Menem Administration began significant privatisations: ENTEL (State telecom), Aerolíneas Argentinas, part of Ferrocarriles Argentinos (Argentine railways), 10.000Km. of motorways, TV channels and some industries dependent on the Ministry of Defense. The program set out for 1991 included the privatisation of ELMA, ENCOTEL, Gas del Estado, Obras Sanitarias

[76]The largest enterprises belonged to the Central Administration: Ministries of Defense (31 enterprises), Public Works (22) and Economy (14). Of these, the eight largest companies (YPF, Gas del Estado, SEGBA, ENTEL, Aerolineas Argentinas, Agua y Energia, Ferrocarriles Argentinos and ELMA) produced about 70% of the sector's aggregate value, absorbing more than 30% of the total public sector investment program. This contributed to 27,8% of the total public sector deficit (World Bank, 1985:99)

[77]Argentinian public sector investment as a percentage of total inverstment was 36.1% in 1972-75, 43.6% in 1976-79 and 42.5 in 1980-83 (World Bank, 1985)

de la Nacion, YCF, Administracion General de Puertos (port), BA Underground, and parts of Ferrocarriles and YPF (petrol). The management of privatisations has been discriminatory and discretional; provoking a nationalist response and charges of government corruption[78]. The paradox of Argentine development is that having initially transferred to the state responsibility for investment provision and investment decision-making, as a result of privatisation[79] the government has now renounced responsibility for this task. Constrained by a fiscal gap, the Menem Administration's main goals were limited to solving short-term problems of inflation. The private sector has been given all future responsibility for the production of both goods and services. Inconsistently, some companies have even been privatised with the help of subsidies given by the state.[80]

Since October 1989 trade unions have refused to accept a new wage freeze arguing that entrepreneurs are trying to compensate for the reduction in subsidies through reducing labour costs. As was the case with the UIA, the CGT split into two factions: the pro-government CGT-San Martin and anti-regime CGT-Azopardo. Up to 1992, no social pact had been agreeded upon. Under these conditions, it is arguable that it may ever occur. Unions cannot

[78]See Grupo Ocho, 1991:57-60.

[79]Notably law n.23.697/89.

[80]E.Calcagno (OIT, Iberoamerican Labour Organisation) denounced that the benefits coming from the selling out of public companies have in later cases being channelled towards external debt repayments The privatisation of Aerolíneas Argentinas (national airlines, 1990), for instance, caused a national debate since the state lost one of the few [marginally] profitable enterprises but the public sector did not get any evident revenue.

see a reasonable future.[81] Liberalisation and the dismantling of the state centred system are eroding the *reason-d'etre* of corporatism. Economic unification with Brazil (MERCOSUR, see chapter II) may be justified in terms of industry, but definitely not in terms of labour. The Argentine organised working class had many benefits under corporatism: unemployment around 2% or 3%, a welfare system, comparatively high wages, etc. Up to 1991, no one of the 24 protocols in the MERCOSUR Treaty protected labour. Azopardo-unions were fearful of Brazilians, Paraguayans and Uruguayans flooding the Argentine labour market. This would be in accordance with the government's liberal program of reducing labour costs to avoid inflation and to promote competitive exports. The Argentine experience contradicts the theories of O'Donnell, Schmitter & Whitehead's theories (1986) about the importance of social pacts at moments of democratic transitions. The Argentine state failed to implement a pact during the transition period, given that both democratic governments opted for other strategies.

[81] An interesting example of government-labour relations in Menem's term was the case of the rail-workers strike. This was organised by the militant base, againts CGT-San Martin decision-center will. Workers stopped their activities in several lines around Buenos Aires for three months. The government did not complain: from the Ministries of Economy and Public Works point of view, the strike was saving millions of Australes daily and thus helping to correct the public deficit. The then Minister for the Economy Gonzalez was happy to close the rail services, since there were alternative private, efficient and especially less costly bus lines. Finally, the government consented on allowing things to go back to normality, without dismissals. The confused rail-workers ended the strike with no improvement whatsoever. A.Argüello, secretary to the Union, apologised to the government and reminded the administration that Union Ferrocarriles submited a report on rail-restructuring in 1987. That is, in the view of strikes not being a tool for polical bargaining, the union itself was the one encouraging the government to apply new strategies for securing jobs.

III.4.B. ERMAN GONZALEZ (1990-91): PREPARING FOR CAVALLO (1991-

Hyperinflation emerged again (figure III.2), coinciding with as the Central Bank was required to find U$S 300m. to redeem the BONEX'87. The dollar rose to 1U$S/1550Australes (18/Dec/89), and Rapanelli was replaced by Erman González. González' priority was the objective of reducing inflation. In one year, 1990, five different policy-packages were tested (Erman I, II, III, IV and V). González did not succeed in the reduction of inflation, but he managed to provide a high level of reserves at the BCRA so that the Central Bank had room for manoeuvre later. It was to be the next team at the Ministry of the Economy, headed by Domingo Cavallo, that won the battle to stabilise the economy.

Plan Erman I was based on the freeing of markets and the exchange rate[82]. Erman II converted, by government fiat, short-term internal savings into long-term external debt bonds: 58% of fixed-term bank deposits (that is, 7 days in Argentina) and 71% of internal debt bonds were confiscated and exchanged by BONEX'89[83]. Given that the M1 was very low (in December 1989, 4.5% GNP), this turned the state became the primary holder of Australes in the country, giving strong power to the Central Bank. In parallel, there was a scarcity of paper money, and inflation declined to 7.4% per month in April. The Central Bank only printed Australes to buy dollars coming from exports, and to accumulate them as reserves. This implied that the state modified the floating exchange rate depending on its demand for

[82]The control of the exchange rate generated an interesting debate in which the main positions were defended by Gonzalez's successor, D.Cavallo (fixed convertibility), the minister Gonzalez (floating exchange rates) and the ex-president of the Central Bank A.Canitrot (pragmatic approach: crawling-peg), as defended in a debate at IDES 4/91 an later interview.

[83]Feletti & Lozano, 1991:18.

dollars; but the Central Bank did not guarantee convertibility, so speculation was reduced. However, the effect on economic activity was very recessive. By the end of 1990, none of the "Twelve Apostles" supported Menem.

Once hyperinflation was corrected, González dedicated his efforts to correcting the fiscal deficit. These were the Ermans III, IV and V plans.[84] These concentrated control of the public sector in the Ministry of Economy. All public sector contracts, except for those dealing with privatisations, were suspended and/or obligations redeemed with state bonds (also known as "junk-bonds"). National Banks[85] were restructured. The Executive Committee on Administrative Reform was created to rationalise civil servants and public workers and to write a legal framework regulating voluntary retirements, dismissals and layoffs[86]. Finally, public utility tariffs were increased by 1041%, and all public enterprise earnings consigned to the Ministry of Economy.

The Erman Plans refinanced the Central Bank, up from U$S 900m. in December 89 to U$S 4300m. reserves by November 1990 and reduced the state deficit. This allowed the subsequent economic team to launch the now famous Convertibility Law of April 1991. The Cavallo Plan was based on the Central Bank holding sufficient reserves to back all local currency in circulation and to convert local notes into US dollars on demand. After the Erman Plans, the

[84]Exercised through decrees 435 (March 1990), 584 (April 90) and 1757 (September 90), respectively.

[85]Banco Hipotecario and Banco Nacional de Desarrollo.

[86]Lozano *et al*, 1990:6-7.

BCRA was able to buy up surplus U$S from domestic holders[87] and release sufficient foreign exchange to meet demand. Also, in advance of the introduction of a new currency, the BCRA began to maintain a fixed exchange rate.

External debt repayments were reinitiated (April 1990) in the hope of getting access to the Brady Plan, but at the price of a large increase of internal debt (U$S 15,6 billion). These benefits of this policy were bought into question by a reduction in domestic economic activity caused by tight monetary policy and trade opening. During Erman V, trade tariffs had to be reinstated, keeping with the MERCOSUR timetable of tariff harmonisation. González may have been efficient in dealing with the short-term problem of the fiscal deficit, but the cost of this strategy is what Tanzi[88] has referred to as fiscal tension. Fiscal tension explains the consequences of reducing of the public deficit without taking into account long-term implications. Fiscal tension was heightened as external debt repayment transfers were not only from the state but also from domestic private companies buying former public sector firms -the government set up a programme whereby privatised enterprises could be purchased with public debt.

The Brady Plan gave the government the idea that foreign banks should not be seen as another group fighting for a share of Argentina's income but rather as new agents of economic development. Thus, in December 1989 a fund was created for the conversion of Argentine debt, coordinated by the Bank of Tokyo,

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[87]Changing again the currency from australes to pesos. See Price Waterhouse, 1992:8-11; CEI,1993:19-29.

[88]In Frenkel *et al*, 1990

the Midland Bank, Banco Río de la Plata (Pérez-Companc Group) and the World Bank. One of the most critical aspects of government policy was the way that it has dealt with the foreign debt. Menem's government has been defending and legitimising its economic policies which have been pursued at very high internal costs, on the grounds of external constraints and lack of alternatives. Given that the Brady Plan was launched when the international banking community had already recovered from the debt crisis, Menem's policy can be subject to serious criticisms. As it will also be seen in the Spanish case, the faith that semi-periphery liberalising administrations place in the notion that international integration foster development is far from being sustained.

For many, the first year of the Menem's administration represents a "deepening" of the 1980s, the "lost decade". From 1980 to 1990, Argentine GNP fell 9.9%, industrial output declined by 19.9%, consumption fell 13.4%, national income contracted by 80%, investment fell by 36.2%, inflation rose from an annual average of 5.4% to 38.6%, industrial wages contracted by 32.8%, open unemployment increased from 2.6% to 7.8%, underemployment increased from 5.2% to 8.9%, and the external debt rose from U$S 27.2b. to U$S 63.3b. (of which the public sector share changed from 53.3% to 92.3%).[89] However, the Argentine current account went from -2,5b.U$S to +5,3b.U$S. This is partially a result of the reduction of the domestic market, but mainly a change in the industrial structure, re-orienting its strategy towards an export development model. This subject will be further analyzed in chapter V and it will be shown that it may be more appropriate

[89]Azpiazu, 1991:41.

to talk about a decade of transformation rather than a decade of loss.

To conclude, although there has been much written about economic liberalisations in the South Cone in the late 1970s, liberalism in Argentina under Martínez de Hoz seems to have been more political and ideological than economic. It was a useful political tool to reduce the power of unions and a way of obtaining external finance. The paradox came in that the freeing of financial markets led unexpectantly to an external debt crisis. The nationalisation of private debt, added to other factors such as the fall of international prices for primary products, pointed to the end of the Argentine corporatist model of accumulation. It was by 1983, with the restoration of democracy, when the real debate on economic liberalisation began. Only then was the liberal project viewed as one of the few alternatives for future development. Further, the tensions and disorientation coming from transformations in society and the real economic meant that the Argentine state was itself responsible for the frustration of its own stabilisation attempts. This policy contradictions resulted in two bouts of hyperinflation. However, there are many degrees and means of liberalisation. The role of the state in the economy has changed in recent times, and yet it can still be argued that the state needs further restructuring. However, a reduction in state functions as to facilitate the free operation of market forces is not the only option that can result from economic chaos and the resultant search for short-term solutions. Corrective measures were applied during the classic period of ISI and other remedies were introduced during and after the 1980s. However, the force and intensity of policies designed to limit -or to make more efficient- state action varied considerably, depending on the attitude of the government in power. By picturing the Argentine state as a bankrupt enterprise, liberal governments have centred their economic policy-making on the short-run, placing the responsibility of long-term investment in economic and social actors in the private sector. Economic adventurism is tempting, but not prudent; other countries, like Spain and Brazil have been -and continue to be- more cautious. But this is material for the next chapter.

CHAPTER 4: THE ECONOMIC TRANSITION IN SPAIN

This chapter examines the macroeconomic evolution of Spain over the last twenty years, paying particular attention to the interrelation between political and economic transition. This section is fundamentally descriptive, in order to provide a setting for the analysis of industrial policy and structure which will be presented in the next chapter.

The chapter opens with a brief assessment of the logic of autarky under Franco. This is followed by an account of the first steps towards dismantling the interventionist regime taken with the 1959 Stabilisation Plan and the reversal of this process of liberalisation with the development plans of the 1960s. Subsequently, there is a discussion of the 1970s crisis, when the political transition took priority over economic matters.

The economic transition can be divided into four stages. The first (1977-78) was directed by E. Fuentes Quintana during the first democratic government. In this phase, a necessary economic adjustment began, thanks to a strategy of social pacts. A critique of the Moncloa Pacts and later social agreements will be presented based on theories of neo-corporatism[1]. The second stage (1978-82) of the economic transition corresponds to the crisis of UCD and the hold-up in the adjustment process. Adjustment was continued and developed in a third stage (1982-85), under a Socialist government and co-ordinated by the team headed by M.Boyer at Ministry of Economy. This section will pay particular attention to the financial crisis of the period (the worst in post-Second World War Europe) and the interventionist

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[1] O'Donnell, Schmitter & Whitehead, 1986.

role of the state in the stabilisation of the banking sector, an example of a policy of gradualism and careful liberalisation of the Spanish economy. This section also considers the deregulation of the labour market and growth of the informal economy and the evolution of the social security system. The fourth stage (1986-89) began with the replacement of Boyer by C. Solchaga and corresponds to a period of economic expansion.

The chapter opens with an assessment of Spain's entry into the EC and NATO as a reflection the developmentalist drive in the mentality of Spanish policy-makers. A balance of the effects of membership of Spain was provided in chapter II. This chapter extends that analysis, emphasising the effects of entry upon the domestic economy, by focusing on monetary policy (the cost of maintaining the peseta in the European Monetary System) and tax reform (including the introduction of VAT).

The chapter ends with a brief analysis of various perspectives on the future of the Spanish economy. Inflation, the pace of short-term growth and the productive crisis raise doubts about the implementation of monetary adjustment measures. Since these problems are of a structural nature and not conjunctural, as defined by the PSOE government, it may be convenient to design a new (medium-term) alternative economic policy. Finally, the chapter concludes that the Spanish state's greater autonomy with respect to social groups, the gradualism of the liberalisation process, and the expectations of benefits from integration into the EC have been the key factors in Spain's economic transition.

IV.1. PROTECTIONISM AND AUTARKY

In Spain the idea of economic independence based upon industry can be traced back to the nineteenth century, more particularly to 1875 when there was a radical change to industrial protection initiated by the then Prime Minister, Canovas .del Castillo[2]. The roots of this economic nationalism were the recognition of Spain's increasing backwardness relative to other European countries, the instability of the world economy, and a romantic anti-foreign sentiment typical of the nineteenth century. After 1891, import tariffs grew so dramatically that the conservative Canovas del Castillo's policy became known as the hunger tariff, given its effect on price increases. The Tariff Law of 1906 accentuated isolationist tendencies. Other laws, such as the Industrial Protection Law of 1907, aimed to deepened the process of industrialisation. The Cambo Tariff of 1922 increased some tariffs to 100% ad valorem and further tariff adjustments followed in 1926, 1927 and 1928. This legislation was still in force in 1960[3].

The main ideological centre of this doctrine was the National Economic Review (*Revista económica nacional*), founded in Madrid in 1916, which was to be very influential in the country's subsequent economic evolution. The Review brought together all debates on state intervention, national self-sufficiency, development of the domestic market and the promotion of new industries. Later, in the 1930s, it published articles on economic autarky, that were influenced by the Italian experience[4]. The architects of the Spanish version of this economic model, Gual Villalba and A. Robert, among others based

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[2]Who was later to publish *How I became a protectionist*(1890).

[3]Tamames, 1986:476-482.

[4]The use of the term autarky was popularised in Italy after 1935, when the country suffered from international economic sanctions.

themselves on these interventionist ideas to create the doctrine of "complete protectionism"[5].

When General Franco took power in 1939, the rationale for autarky was more ideological than economic. Although World War II certainly interrupted international trade, in Spain autarky was maintained as an historical achievement. Complete protectionism referred to the fact that the state not only shielded industry, as in Argentina and other European nations, but agriculture as well. Agricultural protection was well rooted in Spanish history, and had been very effective in the nineteenth century. In 1895, for example, there was a tariff of 69% on wheat. This produced two negative effects. On the one hand, it held up any attempt to modernise the rural sector. Due to the existence of numerous large estates, landowners earned large marginal profits and did not concern themselves with re-investing this profits to improve techniques and land productivity. On the other hand, protectionism created a structural tendency towards rising primary product prices, which meant that labour costs were high, thereby undermining the international competitiveness of the industrial sector. In the rest of Europe, industrial output increased sharply at the end of the nineteenth century precisely due to of increased agricultural productivity.

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[5] *Proteccionismo integral*. Opposition to this ideology was centred around Valencia and Madrid. In Valencia, one of Spain's most prominent rural areas, the Centre for Valencian Economic Studies began to argue that the region's export capacity was greatly hampered by state protectionism. In Madrid, the main sources of liberalism were, in turn, to be found at the Institute for Political Studies and the Faculty of Political and Economic Sciences, founded in 1943. Academics like R. Pepiñá, V. Andrés Alvarez and M. Torres Martínez were publicly very critical of "complete protectionism", and defended the necessity of incorporating Spain into the world economy. This group was very influential in liberalisation in 1959. See Velarde, 1991:977-994.

Tariff protection and the process of import substitution were not sufficient to sustain economic development at the European pace. Comparing the index of industrial production of a number of European countries during the nineteenth and twentieth centuries, Spanish industry grew initially at rates similar to France, England, Belgium or Holland: 2.3% from 1829-61[6]. Subsequently, this rate was not maintained. High labour costs resulted in very limited industrial profits and, therefore, low investment. The growth of socialist movements after 1868 was inevitable given the miserable living conditions of the workers. However, pressure from these movements did not serve to correct the main distorting factor -agricultural prices- and industrial growth continued to stagnate. Thus, the second stage of the industrial revolution failed in Spain, holding back the development of railways, electricity, chemical industry, etc.[7]. Other factors which impeded the formation of self-sustaining, autarkic economic growth were the absence of an internal market which could have stimulated production, and the technological backwardness of agriculture and industry alike.

One of the principal contradictions of the autarkic policies was the concentration of income. The distribution of income shows a noticeably unequal structure under the Franco dictatorship. The only available data are from 1964 onwards, when the post-1959 economic boom was already underway (table IV.2). In contrast with the redistributionism of the Peronist model of the period, low real wages in Spain precluded the extension of the domestic market, and the lack of demand reduced the incentive to increase

[6]Carreras, 1991:93.

[7]Nadal, 1975.

industrial output.

If the system did function, it was due, internally, to state intervention, wage compression and public and private investment through banking institutions. Externally, it was due to foreign direct investment, foreign debt and the export of some primary products in which Spain enjoyed a natural comparative advantage (wines, minerals, fruit, canned food).

Following Gerschenkron, banks have played an important role as entrepreneurial substitutes in Spain, as in other late industrialising countries[8]. Tamames (1977) pointed to the connections between the banks and industry in the 1970s (table IV.3). The political unrest before and after the Civil War resulted in banks avoiding medium and long term loans. Faced with the need for credits for economic development, the Franco military government created a regulatory body which benefited banks and businessmen alike, at the expense of the individual saver. From 1951, banks were obliged to set aside 30% of their deposits for cheap long-term credits or shares with low returns in some strategic or public sector. In the case of the Cajas de Ahorro (non-profit making savings banks), the percentage was 60%. The low interest rates paid by employers led to complaints from the bankers about the distorting effect that this privileged

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[8]The financial structure developed,in turn, around the government and industrial activities - that is in Madrid and the Basque Country. In Spain's other important industrial area, Catalonia, the banks did not survive the crisis of the 1920s. The seven major banks in 1980 for the most part were still associated with the industrial zones in the North and Madrid: Bilbao, Santander, Vizcaya, Popular, Banesto, Hispano-Americano and Central. Banesto,however is a separate case, given that it was developed by Pereire Brothers when the French built the Spanish railways; it is, in any case, another example of the type of financial structure found in developing countries (Graham, 1984).

circuit of loans had on interest rates. This argument makes little sense,though, given that the whole system was highly interventionist and that, when the balance sheet was drawn up, the banks were earning high profits. The low returns on these investments were compensated for by high interest rates on short-term credits. In addition, the administration never imposed controls on operating margins, with the result being that the Spanish banks' margins were the highest in Europe[9].

The resulting financial structure was highly concentrated. In the 1960s, seven out of the 112 banks accounted for 70% of the country's capital, granted 60% of loans and directly controlled a quarter of the 200 largest companies in Spain. Up until the start of the 1980s, Spain was the country with the largest number of banking outlets in Europe, followed by Belgium. As will be seen later, an attempt to liberalise this system in 1977 provoked the biggest financial crisis in postwar Europe. This crisis resulted in a wave of banking mergers which increased the degree of concentration still further. By the mid-1980s, the seven largest banks controlled 80% of the country's capital.

Thus the autarkic system was based on a high level of protectionism which favoured the agrarian, financial and industrial elites. The role of the state was not simply the maintenance of public order, but participation in the areas where economic activity would have been lacking -industry, public works, and welfare. Government expenditures were financed through the issue of public debt and indirect taxation. Public debt has been the traditional recourse of the Spanish state,

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[9]Graham, 1984.

which throughout the nineteenth and twentieth centuries has embarked on various political courses of action without sufficient economic backing. After the Civil War, inflation grew precisely because of the enormous issuing of public debt, and was not reduced until the Stabilisation Plan of 1959.

With respect to the tax system, government need for funds after the Civil War led to the Law of 16/12/40, through which special direct and indirect taxes were levied. In practice, only the latter were collected. Direct taxes were increased from 1% to 7%, but no account was taken of the annual variations in the rate of inflation and so their effect was minimal. Traditionally legislation on tax evasion had been very lax and as a result tax fraud was common. Despite some attempts at tax reform[10], the first collection of direct taxes did not take place until after 1977, following the restoration of democratic rule.

In a system where prices were high due to tariffs and indirect taxes, wages were regulated by the Ministry of Labour and not trade union pressure, in marked contrast to Argentina. Before the Civil War, wages in Spain had been regulated through social pacts. Under the dictatorship, strikes and sackings were both prohibited, and therefore, so were the means for collective bargaining. The workers found themselves protected through minimum wage legislation and restrictions on dismissals, but did not have the right to organise themselves into union nor to make wage claims. Law of 6/12/40 gave legal recognition only to officially authorised trade unions. These official unions, called vertical unions, brought together the employers, technicians and

[10]Laws of 26/12/1957 and 11/6/1964.

workers in one industrial sector under the supervision of the state. There were a total of 28 such unions, their role being to identify and resolve production problems and to gather economic statistics. This type of industrial relations was in contradiction with ILO resolutions and the UN Charter for Human Rights[11]. After the Civil War, the working day was very long and real wages very low. In 1956, the Decree of 8/6/56 allowed for localised agreements between workers and employers, to reward workers for productivity through incentives and bonuses. It is difficult to quantify the effect of this new norm, given that the settlements were arrived at the level of the individual factory. However, some recent company studies show that negotiations of this type were already taking place before the law was passed, and that wages could be as much as doubled as a result[12]. What is clear, in any case, is that the official government statistics are not very reliable in this period.

Meanwhile, there was a progressive extension of social security, developed through the National Welfare Institute[13] attached to the Ministry of Labour. In 1943, a system of national health and obligatory health insurance for workers was enforced, which was later extended to the agricultural and service sectors.

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[11]In 1969, an ILO (International Labour Organisation) delegation to Spain condemned Franco's policies. Following this, new union laws were drawn up (Law of 17/12/71) but there was not a single significant structural change.

[12]Paris Aguilaz calculates that in 1948 the official earnings of an office worker in Vizcaya were 14 ptas, while he received 13.67 ptas in complementary payments (Maluquer de Motes, 1989:512). Meanwhile, complementary payments in the industrial zone of Catalonia around 1950 amounted to about half of the total annual pay (Molinero and Ysas, 1985). The problem with these studies lies in the definition of "complementary pay", which includes payments for wear and tear of tools, apprenticeship schools, uniforms and work clothes, and payments to people on military service (Maluquer de Motes, 1989:510-514).

[13]Instituto Nacional de Previsión.

Social security was financed through deductions from wages (8% to 11%) and employer contributions (5% to 8%). After 1963, the expansion of social security required more funds, which the state provided.

Given the state's lack of resources (basically, coming from indirect taxation in an economy of low demand), it may be possible that vertical unions promoted forced savings which could be invested in development projects[14]. In Argentina forced savings existed, but the state always had an active role in investment. Spain needs further research in this field. As has been shown, very low interest rates were paid to individual savers, and banks had the obligation to devote 30%-60% of their deposits as cheap investment loans. This might also be a case of forced savings.

Franco's policy, like Perón's, claimed to be anti-party and cross-class[15]. Supposedly, the Movement acted impartially on behalf of all social groups. However, in contrast to Argentina, the Spanish experience of the Civil War had pitted the left/republicans against the right/fascists. Whereas the Peronist Justicialismo had the merit of coordinating the majority of Argentine social groups[16], the Franco regime discriminated not only against trade unionists, but also communists, socialists and republicans. In the period of autarky, Spain developed a kind of corporatism, in which the main social groups (the financial,

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[14]As O'Donnell and Malloy showed for Brazil.

[15]See Tezanos, 1989.

[16]With the exception of landowners, who were forced to finance ISI but still had strong political influence, and the non-Peronist unions which were severely repressed (see chapter III).

industrial, and land owning elites but not the workers) agreed on their levels of economic activity, coordinated by the state. In many respects, it could be said that these groups were trusts or cartels which operated with state consent to the detriment of the lower classes. Franco was never a developmentalist dictator, and neither was Perón. They were two militarists whose principal objectives were political: to impose order on what they considered to be a conflict-ridden society and world. In Spain the idea of autarky mimicked the ethos of the military regime and the unstable postwar situation in Europe, but, in fact, there was no elaborate ideology behind it[17].

IV.2. THE STABILISATION PLAN

Around 1950, the usefulness of autarky began to be questioned. GNP was still below the level of 1935 and interventionism did not seem to be justified by its economic results. Eleven years after the Civil War, the Spanish people were still living under a harsh postwar regime[18], and there was no sign of improvement. In 1947, an illegal strike in the Basque Country and its echoes in other cities convinced the government that repression by itself was not enough to maintain order. Meanwhile, important changes were taking place in neighbouring countries. In 1948 NATO and the Marshall Plan were launched, but the economic sanctions in force against the Franco regime meant that Spain would not be included in any European project.

However, the Cold War brought about a change in international attitudes towards Spain, whose dictatorship was

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[17] See Linz, 1978.

[18] For example, food rationing was still in force until 1951.

criticised but preferred to communist rule. Meanwhile, the image of the USA was improving among the Spanish elite. As in Argentina, the military realised the advantages of a strategic alliance with the West. In February 1949, the Chase National Bank granted Spain a credit of 25 million pesetas to cover imports from the USA[19], and so, the advantages of co-operation were made clear.

In 1951, there was an important change within the government. Carrero Blanco, an Opus Dei member who was later to become a decisive figure in Spanish politics, was appointed Presidential Secretary. Also, the Catholic-Liberal Ruiz-Giménez, who was also to play an important role in the transition to democracy, took charge of the Ministry of Education, and Arburua, a technocrat with links to finance, became head of the Ministry of Commerce. In 1957, yet another important governmental change made Navarro Rubio Minister of Finance and Ullastres Minister of Commerce. These people formed the cradle in which important future changes were nurtured. By this time, opposition guerrillas had been totally crushed, and the Civil War was relegated to the past. A new generation of students and technocrats began to see economic (and if necessary political) change as vital for the country. Therefore, when these transitional political figures won positions of power, they confronted the traditional Falange government in a very diplomatic manner. They defined their role as apolitical technocrats, and presented economic reforms as inevitable; social welfare and economic growth were necessary to re-establish confidence in the government. Since the majority of these young technocrats belonged to the conservative Opus Dei and

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[19] Tamames, 1986:567

the greater part of the government's bureaucrats possessed little knowledge of economics, Franco ended by accepting and supporting them as a means to political survival. Thus, the Falange had to share political power with a new group. International pressure was also an important tool for the technocrats of Opus Dei in legitimising their role. In 1958, Spain joined the World Bank, the OECD and the IMF. It was then that the IMF sent a delegation to Spain: their report pointed to economic distortions and recommended a package of reforms. This was the beginning of the 1959 Stabilisation Plan.

The 1959 Stabilisation Plan involved a radical change in Spain's economic policy. According to Fuentes Quintana[20], there have been two fundamental events in Spain's twentieth century economic history -the 1959 Stabilisation Plan and the country's entry into the EC. The objectives pf the Plan objectives were: (a) the reduction of inflation through restrictive monetary policy and a public and private pay freeze; (b) devaluation of the peseta to make the exchange rate more realistic, in turn reducing imports and boosting exports; (c) tax reform; (d) credit reform; and (e) restructuring the framework of industrial relations. Of these objectives, only two were really carried out: (a) and (b). However, perhaps the most important thing about the plan was the change that it represented in the government's orientation and attitudes. The plan sparked a period of economic growth which lasted until 1974-75 (table II.2), although it must be remembered that high growth rates in this period also reflect preceding economic stagnation. Growth was stimulated by a gradual opening up towards the outside. This release from isolation

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[20] Fuentes Quintana, 1991:4.

resulted in a number of decisive effects in terms of the importation of technology and the exportation of services, like tourism.

From a political perspective, there were two relative losers in this adjustment policy - workers and the landowners. The Stabilisation Plan pushed wages down even further; discontent grew and was brutally repressed. However, the trend of wages over time shows that wages did increase substantially later on; in the medium term the workers did benefit from the Opus Dei economic programme. As it regards landowners (except those of the efficient Mediterranean area), profits were dependent on excessive protection and differential pricing, which could not be maintained since these were the principal causes of Spain's structural inflation.

The Stabilisation Plan was a necessary, but not sufficient, condition for economic development. Its role has been exaggerated, leading to the neglect of other decisive factors. Cultural values are not usually considered in economic analyses, or only marginally, due to the impossibility of quantifying their effect. However, in the Spanish case they were a key factor. The roots of a sense of backwardness and the deification of a urban-industrial lifestyle in the minds of the Spanish people are among the basic elements of Spain's developmentalism. The action of holding more than one job (*pluriempleo*) and migration from the countryside to the towns and overseas are prime examples of the initiative of a generation which saw modernisation as a personal adventure.

On a factual level, this spirit of developmentalism can be seen above all in two areas, an almost unlimited supply of labour and a growth in domestic demand. Regarding the former, the exodus from the countryside to the towns was massive,for example, from 1950 to 1975 the proportion of the economically active population engaged in agriculture fell from 47.6% to 21.7%, a reduction which took half a century in France[21]. In addition, it is necessary to recall that many workers held more than one job, although no data exist on the subject, thereby implying a growth in real household purchasing power. Meanwhile, the entry of women into paid employment must also be considered. During the 1960-70 period, it is estimated that one million women entered the labour market, amounting to some 10% of the economically active population. On the other hand, overseas emigration was very intense. More than a million and a half workers emigrated officially to Europe, representing 80% of the total emigration. The effect on the balance of payments was important, accounting for 30% of total foreign exchange earnings[22]. The growth of domestic demand as a result of the personal desire for change was one of the chief driving forces behind the country's economic development. Also, the growth in consumption increased in line with the rise in wages, while also allowing scope for national savings (tables I.3 and IV.4).

Hence, economic growth during the period was predicated on a surplus supply of labour, financial resources (domestic savings, remittances, tourism and foreign direct investment), sustained market expansion and the beneficial proximity of the EC. Care must be taken not to commit the error of retrospective

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[21] Fuentes Quintana, 1991:14.

[22] Alonso, 1991:330.

determinism, namely stressing only those factors that promoted economic growth and assuming that this was the only possible outcome. Reality, of course, was much more complex. At the time, official optimism about development was not sustained. In the short-run, the system proved highly unstable. There was a balance of payments crisis and inflation, a situation superficially similar to the economics of stop-go in Argentina. Secondly, the effects of the oil crisis and the world recession came at a time of political instability, resulting from the death of General Franco and an overall uncertainty of the transition in process.

Theoretically, the economic programme was regulated through three Development Plans: 1964-67, 1969-71 and 1972-75. From the start of the stabilisation, Opus Dei technocrats assumed that planning would be necessary future development. To this end, the government solicited a World Bank study in 1960. However, the plans were conceived along the lines of French indicative planning[23], and involved a reversal of the tendency towards economic liberalisation initiated with the 1959 Stabilisation Plan. As Preston comments[24], the economic development of the 1960s occurred almost in spite of the over-cautious interventionist attitude of Opus Dei policy-makers.

The implementation of the three plans raises two immediate

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[23]After World War II, state intervention took many forms. In the USA it was mainly forms of indirect investment promotion; in the UK, nationalisation and joint ventures; in France, indicative planning. This idea was conceived by J. Monnet in the 1940s and was adopted by De Gaulle as a means to restore la grandeur francaise after the war. Indicative planning was based on creating a planning body which could bring together employers, unions and technocrats from the state administration to draw up a coordinated development programme.

[24]Preston, 1990_141.

questions: why was the process of liberalisation halted; why the application of the French model, given that it is one of the most politicised planning models and requires social reconciliation and representation? With its vertical trade unions autonomous administration, the Spainish dictatorship had little in common with the French democracy. Therefore, it would have been easier to turn to a more technocratic, apolitical and dirigiste model of development. One explanation is the predominance of French cultural and political in Spain. Although, this should not be exaggerated given the indication of other patterns of development in the World Bank report. Other explanation are of a more political nature. The process of incorporating Opus Dei into the government did not involve substituting one elite for another, but rather the integration of a new elite into the political arena. That is why the liberalisation embarked upon by the technocrats of Opus Dei was limited by the framework of the political regime. They could change its organisation, or distort the market where necessary, so long as they avoided broad political reforms, reforms which could have cost the "development men" [political] power. In this way, the ideas of French indicative planning were much better suited to the Falangist model of society. A protector state mediating between social groups for the common good, namely the theoretical construct employed by the Spanish elite to justifying social regulation and the protection of corporatist interests. In this manner, the *Cortes Organicas* (the non-elective "organic" parliament) approved the first development plan[25].

The process of liberalisation required the dismantling of

[25]Law of 27/12/63.

state intervention in areas such as the labour market, the tax system, and the financial and industrial sectors. This dismantling could have jeopardised the survival of the Franco regime. Maintaining what Fuentes Quintana has termed "discretional interventionism", the system's implicit pact was preserved: "employment stability and wage growth permitted by development bought off the unions while privileged financing, limitations on competition and reduced tax pressure won the political support of the employers"[26]. The pattern of intervention carried out by the technocrats in the 1960s had its raison d'etre: all social groups were benefitting relatively, although growth was below what was potentially attainable. The mistake, however, lay in not foreseeing the difficulty in maintaining distortions in the face of any change in the international economy, as happened in the 1970s when the domestic economy experienced a profound crisis.

An analysis of the three development plans shows that their effective was very limited. Primarily, there was a real gap between predictions and results, so much so that it remains doubtful just how "indicative" the plans truly were[27]. For this reason, the second plan (1969-71) introduced what were called "warning signals", a series of basic economic indices which were allowed to fluctuate within set limits. For example, the price index would give a warning signal if it rose 2% above the figure

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[26]Fuentes Quintana, 1991:19.

[27]For example, in the first plan (1964-67), public investment was just 77.7% of the planned level. Similarly with private investment: the construction sector grew by 25% in 1963-64 when the plan estimated 8%, and tourism brought a 39.2% increase in foreign exchange earnings, compared to the predicted 10.9%. What was worse, however, was the lack of control over the general price index and the cost of living, which went up by 17% and 40% respectively during the four years (Tamames, 1990:57-67).

for the previous quarter. As Tamames notes, this "was practically a publicity formula, so that from time to time the press would remember that 'there is a plan'"[28]. This raises questions concerning the extent of government control over the economy and the politics of control. Was the governing elite "claiming" the credit for successes achieved by the independent action of others? It could be argued that economic growth occurred despite the plans.

The gap between the official economy and the real economy was increasingly obvious. The third and fourth Plans (1972-75 and 1976-80 respectively, the latter never being implemented due to the death of Franco) displayed a different character in that they raised the issue of structural economic change and the suitability of less autocentric development strategies such as investment selectivity, greater rigour in the allocation of resources, the competitiveness of the system, the importance of social factors, the elimination of political factors in the determination of prices, and economic integration into the rest of Europe. However, the political weakness of the regime limited the impetus of these plans. Finally, with the change of government of 13/12/75 the Ministry of Planning and Development came to an end, and was officially dissolved in January 1976.

The period 1960-73 was not one of uninterrupted growth. Like Argentina, Spain was an example of stop-go. Short-lived phases of economic growth led to the overheating of the economy and disequilibria in the external sector. The most important of such periods were 1967-68 and 1971-72 (see table I.3). Inflationary

[28]Tamames, 1990: 62.

pressure was reduced through contractive measures, generating a short recession. Yet, the system functioned. It was at the end of 1973 that it entered into crisis. The reasons were both internal and external. As noted in Chapter II, the rise in the price of oil, international inflation and increases in interest rates progressively undermined the stability of the system. Internally, the causes were political, for instance, the increase in social tensions and the assassination of the regime's heir apparent, Head of Government Admiral Carrero Blanco. The combination of economic crisis and political crisis meant that appropriate adjustments were not made. General Franco became seriously ill, and the country was beset by political confrontation.

At first, the popular response to economic growth had been to accept the regime, as the Opus Dei technocrats had expected. In 1966 there was a referendum to secure Franco's continued rule, and although manipulation was obvious, since the government launched an incredible propaganda campaign, 95.6% voted "yes". The PCE, the principal opposition to the regime since the Civil War, was in a crisis due to the severe repression it had suffered and due to the improved conditions for the working class after the 1959 plan[29]. Therefore, the regime was much more accepted in the 1960s than has often been supposed. As Balzac noted: "those who read about the French Revolution will never know the great changes of opinion that took place at that time. The need for

[29]This does not mean that the government showed signs of political tolerance. In fact, there were a couple of cases where the continued repression jeopardised Spain's international image. The first was the brutal torture and execution of the communist J. Grimau in 1963, and the second was the murder by strangulation of the anarchists F. Granados and J. Delgado. Both incidents were given very little publicity, of course, since the regime was trying to portray to the outside world a tourist image of the country - flamenco, beaches and the successes of Real Madrid F.C. (Preston, 1986:11).

peace and prosperity after a period of violent upheaval caused the cruellest crimes to be completely forgiven" (from "A Sinister Affair"). Franco was never loved by the Spanish people -he belonged to the *folklore* of the 1930s-40s, but the average Spaniard was inclined to political amnesia whenever there arose possibilities for developing other activities.

In 1969 Franco grew ill and Carrero Blanco, a member of Opus Dei, became head of Government. The question of political succession started to be mooted. The only group openly opposed to democracy was the traditional faction of the Falange. The rest of the political and social groups in power, from the Opus Dei to the liberal factions of the Church and the Falange, to the banks, businesses and students, showed differing degrees of acceptance of a transition to democracy. Thus on 22 July 1969 don Juan Carlos was proclaimed future king and successor, though this was not without its critics. The left (PCE/PSOE) considered him a puppet of Francoism. It turned out to be more problematic for the traditionalist faction of the Falange, which found itself out of the political game. Two weeks later, on August 10, the Falange denounced the scandal of the MATESA affair, which implicated Opus Dei in the fraudulent use of state funds for the export of textile machinery. On the 29th of October Franco's condition deteriorated, giving carte blanche to Carrero Blanco, who immediately replaced all those ministers opposed to Opus Dei and the transition. The Falange and its supporters, fundamentally in the Armed and Police, Forces began to act on their own, beyond government control. Social and political repression grew, and, as a consequence, so did uncertainty about the future political transition.

Politics took priority over economics. The first response to the crisis was the so-called "compensatory policy" based on price intervention in order to avoid new rises in inflation, subsidies on energy consumption, a boost to domestic demand to compensate for the fall in overseas demand, and an increase of wages in order to alleviate social tension. The consequences of these measures were diverse. Petrol consumption increased as did the budget deficit. The position of the external accounts deteriorated. Yet the mass of the population acted as if the crisis did not exist, thereby laying the base for future economic problems. The Franco regime was in its death throes and was leaving the difficult job of adjustment to the next government.

Thus the transition took place in Spain at a time of profound economic crisis. In this delicate situation, the provisional governments of Arias Navarro and A. Suárez (Nov. 1975 to June 1977) followed permissive economic policies. The first democratic elections for many years were held with inflation at 16.9% in 1975 (rising to 24.5% in 1977), with a marked balance of payments deficit, and a fall in the rate of growth down from 6.4% p.a. for the period 1964-74 to 1.8% p.a. in 1975-78 (growth would be negative in 1979). Unemployment grew from 396,000 in 1974 to 2,204,000 in 1982, while real labour costs per worker rose by 190% between 1970 and 1982 (table IV.4). As in Argentina, the economic situation did not provide a favourable setting for a successful political transition.

IV.3. FUENTES QUINTANA (1977-MARCH 1978)
THE ADJUSTMENT: THE MONCLOA PACTS

In the first two general elections in 1977 and 1979, the UCD won a third of the votes. This was due to A. Suárez's leadership

TABLE IV.1.:

Spain: evolution of the main macroeconomic aggregates, 1976-92.

YEAR	GNP 000 Mill. pesetas	GNP per capita	Δ GNP	FISCAL PRESSURE % GNP (*)	BUDGET DEFICIT % GNP	% PUBLIC DEBT/GNP	CENTRAL BANK RESERVE U$S millions	INTEREST RATE, 3 MONTHS
1976	6849	191,2	3,3	..	-0,0	0,00	4952	..
1977	8695	239,8	3,0	..	-2,1	16,18	6132	15,5
1978	10751	293,2	1,4	24,3	-1,5	14,97	10015	17,6
1979	12529	338,7	-0,1	25,4	-1,8	16,13	13117	15,5
1980	15209	408,1	1,2	26,7	-2,8	20,22	12358	16,4
1981	16989	450,0	-0,2	27,9	-3,0	22,46	15337	16,2
1982	19567	515,3	1,2	27,9	-5,4	25,97	11530	16,3
1983	22235	582,6	1,8	30,1	-5,2	29,60	11228	20,0
1984	25111	655,2	1,8	30,4	-5,5	34,79	15778	14,9
1985	28201	733,0	2,3	31,2	-6,5	38,89	13301	12,2
1986	32324	837,3	3,3	32,0	-5,2	39,02	16001	11,7
1987	36144	933,6	5,2	33,8	-4,4	42,55	30172	15,8
1988	40164	1034,9	5,0	33,5	-3,2	38,42	39875	11,6
1989	45025	1157,8	4,5	35,0	-2,5	37,56	44422	15,0
1990	50074	1285,3	3,7	33,9	-2,8	37,52	53104	15,1
1991	54775	1403,6	2,3	34,1	-2,9	37,79	66283	13,2
1992	58677	1501,2	1,0	33,3	-2,6	39,98	50484	13,3

Source: GNP: INE
Others: Banco de España.

(*) includes social security and taxes.

TABLE IV.4.:

Spain: evolution of labour indicators, 1976-92.

YEAR	TOTAL POPULATION (000)	WORKING AGE POP. (000)	ACTIVE POP. (000)	EMPLOYED POP. (000)	UNEMPLOYMENT RATE (%)	Δ ANNUAL WAGES	Δ PRODUCTIVITY
1976	35824	26724	13120	12544	4,39	19,3	..
1977	36256	26962	13172	12432	5,62	25,0	4,05
1978	36667	27284	13172	12180	7,53	20,6	4,78
1979	36995	27482	13101	11896	9,20	14,1	4,40
1980	37272	26737	12660	11404	9,92	15,3	7,31
1981	37751	27115	13045	11172	14,36	13,1	4,50
1982	37970	27483	13206	11061	16,24	12,0	6,31
1983	38162	27837	13353	10984	17,74	11,4	6,45
1984	38328	28203	13437	10668	20,61	7,8	8,37
1985	38474	28583	13542	10571	21,94	7,9	7,92
1986	38604	28907	13813	10880	21,23	8,2	7,62
1987	38716	29306	14306	11368	20,54	6,5	5,16
1988	38809	29763	14620	11772	19,48	6,4	5,79
1989	38888	30173	14819	12258	17,28	7,8	6,54
1990	38959	30429	15019	12578	16,25	8,3	7,73
1991	39025	30690	15073	12609	16,35	7,9	9,13
1992	39085	30953	15142	12439	17,85	7,2	9,36

Source: Total population: INE.
Wage increases: Ministerio de Trabajo.
Others: Encuesta Población Activa.

and to the fact that his party, the UCD (Union of Centre-Democrats), was a conglomeration of small moderate centre parties. Enrique Fuentes-Quintana, an academic with no previous political affiliation, was pushed to the fore as the Vice President of the government. Fuentes-Quintana undertook the necessary task of stabilising the economy. To this end, he drew up the so-called Moncloa Pacts[30], laying down the guidelines of an economic policy of adjustment and restructuring.

The Fuentes-Quintana package included three types of measures. The fundamental component was its stabilising content, based on the devaluation of the peseta, slowing down the growth of public consumption, putting a ceiling on the growth of the money supply, and imposing a wage limit in line with inflation. In order to compensate for the effects of the adjustment, an increase in public investment, a progressive extension of unemployment benefit coverage, increased financing of social security, tax reform increasing the weight of progressive direct taxes, expansion of free education and the promotion of public housing were planned. Finally, there were a group of measures aimed at rationalising the economic system through the control of public expenditures, reform of social security, reform of the financial system, a programme of legal actions in agriculture, as well as, a new energy policy.

From the viewpoint of economic adjustment, the Moncloa Pacts were successful. Annual inflation was halved (from 30% in July 1977 to 16.5% in December 1978), the balance of payments showed a surplus in 1978, and tax reform was underway. Yet the Moncloa

[30]The first attempt of a social pact since the Civil War. The name Moncloa refers to the Spanish Parliament Palace where the pact was signed.

Pacts involved much more than just a policy of economic adjustment. They laid the basis for the consolidation of a new societal order based on social bargaining. It was a matter of state importance to get out of the crisis, rather than a party policy, and this was achieved thanks to the agreement of all political groups; in other words it was what has been called "consociational democracy"[31]. There is an extensive comparative literature on this subject (primarily O'Donnell, Schmitter and Whitehead, 1986). The process of transition in Spain is compared favourably with that of other countries. However, the Moncloa Pacts were not social pacts *stricto sensu*. It was in the same year, 1977, that the vertical unions were dismantled and the right to organise was recognised. Given the existing institutional and organisational confusion, the initiative was political rather than social. It was the political parties that signed the Moncloa Pacts[32]. The paradox of the Spanish case is that social democratic ideas were accepted as the most appropriate for the economic and political transition, but, in the absence of a consolidated system of pressure groups, the state itself promoted and institutionalised the relations between

[31]See Lijphardt, 1974.

[32]The reason that all the political parties signed was due to a political master stroke by President A. Suarez. The left was initially opposed to the Moncloa Pacts, since they were not pacts and, besides, they stood for the policy of adjustment. However, Suarez pressured Carrillo -leader of the PCE- to endorse them as a sign of democratic public spirit to confirm the recent legalisation of the PCE. Once this had been achieveed ., PSOE was left on its own, and ended up signing the Pacts. In any case, if the PCE and PSOE accepted the austerity plan, it was to the extent that the Pacts also promised, among other things, changes in union structure, the handing back of union funds confiscated in the Civil War and democratic control over the social security budget (Maravall, 1985). Once established, the various social groups accepted the Pacts -in the case of the unions because of the promise of wage indexation. Strangely, it was the CCOO rather than UGT who welcomed the Pacts more. But in just one year the unions were demonstrating against the government's policy (from the interview to LagoCarballo, previous vice-Minister of Education of Spain, 1980-82).

the various social groups. "Neocorporatism" served to advance liberalisation rather than social democracy overturn corporate institutionalism.

The formation of pressure groups was, after all, rather recent in Spain. The CEOE (Spanish Confederation of Employers' Organisations) coordinated employers in the industrial and service sectors from 1977 onwards (table IV.6). Its strategic strength lies in the fact that it is a single united employers' body in the face of other social groups. However, there are strong tensions within CEOE, given the different interests of some sectors of industry as well as between small and medium businesses and the big firms. The formation of the CEOE should be seens as an attempt to gain time by a group of business leaders who were worried by the role played by the trade unions in the transition[33]. Thus the organisation was more suited to the role of collective bargaining, rather than acting as a pressure group given the diversity of interest within it[34].

With respect to agriculture, the situation is the reverse. Initially, various professional organisations were formed, which in the course of time were reduced to five (CNAG, CNJA,, COAG and APA-FTT). This diversity has resulted in difficulties in establishing a common front for negotiations. The question is even more complex when we introduce the old Chambers of Commerce and Agrarian Chambers, established under Franco and still not eliminated and whose domains at times clash with the new

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[33]C. Ferrer Salat (from Fomento del Trabajo Nacional), A. Rodríguez Sahagún (CEE), F. Mansilla (CGE) and M. Mazín (AEI).

[34]Pardo & Fernandez, 1991:157.

employers' organisations[35].

In the case of the unions, the phenomenon of the proliferation of numerous associations also appeared at the start of the transition. Finally, two major union organisations were consolidated -UGT and CCOO, initially close to PSOE and PCE respectively[36]. Nevertheless, it must be stressed that that Spain has one of the lowest levels of union membership in Europe.[37] It is possible that the figure of 11% is too low, and should be put around 15-20% of the wage earners at the end of the 1980s[38]. In 1982, CCOO accounted for 40.5% of the total union membership, and the UGT 37.4% (see table IV.7).

The Spanish unions are not representative if we take the level of membership as an indicator. However, if we analyse the union elections, it emerges that the workers' participation rate is 77%. However, this only represents 23% of total economically active population (see table IV.8). All these factors are relevant to the formation of neocorporatism in Spain; the unions have consolidated themselves as political delegations in which the workers show no interest in participating directly, but

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[35]Giner & Perez Yruela, 1988:131-132.

[36]Alós and Lope, 1991:239.

[37]According to the European Social Institute, in 1986 the figure was 11% of the workforce as compared with 82% in Denmark (1986), 46% in the UK (1984), 45% in Italy (1983), 43% in the former Federal Republic of Germany (1983), 35% in Greece and Portugal (1983) and 12-16% in France (1985). We must remember that in Argentina the level of union membership was 50.52% (Godio, 1991:427).

[38]The problem consists in the fact that the unions calculate the number of members by the number of membership cards issued, which considerably inflates the real figure -according to the unions the membership figure is between 40 and 45%. This is confirmed for some industrial sectors and regions, but not for all (Miguelez, 1991:219-220).

nevertheless, they use them pragmatically as a means of making their demands heard. This strategy has implications for the institutionalising Spanish unions. They are organised along very centralised lines, given that the union function is mediated through political negotiation. Rank and file, committees, sections and federations have not developed as they have in other countries[39]. Although centralisation is an effective strategy for political negotiation, at the same time it results in a loss of ability to secure deals at the firm level where important changes are taking place in production (staffing levels, work flexibility etc), without any consultation with the workers themselves[40]. This immaturity of Spanish trade unions has contributed to the stability of the political transition.

O'Donnell, Schmitter & Whitehead refer to the Spanish transition as a model case of neocorporatism[41]. Although Spain is an example of a well managed transition, neocorporatism played an important, but not decisive, role. *Pactismo* could be applied in the country because of the disorientation and immaturity of various social groups, and also, because of the prospects of future prosperity held out by the EC. This is not to belittle the skill of Spanish politicians. The point is, however, that the experience may prove difficult to apply in other countries where lobbies have a long tradition, for example Argentina. An analysis of all the social pacts up until 1990 shows how irregular these parts were, and that it is not possible to speak of the

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[39]Except in the most industrialised regions like Catalonia and the Basque Country. In the latter, the biggest union is neither CCOO nor UGT, but ELA-STV.

[40]Alos & Lope, 1991:219.

[41]O'Donnell, Schmitter and Whitehead, 1986b:38-39.

institutionalisation of corporatism. Five social pacts were signed between 1977 and 1987. In only two of these cases did the major unions take part (ANE and AI). The CEOE intervened in all of them, and the government took part in only two of the agreements (ANE & AES). From 1987-1990, a period in which both the unions and the CEOE had been consolidating their organisations, the government did not achieve a single social pact. Given that there is no continuity in the formulas of the pacts, the social democratic system seems more an ideological justification of the policies carried out by the Spanish state, than a prerequisite for political and economic success.

PARTICIPANTS IN THE SOCIAL PACTS OF THE SPANISH TRANSITION 1977-90

SOCIAL PACT	PARTIES	CEOE	UGT	CCOO	GOVT
Moncloa, 1977	X				X
AMI (Interconference Framework Agreement) 1980-81		X	X		
ANE (National Agreement on Employment) 1982		X	X	X	X
AI (Interconference Agreement) 1983		X	X	X	
AES (Economic and Social Agreement) 1985-86		X	X		X

Politically, *pactismo* was a strategy restricted to the first years of the transition when there was a general awareness of the insecurity of democracy. The threat of a military coup and terrorist violence created an understanding amongst political groups of the need to close ranks[42]. However, as the PSOE became increasingly aware of its electoral strength, it moved away from consensus politics and began to play the role of an opposition. In the general elections of 1977 and 1979 alike, the level of support for both the UCD and PSOE stayed constant at 34% and 29%, respectively. In its party conferences in May and September of 1979, the PSOE began to reorient its policies, redefining itself as a modern socialist party along the lines of the German Social Democrats and transforming itself into an electoral alternative to the UCD.

IV.4. THE ADJUSTMENT PROCESS PARALYSED

ABRIL MARTORELL and GARCIA DIEZ (MARCH 1978-DEC 1980)

Already by 1978, the UCD began to experience a governmental crisis. In March, Fernando Abril-Martorell replaced Fuentes Quintana and reforms set out in the Moncloa Pacts were discontinued. Abril Martorell pursued conjunctural policies that were imposed in the face of disagreement between of the main employers' groups and trade unions.

The second oil crisis worsened the situation for the UCD government. The rise in the price of crude oil and the world recession resulted in stagnation and inflation. The effects of the austerity programme were added to those of the recession, and the decline in employment intensified. In order to counteract these effects, the government reversed some of the steps taken under Fuentes Quintana. This reversal allowed for a greater

[42]The terrorist group ETA alone produced 268 victims between 1977 and 1980. Apart from terrorism from regional separatist groups (like ETA), there were also groups from the extreme left and extreme right. As regards military pressure, in November 1978 a coup was foiled when "Operation Galaxy" was broken up. However, in February 1981 a (failed) coup d'etat did take place.

permissiveness regarding tax fraud and a more generous tax deductions structure that would necessitate an increase in indirect taxes to maintain the level of tax receipts[43].

The crisis of the UCD was manifested from 1980 as a double crisis of political and economic management. On the one hand, the multiparty nature of UCD posed problems of leadership, which culminated in the dismissal of Suárez in January 1981. Leopoldo Calvo-Sotelo assumed the presidency of the government. However, he did not share the popularity of his predecessor: 82% of voters considered him "too right wing" and he did not even run for the following presidential elections[44]. In the eyes of the electorate, General Tejero's failed coup d'etat only one month later, in February, was just one more sign of the weakness of the UCD government. In May 1980, PSOE had tabled a motion of censure on the handling of policies of employment, education, regional autonomy, and the then existing controls over the press. Although this motion was not passed by parliament, the next censure motion of April 1981 brought the government down. The UCD coalition was dissolved after the 1982 elections.

IV.5. BOYER: THE SOCIALIST ADJUSTMENT POLICY

The UCD's loss of popularity and the general rejection of the right wing mentality by the Spanish people after the dictatorship meant that the PSOE won overwhelmingly in the October 1982 election (Table IV.9). This gave the party an absolute majority in both the Congress and the Senate and much greater room for for manoeuvre in implementing economic reform.

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[43]González-Calvet, 1991:152-159.

[44]Maravall, 1991:45.

The only constrain upon PSOE action was the danger of jeopardising future electoral prospects. From the point of view of political strategy, the PSOE played its cards well, because after a period of adjustment (1983-85), they returned to win with an absolute majority in the next general election of 1986, and also won with a relative majority in the following general elections of 1989 and 1993. This is particularly surprising when one considers that the PSOE's 1982 election campaign was based on two promises: Spain's immediate withdrawal from NATO and the creation of 800,000 new jobs. In 1986, Spain ratified its membership of NATO and official unemployment had risen to 2,942,000. The paradox of the PSOE is still greater when it is realized that a socialist government saw itself faced with the task of carrying out a programme of economic liberalisation and adjustment in order to achieve entry into the EC.

The explanation of the PSOE's electoral efficiency is found not only in the charisma of its leader Felipe González and the lack of charisma in the opposition figues but also in the collective historical memory of privileges and inequalities of Spanish right-wing authoritarianism. The PSOE electoral slogan, "Time for change", captured the spirit of developmentalist of the 1960s-70s in order to show that "Spain is not different"[45]. Even today, the PSOE is still strongly identified with the rhetoric of European modernisation. Economic and political "normalisation" is a key strategic priority in understanding the economic policy of the socialist decade. Opinion polls show how the population assumed, and continues to assume, that economic adjustment and liberalisation as a necessary step to achieve economic

[45]This was a meaninful publicity slogan for turism promotion during the developmentalist period.

prosperity, even at the costs of three million unemployed in January 1993. The PSOE is seen as the least bad political alternative. On the other hand, it is this drive towards "European standards" that has made the government push for Spain's rapid integration into the EEC without adequate discussion or protection of national interests and a precipitate integration into the institutions of the Community[46]. This "fight against time to achieve modernisation" explains the evolution of orthodox macroeconomic policies followed during the socialist period.

Miguel Boyer was the first socialist Minister of the Economy. His diagnosis of the Spanish economy did not differ from that of Fuentes Quintana: the country needed not only adjustment but also economic restructuring. This time the analysis was also backed up by reports from the OECD, IMF and the Bank of Spain. Thus the Minister's response to the PSOE's electoral promises was that in order to create 800,000 jobs in the medium-term, in the short-term it was necessary to reform the economic system. The policy of adjustment was based on reducing inflation, the balance of payments deficit and the budget deficits. The policy of reforms was subordinated to that of adjustment, and was to be gradual rather than radical. It was based fundamentally on the reorganisation of certain industrial sectors (private and public), reform of the financial system, measures to make the labour market more flexible, reform of social security and adjustment of the agricultural energy sectors. The basic idea behind these reforms was to prepare for the entry of Spain into the EC.

[46]For a crtical view of Spanish membership tino the Ec, see Alburquerque and Curbelo, 1993.

The reduction of inflation was achieved thanks to a restrictive monetary policy, wage moderation and control over the price of specific products and services. The results of these measures were effective and inflation was reduced from 14.2% in 1982 to 8.2% in 1985. Wage moderation was coordinated through the Interconference Agreement (AI, 1983), although in 1984 labour conflicts rose again due to the process of industrial restructuring and the fall in real wages (Table IV.4).

A second very important effect and instrument of the restrictive monetary policy throughout the socialist period has been the rise in interest rates. The need of financing the public deficit was parallel to the need of a deflationary policy. Two digit inflation during the transition resulted in nominal interest rates being adjusted to changes in the price level. The restrictive monetary policies, the fall in family savings in the crisis and the increase in the budget deficit reinforced this tendency of rising interest rates. In the Socialist period, real interest rates in Spain were among the highest in Europe (Figures IV.1. and IV.2) This attracted large sums of capital and increased the country's foreign exchange reserves[47], compensating for the growing foreign debt and external deficit. However, it has had negative effects on business activity, traditionally financed through private bank loans. As will be shown in chapter V, many enterprises changed their financial pattern, so business profits went to debt repayment instead of industrial investment. Trying to compensate for the scarcity of

[47]In 1992, Spain had more than U$S 70 billion reserves. Even after the speculative maniouvres after the three sucesive devaluation of the peseta at the end of 1992-beginning of 1993, Spain was the fourth country of the OECD in terms of total quantity of reserves (U$S 45 billion), after Japan, Germany and the US, and was the first in the world relative to GNP and population (The Economist, 3/7/93).

private financing, the PSOE took the initiative in promoting subsidised loans to the private business sector through the old Official Credit Institute (ICO). In 1987, the ICO accounted for 11% of the total bank lending to the private sector[48].

The reduction of the external deficit was also successful, going from U$S -4,102 million in 1982 to U$S +3021 million in 1985. This was due to the devaluation of the peseta in December 1982, and to the subsequent floating of the exchange rate. These changes were geared to the long-term, since tariffs were being reformed at the same time as measures to promote exports were being adopted.

Attempts to reduce the public deficit did not achieve the expected results. The planned measures were the continuation of the tax reform begun in 1977 and the constriction of public expenditure. The fiscal side will be discussed in the pages that follow. As regards public expenditure, it grew instead of being reduced, due to the marked expansion of local and regional government, as well as the increase in expenditure on social security and central government. 1985 was the year when public expenditure reached its highpoint of the decade 1979-89 (6.5% of the GNP). Despite this, the level of social security expenditure was far below the EC average -around 20% of GNP along the socialist period, compared to 26% in the EC. This backwardness manifested itself in almost every field -health, education, transport, and housing[49]. The other major factor behind the increased budget deficit was the cost of propping up the banks

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[48]Ontiveros and Valero, 1991:406.

[49]González-Calvet, 1991:204-210.

and of industrial reorganisation, which involved a limited but necessary system of unemployment subsidies. In 1983 came the expropriation of the holding company RUMASA on tax grounds[50]. The cost to the state was 560 billion ptas (1984 US $3.48 billion) financed through the issuing of government debt[51].

The RUMASA affair brings us to the problem of the financial crisis that Spain experienced in the period 1978-85, the biggest banking crisis in postwar Europe[52]. Of the 110 national banks that existed in 1977, only 58 survived by 1985 (Table IV.10). The causes of the crisis were various: in an over-protected system, the bonanza of the 1960s led to irrational strategies like the over-expansion of the number of banking outlets and the less than prudent handling of financial activities -the so-called moral hazard syndrome. As liberalisation of the financial system got underway, the only way of compensating for losses resulting from

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[50]The RUMASA holding company devoted itself to buying out bankrupt businesses, and in 1978 the government gave indication that it would not cover the losses if RUMASA overstretched itself. However, the company continued its policy. Its owner, Ruiz Mateos was a member of Opus Dei and from 1978 was considered the richest man in Spain. This was not actually the case, since it was due to what Ruiz Mateos had declared in the 1978 tax returns, but in 1982 tax fraud was still 41%. The expropriation of his company and his subsequent imprisonment had an air of "exemplary punishment", showing other businessmen the government's resolve. The expropriation could be seen as a positive step in so far as the financial situation of the company was precarious; however, the costs this entailed for the state and the way in which the company was reprivatised are open to serious criticism. It is paradoxical that the government ended up doing precisely what it had not wanted to do -cover RUMASA's debts. On an anecdotal level, it may be noted that Ruiz Mateos was imprisoned in Germany and extradicted to Spain. In prison, his mental health deteriorated. Finally, he stood in the elections to the European parliament, winning a seat due to the popularity of his case. All else aside, the RUMASA case must be understood in the context of the financial crisis and the interventionist role played by the Spanish state to avoid the worst effects of liberalisation.

[51]Tamames, 1986:219.

[52]See Graham, 1984.

increased competition was to raise the costs of intermediation. Meanwhile, this had to be understood in the Spanish context of very close ties between the banking and the industrial sectors - the RUMASA case being an extreme example of this- such that the 1970s crisis in production dragged down with it many financial institutions.

The government thus found itself at a crossroads - either it had to let the laws of the market take their course and so abandon the banks to their fate, or it had to intervene to protect both depositors and businessmen and avoid a financial catastrophe which would, apart from anything else, have damaged the image of the country. The government opted for the latter course of action, intervening skilfully in the stabilisation of the banks. To this end, it created the Deposit Guarantee Fund (FGD)[53], also known as the "banks' hospital", which intervened in the cases of 26 of the 51 bankrupt banks, 20 belonging to the RUMASA group. Another four were taken over by bigger banks and only one bank went into liquidation. Financial reform is a further example of the gradualism and the skilful handling of the economic transition. Once again, action by the Spanish state has been considered as a model. But the costs of caution and gradualism were high and implied a larger burden to the state and sound banking houses (the costs of the RUMASA rescue package were financed along equally by the FGD and the surviving private banks)[54]. Finally, as in Argentina, the result has been far greater concentration in the financial sector. At the end of the 1980s, seven major banks controlled 80% of the country's capital.

[53]Royal Decree 3,048/77.

[54]Olarra, 1989:211.

However, social questions remained unsolved, and moreover unemployment, the Achilles Heel of the PSOE government, worsened. The causes of unemployment in the 1980s were various, and not all of them are related to the government's handling of the economy. The high population growth of the 1960s, the entry of women into the labour market and the return of migrant workers from Europe have produced a significant increase in the economically active population. On the other hand, industrial reorganisation, the move towards flexible working to raise productivity and the adjustment plans have increased the tendency towards higher unemployment, and these have been products of the Socialists' economic policies.

The peak came in 1985 when unemployment reached 21.5% of the economically active population, falling to 19.5% in 1988 and 16.2% in 1989, but increasing again to 21% in 1993 (Table IV.4). These figures probably over-estimate the true level of unemployment, since there is an important informal sector comprised of unregistered small and medium size firms and in the agricultural and service sectors (tourism in particular). The Ministry of the Economy estimated the real rate of unemployment at 15.9% in 1986, 5.2% below the official figure. Even so, this is a very high figure and has provoked confrontation between the PSOE and the unions. The UGT had only just signed the AES social pact in 1985, and subsequently joined with CCOO to protest against the Socialist government's inadequate social policy. Furthermore, real unemployment rates may be pushed higher as the process of industrial restructuring caused a substantial number of workers to take early retirement.

Inducing flexibility in the labour market undermined the PSOE electoral promise to fight unemployment. One of the government's arguments about re-industrialisation has been the lack of labour flexibility and high labour costs that act as a disincentive to investment. Both arguments are not correct. With respect to labour costs, they have been reduced 10.2% since 1985. This makes Spain the country with the third cheapest industrial labour costs in the EC after Portugal and Greece. Furthermore, the labour market has become very flexible following the socialist adjustment; half of the population over 16 survives thanks to temporary contracts and to the existence of a traditional family unit.[55] Wage reduction and increases in productivity did not promote an increase in employment, as forecasted by the socialist government. Wage moderation was exclusively an anti-inflationary mechanism without redistributive effects on job creation. In fact, the Spanish productive system has serious structural problems in increasing the number of jobs. As can be appreciated in table IV.4, the quantity of "formal" employees has been constant since 1976. Neither the period of expansion (1986-91) nor the extension of flexible contracts has caused unemployment to fall below 16%.

The continuing problem of high levels of unemployment leads to a consideration of public social expenditure. Until 1960, public expenditure did not satisfy the demands of the Spanish society, because the regime was not under any democratic pressures. Even in the 1980s the situation with public services

[55]This has important social effects, like delayed marriages, decrease in natality rates, etc. as the demographer Livi-Bacci noted for Italy. Following the INE (National Institute of Statistics), the mean age to leave the parent's home in Spain has become 29,5 years old (INE, 1993). The existence of family solidarity in traditional Spanish culture is one of the key explanations of young people's survival during the 1980s.

fell far short of meeting the needs of the population. In this respect, the PSOE's philosophy has been that economic efficiency is a precondition for meeting social needs[56]. In contrast to French or Greek socialism, which, to begin with, argued that there was a "third way" between capitalism and communism, the PSOE has not embarked on any such experiment. On the contrary, it has set its priority on economic soundness and has carried out policies similar to those the Spanish right might have implemented had it remained in power. Furthermore, due to the absence of a significant political alternative, the Socialist government has had sufficient political autonomy to implement more radical measures with the object of closing the gap between Spain and the rest of Europe and of generating stable economic growth. This has caused divisions within the party itself.[57]

An analysis of public expenditure shows that social spending has grown during the transition from 9.9% of GNP in 1975 to 18% in 1992. The greatest increase has gone on pensions (from 3.5% of GNP in 1975 to 8.7% in 1989, with 10% predicted for 1993) and the lowest in health (from 4.0% of GNP in 1982 to 5.0% in 1992). Despite these increases, comparison with the other EC countries shows that only Portugal has a lower investment in social expenditure as a proportion of GNP (figure IV.3).

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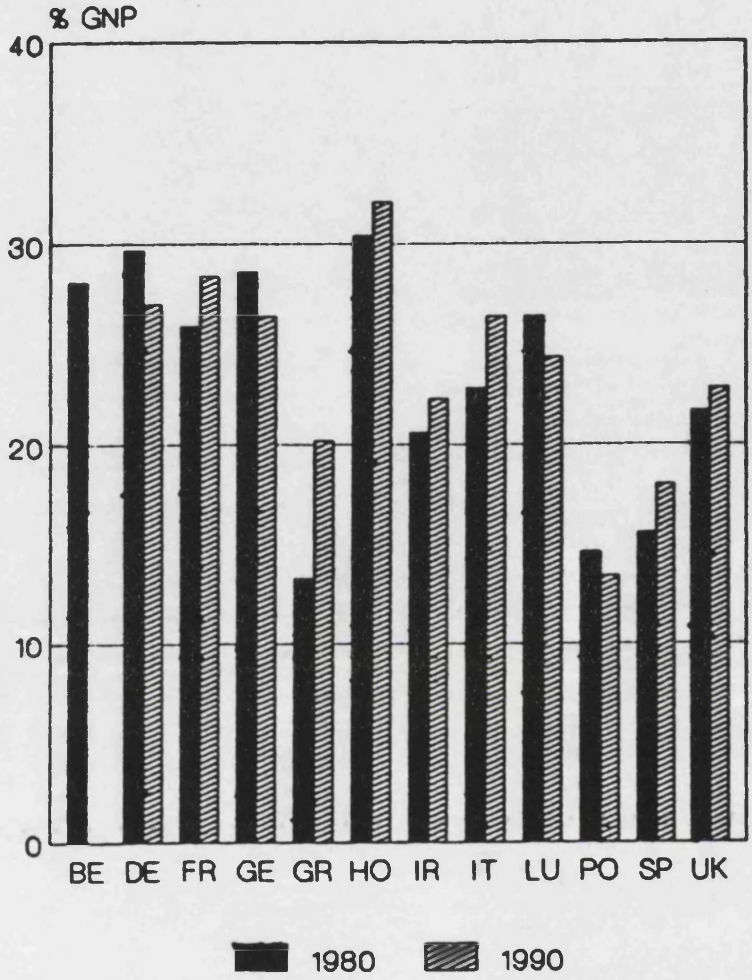
[56]Maravall, 1991:56-67.

[57]This has caused a confrontation between the President F. Gonzalez and the ex-Vice-Premier and vice-general secretary of the PSOE A. Guerra. In practice, there are questions of a political order in the background of the debate. Guerra resigned his position (January 1991) after a scandal over misappropriation of funds. Due to the structure of the party, where the top levels hold a lot of sway, this has divided the socialists into two blocs - "families". Given the fall of French socialism (March 1993), and given that liberal measures alienate social support, future divisions within PSOE are predictable.

FIGURE IV.3.:

Social expenditures in the EC, in percentage of GNP.



Source: Commission EC.

The balance between economic growth and social equality is one aspect of the PSOE's policy that is most open to criticism. Rather than aiming at a higher quality of services, the PSOE's policy has been for a quantitative expansion in order to extend the services to the greatest possible number of citizens, but with the lowest possible investment. It could be said that Spain has a limited welfare state system, where the typical welfare state institutions exist nominally, but their capacity and resources are much less than those existing in a mature system. This means that post-compulsory education[58] became possible for 30% more of the population than in 1982. This figure, added to the 45% increase experienced in the period 1975-82, has resulted in the over-crowdeding of universities. The same has occurred with medical services. After the 1986 General Law on Health, the system provided universal protection (a real increase of 6.3 million people who benefited from the system between 1982 and 1989). However, funding increased by a mere 1% of GNP in this same period (Table IV.13). It is interesting to refer to a particular strategy within the government's cultural policy which conforms to the same pattern of low expenditure and great expansion: in a time of economic stabilisation, with high unemployment (47% for those under 25) freedom of expression, pop culture and various types of popular festivals were encouraged.

One of the political lessons to be drawn from the record of the PSOE administrations is that the enthusiasm about the transition to democracy and the awakening of civil liberties, above all in regimes where religious morality has been strong, can give wide sections of the population the necessary drive to

[58] 14 and over; 16 and over after the LOGSE Law of 1990.

bear the burden of economic adjustment. PSOE knew how to take advantage of this reservoir of goodwill: in other transitions this popular enthusiasm has been rapidly dissipated, for example in Argentina under Alfonsín.[59] An extensive literature[60] has pointed out the problems of consolidating democracy in times of economic crisis. The Spanish case shows that although a bad economic setting is detrimental for a political transition, a political transition can be a good setting for economic adjustment and stabilisation.

The relationship between democracy and development has been the subject of an intense academic polemic. Liberal-functionalist thought upholds that democracy follows, given adequate levels of economic stability and development[61]; against this position, some Marxist authors argue the opposite[62], basing themselves on the experience of the Latin American dictatorships. This theory, known as "bureaucratic authoritarianism", maintains that development occurs precisely because of the high levels of political repression. Both approaches commit the error of economic determinism. The degree of independence of the economic and political spheres seems much greater, and the relations

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[59]Another example of skillful political management is the gradual dismantling of controls over the means of communication. The UCD maintained the state monopoly over television, although it did allow independent broadcasts. The Socialists have continued this approach, and it was not until 1990 that the government privatised TV and radio operations. In a country like Spain, where newspapers are not very widely read, the importance of controlling TV news is vital. According to an estimate by the daily newspaper, El Pais, in 1984 47.1% of the news reports were on the progress of the government, to the detriment of information on unions, conflicts, employers, other parties etc (El Pais, 5/12/84).

[60]Kaufman, 1985; Kaufman & Stallings, 1989.

[61]Lipset, 1960.

[62]O'Donnell, 1979.

between them much more complex, than has been thought. The Spanish transition shows how political development can move ahead of economic development, measured in terms of housing, education, size of the middle class, etc.

Returning to the account of the economic transition, even though social expenditures had been low, at 43% of GNP the cost of Public Administration in 1987 was considerably above the OECD average. Spending priorities have targetted the expansion of regional bureaucracy, industrial reorganisation and financial stabilisation. The last point was dealt with above, and industrial restructuring will be the core of chapter V. With respect to the Administraciones Territoriales (regional administrations), these were developed under the PSOE and currently take up 25% of public expenditure[63]. The administrative system inherited from the times of Franco was over-centralised, so the creation of a new bureaucratic network and structure not only helped legitimise the democratic regime but also created jobs and eased regional nationalistic tensions. Between 1977 and 1985, the public sector generated 45,000 new jobs; but the pay of administrative workers has been relatively low. On the other hand it is to be remembered that the national question had been one of the problems left unresolved by the UCD government, and not only in terms of Basque terrorism or Catalan separatism (both also unresolved under PSOE), but also with the appearance of mythological *patrias* (fatherlands) and regional claims in areas with no former nationalist tradition -like Andalucia, Aragon and Valencia. Although the extension and/or broadening of local bureaucracies has fed back into these

[63]See González-Calvet, 1991.

incipient nationalisms, it has also channelled political energies, stabilising the democratic regime and consolidating the PSOE's own influence in the country. This is another example of skilful political strategy: by incorporating nationalisms new and old into the political arena, they come to be seen by the people as achievements associated with the return of civil liberties under democracy. They appear, therefore, as a victory for the system, and act as a counterweight for the adverse social effects of economic adjustment.

IV.6. SOLCHAGA: EXPANSION AND LIBERALISATION

At the end of 1985, once the economy was stabilised, Boyer was replaced at the Ministry of Economy by Carlos Solchaga. However, entry into the EC required the continuation of economic liberalisation. Solchaga had headed the Ministry of Industry during the previous PSOE's Administration, and was responsible for the implementation of the harsher phases of industrial restructuring.

The idea of joining the European Community had been present throughout the transition. It was the project par excellence of each of the main political parties. Entry was an objective that had been around since the days of developmentalism and was an idea that had been sustained for three decades - Europe was "modernisation". Despite Spain's entry into the EC being denied in the 1960s due to the economic sanctions against the dictatorship, the Opus Dei government obtained a Preferential Agreement in 1970[64], linking Spain to the Community even if only

[64]The Preferential Agreement was a commercial treaty through which tariff reductions were agreed on by both parties. These concessions were greater on the part of the EC (from 40% to 70% for Spanish industrial products) than on the part of Spain (from 25% to 60%), and so it was a

peripherally. Finally, it was the Socialist government which had the political "success" of signing the Act of Admission in 1986. It is interesting to analyze this drive given that there was no significant debate over the suitability of Spain's entry into the EC nor the of the later incorporation into the EMS. The benefits were simply taken for granted. Awareness of the costs and risks of joining only appeared afterwards.

As previously indicated, the signing date of the Treaty of Admission was January 1986. It is no accident that it was the same year as the ratification of Spain's membership of NATO. For ideological reasons -basically the generalised anti-militarism after the dictatorship- Spain's immediate exit from the Atlantic alliance was a programmatic principle for the PSOE in the 1982 elections. However, once in government, the PSOE reconsidered the question and in the State of the Nation debate in October of 1984 put forward a new policy on the matter. This amounted to Spain maintaining its membership of NATO, but demanding a reduction in US troops within its territory. This ideological turn-about did not come about solely from diplomatic motives, but also because of the delicate relations between the government and the military. Staying in NATO incorporated the military into the European democratic project, and reduced tensions concerning the reduction of military expenditure and the power of the Armed Forces. Faced with the danger of losing political confidence because of failure to keep to election promises[65], the PSOE decided to call a referendum on the question. This was a risky

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beneficial treaty for the country. Spain confined itself to substituting Community products for its imports, while it substantially increased its exports (Montes, 1991:245-246).

[65]The other electoral promise being reduction of unemployment, which in fact increased its rate from 16.2% in 1982 to 21,9% in 1985.

political manoeuvre; in the same circumstances, PASOK did not dare call a referendum in Greece. The opposition on both the left and the right launched a very tough campaign against PSOE. As a result the referendum was converted into a vote of confidence in the government. Some 53% of the population gave their support to the PSOE's policy. In July 1985, only 20% of the electorate had been in favour of remaining in NATO, 46% were in favour of pulling out, and 34% did not know or did not reply[66]. Thus, the PSOE reaffirmed its political support with this Pyrrhic victory.

The PSOE was anxious to negotiate Spain's entry into the EC, but the Community was experiencing a period of recession. For Brussels the incorporation of Spain and Portugal was not a matter of priority. This inequality in the negotiations was reflected in the content of the agreement, whose terms were not the most favourable that Spain and Portugal might have been able to secure in a less asymmetric bargaining environment.

Thus in 1986 a seven year transition was agreed for accommodating the country into the Community. Three fundamental areas were marked for this transition -tariffs, indirect taxation and administrative policy. The problem with integrating Spain and Portugal into the EC was that the transition period coincided with preparation for the Act of Union of December 31st 1992, involving the process of adjustment in all the economies of the Community. That is to say, the Spanish and Portuguese economies have had to be doubly adaptable, since they had simultaneously to bring into line their domestic markets, their monetary capacity, along with harmonising their economic, social, R&D and

[66]Maravall, 1991:53-54.

ecological projects. This question was dealt within Chapter II.

One of the most relevant effects of entry was the introduction of Value Added Tax. The tax system was being reformed very slowly during the transition. It was in 1986, with the introduction of VAT, that Fuentes Quintana's 1973-76 plans were completed. The expected inflationary effect was almost non-existent.[67] On the other hand, 1987 was the first year in recent Spanish history that direct taxes brought in a greater amount than indirect taxes (see Table IV.11). In overall terms, this involved an important step towards a progressive taxation policy. Nevertheless, the growth in tax returns in this year was not due to an increase in the individual tax burden, but rather to a reduction of fraud. The introduction of VAT and the growing governmental threat to tax evaders led to the emergence of a million and a half new contributors. However, compared to Europe, the tax burden in Spain is still low (Table IV.12). Moreover, Spain is a country where the informal and hidden economy is estimated to account for 21.9% of employment, and this sector escapes fiscal control.

A more detailed analysis raises doubts about the progressive extent of the tax reform. Indirect tax is still 2% above direct taxation, the reverse of the EC average. The government has been wary when it comes to interfering with the distribution of income. There are three reasons for this: the control of inflation, control of the public deficit and the aim of economic growth. Tax rates have risen proportionally more for low incomes

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[67]Martínez Cortiña, 1991:45-47. The reasons have not been studied in depth. Two main hypothesis were pointed in the national economic press: (a) fraud, and (b) enterpreneurs reduced the margin of benefits so consumption would not be reduced by sharp increase in prices.

than for average incomes. The PSOE bought uncritically Laffer's argument that redistribution through progressive taxation conflicts with boosting economic growth because it may be a disincentive to entrepreneurial activity; therefore, redistribution should be carried out through public expenditure and by spreading progressiveness through inheritance and wealth taxes. However, these taxes are not high in Spain, and as previously shown, public social expenditure continues to be insufficient. Since tax fraud remains extensive, the progressiveness falls on those workers or salaried professionals whose money incomes cannot be falsified[68]. In 1991, this group accounted for 77% of the total income tax receipts. Data from Direccion General de Tributos (General Tax Directorate) shows that 47% of Spanish entrepreneurs declare their annual earnings below the minimum official working wage! (DGT, 1993).

In 1986, Spain entered into a period of economic expansion. This was occurring at the same time as a global economic recovery due to the fall in oil prices. However, domestic factors were the principal cause of the boom, fundamentally an expansion in the home market and not, as anticipated, increased exports to the EC. In fact, integration into the EC has caused an important deficit in the balance of payments. External demand had been progressively boosting the Spanish economy until 1984, but began to fall in the following year. Imports grew by 65.4% from 1985 to 1989, while exports grew only 28%, resulting in the balance of trade being negative in 1985 (-1,006 billion ptas) (Montes, 1991). The external deficit has been compensated by capital imports due to the high interest rates and as a result of

[68]González-Calvet, 1991:198-200.

increased public borrowing. However, if the growth in domestic demand is not accompanied by an appropriate policy of export promotion, the negative effects will be seen not only in the external sector, but also in terms of growth and employment.

The growth of domestic demand was due fundamentally to the growth of public and private consumption and gross capital formation. Politically, initiating a period of expansion has been a positive policy in so far as it temporarily reduced unemployment (Table IV.4) and generated a certain redistribution of income, necessary after the period of economic adjustment. However, the danger of growth through spending was that it postponed the problem to the future, making stabilisation necessary in the next period[69].

Direct investment has caused a spectacular jump in gross capital formation, rising from 164 billion ptas in 1985 to 667 billion ptas in 1989. The effects on the industrial structure will be commented on in Chapter V. In any case, some 45.4% of these investments have been in construction, causing an enormous increase in the price of land in the major cities and thus generating inflationary pressures. This strong rise in fixed capital investment had very positive effects on construction and services, which have reacted spectacularly and have become the most dynamic sectors of the Spanish economy. However, this growth in the demand for property, aggravated by the speculation which developed in line with it, produced a real housing crisis, adding to the PSOE's problems over social policy.

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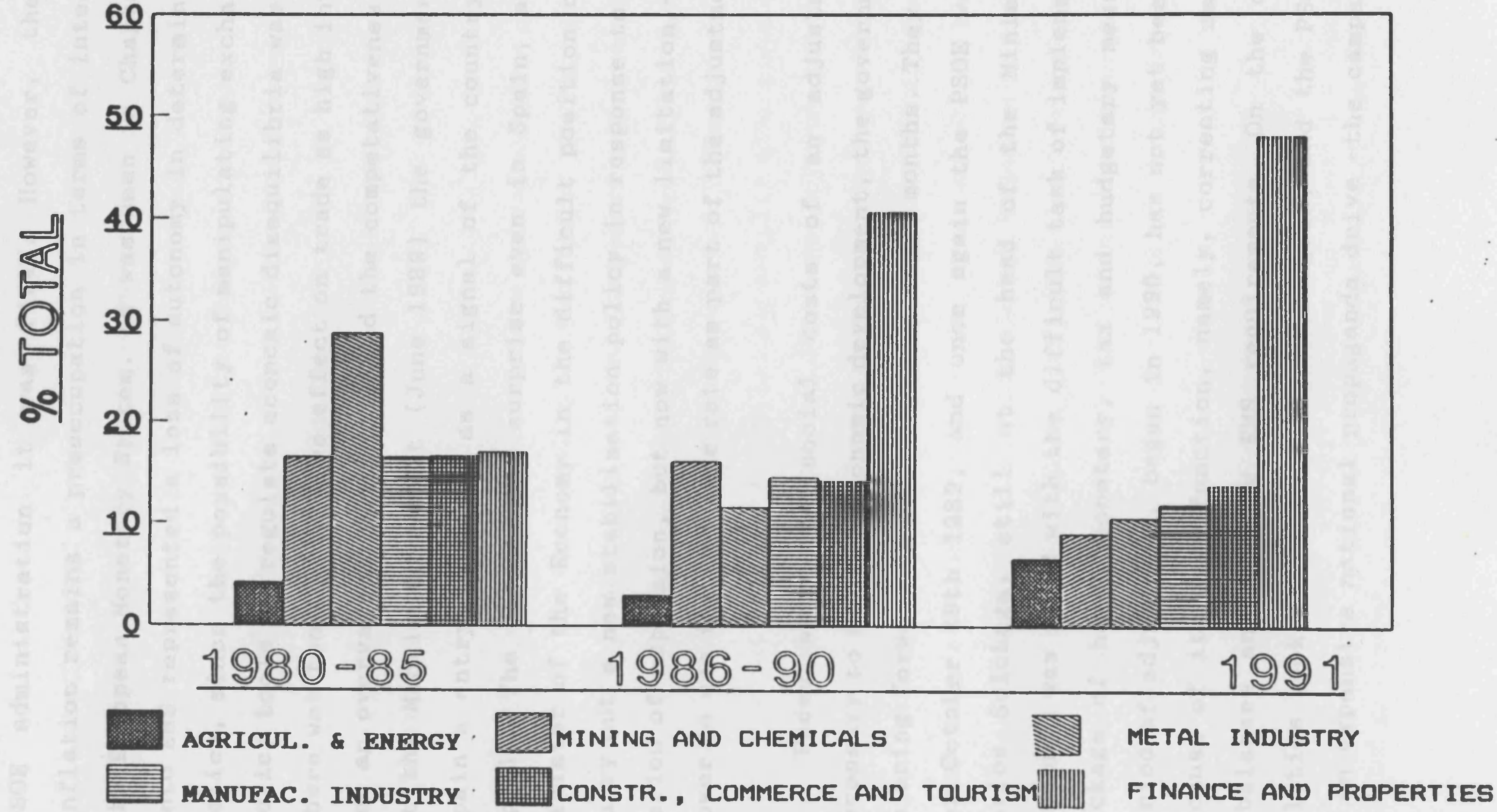
[69]Fuentes Quintana, 1991:65-72.

FIGURE IV.5.:

Sectoral distribution (%) of foreign direct investment in Spain, 1980-91.



Source: Secretaria de Estado de Comercio.

The growth in domestic demand caused an outbreak of inflation, rising from 5.3% in 1987 to 6.9% in 1989. These figures are not alarming considering that at the beginning of the PSOE administration it was 14.4%. However, the growth in inflation remains a preoccupation in terms of integration into the European Monetary System. As was seen in Chapter II, entry into EMS represented a loss of autonomy in determining economic policy, since the possibility of manipulating exchange rates as policy tools to regulate economic disequilibria was sacrificed. There was too the adverse effect on trade as high interest rates and an overvalued peseta reduced the competativenes of exports. At the Madrid EC summit (June 1989) the government announced Spain's entry into EMS as a signal of the country's European spirit. The news was a surprise even in Spain, and left the Minister of the Economy in the difficult position of having to carry out a new stabilisation policy in response to the 1986-89 period of expansion, but now with a new limitation -without the power to use the exchange rate as part of the adjustment package.

Faced with the social costs of an adjustment policy necessary to further economic development, the government decided to bring forward the elections by eight months. They were called for October 29th 1989, and once again the PSOE was elected. Carlos Solchaga, still at the head of the Ministry of the Economy, was faced with the difficult task of implementing a new package of harsh monetary, tax and budgetary measures. This period of adjustment, begun in 1990, has not yet been completed because of its dual function, namely, correcting macroeconomic imbalances and meeting EMS requirements. On the other hand, politics took over economics once again, and the PSOE embarked on an expensive national propaganda drive -the campaign for the

1992 Olympic Games in Barcelona and EXPO'92 in Seville- designed to demonstrate the modernity and development of contemporary Spain.

IV.7. CONCLUSIONS: PROBLEMS AND PERSPECTIVES OF THE SPANISH ECONOMY IN THE 1990s

1992 was a year of contrasts for Spain. On the one hand, the international image created the *grandeur and pomp* of the Olympic Games and EXPO'92. On the other hand, unemployment rose to 17.8% (21% in June 1993), GNP growth was only 1% (0.1% below the EC average), the trade deficit continued to increase and annual inflation rose to 10.3%.

Solchaga's team diagnosed the situation as a "conjunctural overheating of the economy", for which there was a need to implement not only monetary and budgetary adjustments, but even credit controls[70]. Both diagnosis and policies are not necessarily acurate. An annual rate of inflation at 10% is not desirable but neither dramatic, especially when considering Latin American standards. However, 20% unemployment and the scope of the Spanish trade deficit are dangerous symptoms. PSOE's priority comes from the need to sustain EMS parities in the short run rather than medium/long term productive and social requirements. Moreover, Solchaga's diagnosis may be based on a flase premise, that the productive crisis and inflation are conjunctural. As will be argued below, these are structural problems which require more complex solutions than deflationary measures.

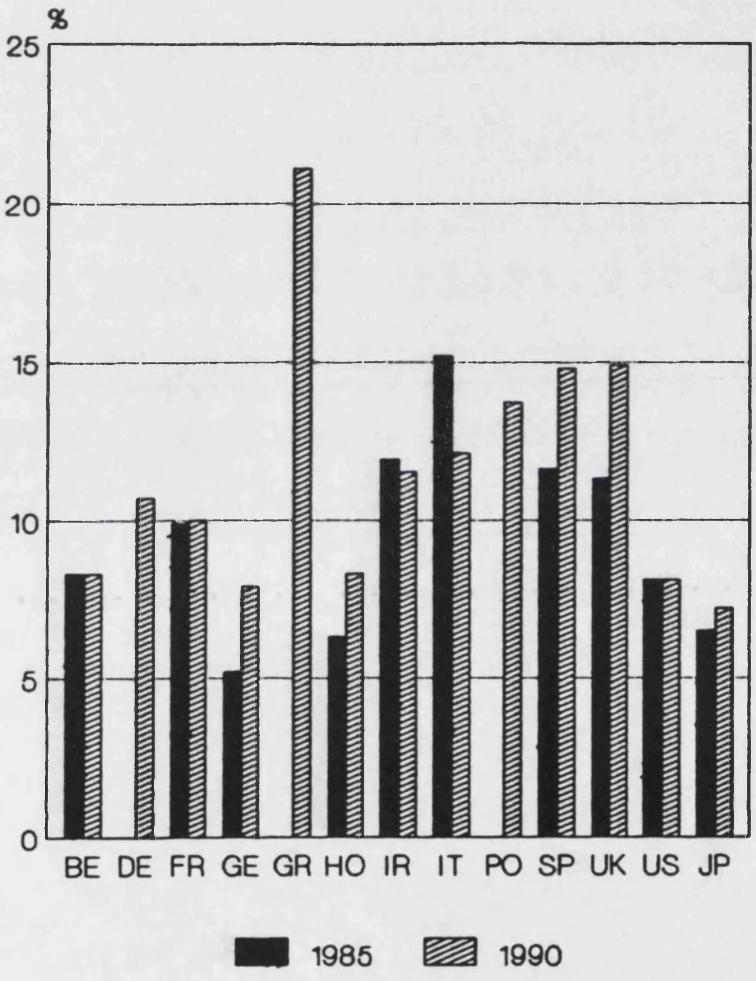
[70]The so-called Activos Líquidos en Manos del Público (ALPs or "Liquidity assets in public hands"), a paradoxical control in a liberal-oriented government.

Three reasons support this argument: the origins of the Spanish economic boom; the basis of inflation; and the roots of productive crisis. The reasons for the economic expansion of 1986-92 were pointed out in the previous pages. Briefly, the integration of Spain into the EEC and the stability of the peseta associated with the EMS made investment attractive to foreign capital. As can be appreciated in table V.4 and figure IV.5, investment occurred, not in productive activities, but mainly in construction and services, especially finance. Real interest rates and public debt offered high returns given restrictive monetary policies. On the other hand, this was parallel to a recovery of the world economy due to the fall of oil prices. However, in Spain this phenomenon was more accentuated because of a large expansion of domestic demand, and not because of an increase of exports as expected from the integration into the EC. In fact, one of the most obvious effects of Community membership has been a large trade deficit covered foreign capital inflows stimulated by high rates of interest.

The reasons for the new rise of inflation results from an expansion of domestic demand. This means that the rise of prices cannot be blamed equally on all economic sectors, but only on those which expanded. As demonstrated above, the most dynamic sectors of the Spanish economy at the end of the 1980s were the non-externally tradeable services and construction. This produced a sharp increase in the price of land, given the sudden surge in demand and the limited supply of available land in most Spanish cities. Table IV.14 gives evidence that prices rose much more intensively in services and construction than in industry and agriculture. Further, an examination of the relationship between contribution to GNP and deflators of different economic

FIGURE IV.2.:

EC interest rates, 1985 and 1990.



Source: Eurostat

sectors (agriculture and industry vs. construction and services) from 1976 onwards[71], proves that this relationship has always been favouring the denominator's components -excepting 1984. This differential character of inflation in Spain shows that an adequate anti-inflationary policy should be more refined and sophisticated than global deflationary measures. PSOE's policy of defeating inflation through wage reduction and general adjustment measures does not appear to be the best policy option. Instead, a discriminatory sectorial treatment may be a more effective solution, with less social costs.

The reasons for productive crisis are to be found in the high growth of financial costs and export difficulty given the appreciation of the peseta. This has generated a sharp reduction in the number of SMEs, a dramatic increase in the unemployment rate and a tendency towards informality as a measure of business survival. Some of the unemployed were absorbed by the informal economy, others in the service sector. However, it should be kept in mind that the process of tertiarisation of the economy has been due to the expansion of Public Administrations, that is, the state sector. One fourth of the active population remains unemployed. Thus, the implementation of adjustment policies will reduce the rate of growth and will deepen the productive crisis, without having a clear effect on inflation. Further, there are many risks in continuing with current policies. Real appreciation of the peseta is "structurally" damaging exports, including services such as tourism where Spain has got an adequate infrastructure and capacity. Flexibility of the labour market has

[71]For the index shown in table IV.14, values higher to 1 indicate more inflationary pressures coming from agriculture and industry; values less than 1, from construction and services.

created the danger of potential unemployment, since 35% of employment in Spain is temporary and thus could end up as open unemployment if economic activity was to fall.

There are several mechanisms for an alternative economic policy. Firstly, it is difficult to envisage any economic reactivation that does not break with the *Plan de Convergencia* (Convergence Plan), an adjustment programme designed by the PSOE in order to comply with the Maastricht Treaty. To keep a fix parity for the peseta in the EMS is a very expensive way of state intervention. It implies domestic deflation while exports remained over priced. Moreover, the government should take in a more relativistic approach to the importance attributed to inflation. At least, to debate the adequacy of sacrificing employment and economic growth in order to keep to the Maastricht level of 3% annual inflation. As Euroeuphoria is turning into Europessimism, there are more and more reasons to re-think the speed and the scope of integration. Some authors propose the use new forms of export promotion for sectors with future potential, without contradicting EC normatives, such as R&D promotion, programmes of technical professional instruction, credits for the marketing of Spanish products outside, or the use of non-tariff barriers[72].

There is also the residual problem of public resources. Tax fraud could be reduced; it may be a mistake for the PSOE to accept the Lafferian argument that tax fraud encourages business investment. Informality has been a survival measure for those SMEs damaged by the competition of EC imports. However,

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[72]See Martín-Seco, 1993.

informality has only been an strategy for increasing profits for those companies in the service sector. On the other hand, it may be positive to abandon the neo-liberal phobia against increasing public spending. Overall, increases in public expenditure had negative consequences when allocated to activities such as those of 1992. However, directing public funds into productive activities means investment for the future development of the country. In 1992, Spain, with the UK, had the lowest public debt of the EC (40% of GNP, compared to the EC average 58.3% of GNP). Keynesians would not find few reasons to keep Spanish public debt at such low levels, but would recommend increasing it moderately in order selectively to expand public spending.

Although the Spanish political transition has been considered a "model" in so far as it has succeeded in incorporating all social actors within the new system, the same judgement cannot be extended to the economic transition, since some social groups have lost out. In fact, what the Spanish state has demonstrated is its great autonomy from the majority of social groups, even under democracy. In a gradual process of liberalisation and dismantling of state intervention, the ones who have been hurt the most are those who have lost the benefits of state protection without having the benefit or the alternative of joining in the new economic dynamic. Fundamentally, these have been some small and medium sized firms[73] and workers. As pointed out previously, the AES, signed in 1985, was the first and last social pact under the Socialist government. The unions, first CCOO and then UGT, rejected the government's economic discipline. Industrial strike, very high at the beginning of the transition

[73]Analyzed in Chapter V.

(1975-79) and then apparently stabilised, has risen under the Socialist government (figure IV.4). In December 1988, the country saw a general strike, the first for 50 years; no social pact has been agreed since then but the country suffered again another general strike in 1992. From 1978 to 1988, a total of 3.1 million workers have lost their jobs, almost a quarter of the active labour force. The unions have not only opposed the effects of industrial reorganisation, but have also demanded more public expenditure in the social sphere and a more progressive tax system. The government, for its part, claims it is necessary to make the labour market more flexible in order to make industry more competitive internationally, and casts the blame for inflationary tensions on the lack of wage moderation. In this respect, the PSOE should understand that industrial conflict is not the result of economic ills, but rather a symptom of the structural changes that are being engendered. The advantage that the Spanish government has over, for example, the Argentine, is that there is the prospect of economic growth, and therefore the distribution of income is not a "zero-sum game", and in the long run there will be a relative gain for all social actors.

In conclusion, Spain has seen a process of intense political and economic change in the last 15 years. Considering the intensity of the transformations and the problems that other countries have had in carrying out such changes, the balance sheet has been positive in terms of the way the transition has been handled by both UCD and PSOE. As D. Gilmour commented, there is an excess of criticism within Spain itself, and there has not been much sense of perspective when it comes to evaluating the moderation of the politicians and the success of the transition. The democratic governments have succeeded in dismantling part of the state interventionism inherited from the Franco period, in adjusting the country, incorporating Spain into the EC, promoting economic growth and consolidating the political regime. However, as has been argued throughout this chapter, the social costs have been, and will continue to be, very hight. Entry into the EC could have been achieved on better terms. Macroeconomic forces appear to be only temporarily under control. The twin problems of high interest rates/inflation confound easy solutions. Recent economic growth has been due to an over-expansion of the service and construction sectors. As a result, Spain's new economic structure raises doubts about where it is heading. This is the subject for the next chapter.

CHAPTER V: INDUSTRIAL RESTRUCTURING IN ARGENTINA AND SPAIN, 1977-90.

In the preceding chapters the transformations that took place in Spain and Argentina over the last fifteen years were analyzed. In chapter II changes in the international economic setting were noted. These included the impact of the floating of exchange rates, the rise in interest rates, the problem of external indebtedness, the increase in the price of oil, the question of the formation of economic blocs and the neo-protectionism of the 1980s. In chapters III and IV the changes that occurred in the domestic economies of Spain and Argentina were examined, for example, the abandonment of economic nationalism in favour of policies of a neo-liberal nature, the attempts to implement adjustment plans, the reform of the state, the stabilisation of the financial sector and conflicts between employers and trade unions.

Consequently, this chapter will concentrate on adjustments associated with the transformation from an essentially interventionist to a largely liberal system. The focus will be centred on changes in the industrial sector, particularly new forms of specialisation and the organisation of production resulting from domestic policy changes and shifts in the global economy. The chapter is extensive and is divided into two sections. The first deals with Spain, the second with Argentina. In both cases references will be made to changing macroeconomic variables, the evolving character of the industrial sector and the impact of changing priorities in patterns of public expenditure, especially in the social and productive spheres.

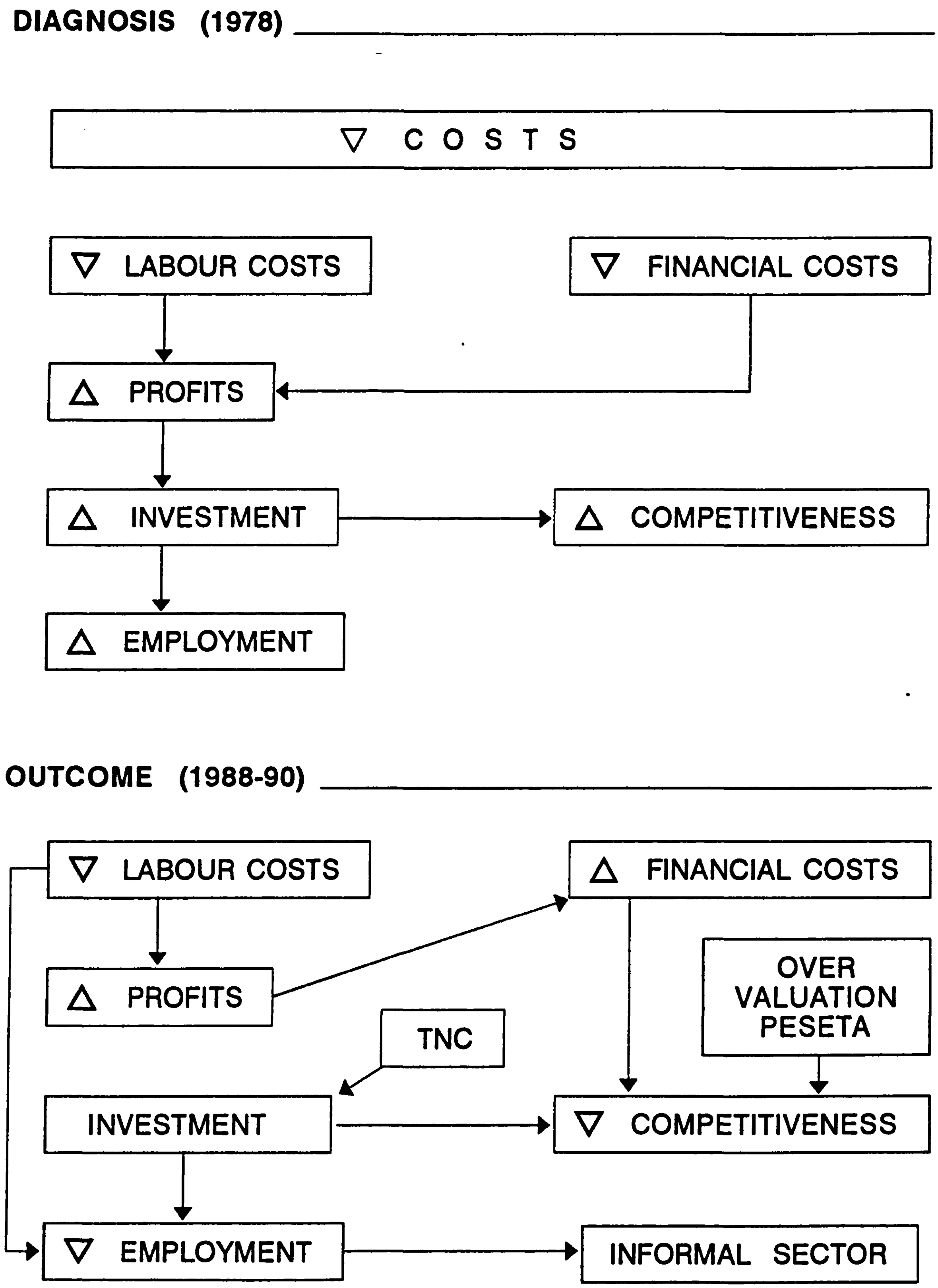
V.1 INDUSTRIAL POLICY IN SPAIN, 1977-90.

V.1.A. DIAGNOSIS AND OUTCOME

Already in 1981, under the UCD, the policy of aiding bankrupt firms began to be abandoned in favour of a programme of restructuring for three industrial sectors. But it was to be under the socialist government of the PSOE (1982 -) that the restructuring programme would really be put into force. The diagnosis underlying the industrial reorganisation policy launched under the socialist government was based on the perception that, as a result of the policy of import-substituting industrialization pursued since the early 1900s, Spanish industry was rigid and unbalanced. A secondary assumption was that these structural problems had been exacerbated by distortions of the 1970s, namely the rise in labour costs and petrol prices. From the PSOE perspective, the crisis of industry was not a crisis of effective demand, but rather a crisis of productive structure that required adjustments on the supply side. The comparison was, and continues to be made, with the situation in Europe. The failure of the Keynesian policies implemented by socialist governments in Greece and France at the beginning of the 1980s provided a very timely example[1]. The public sector deficit strengthened this tendency to take supply side measures and this implied that it was preferable that the private sector should undertake the adjustments. The only strategy for boosting private

[1]Maravall, 1991:48-51.

Figure V.1. : DIAGNOSIS AND OUTCOME OF SPANISH INDUSTRIAL POLICY. 1977-1990



investment without increasing the public deficit was to reduce labour costs, make the labour market more flexible and reduce the cost of finance.

Diagramme V.1 presents a synthesis of the diagnosis and what followed in Spain's industrial restructuring in the 1980s. It was expected that the reduction in labour costs and the cost of finance would result in an increase in profits which would then be translated into a higher level of investment and therefore of employment.

The main problem confronting the PSOE government was how to reduce labour costs. This was not only because of the paradoxical fact that it was a socialist government having to deal with the problems of economic adjustment and labour flexibility, but also due to the grave unemployment situation -18.1 per cent in 1983. Making the labour market more flexible came into conflict with the explicit objective of reducing unemployment. With a programme which stood for the adoption of corrective measures on the supply side, the achievement of such an electoral promise of 800,000 more jobs would have to be postponed until new private investment came on stream. As was noted in chapter IV, the socialist strategy was for "growth first, redistribution later". Even this redistribution was not put forward in terms of a rise in wages. Fear of inflation meant that the government opted for the path of increased employment and improvements in the 'social wage'. However, the PSOE did not obtain the results it had hoped for, and unemployment rose to 20 per cent in 1987.

The outcome was less simple and less desirable than expected. Part of the problem lies with the diagnosis of situation and consequent industrial policy carried out by the Ministry of Industry, especially concerning the increase in the cost of finance. It did not count on the restrictive monetary and credit policy adopted by the Bank of Spain in order to reduce inflation. Moreover, the overvaluation of the peseta reduced Spanish competitiveness. Labour costs fell, and industrial profits rose, but there was little new reinvestment. Rather, companies used increased profits to reduce debt. Also, they were channelled towards less risky activities such as public debt or property speculation. The industries most affected were the SMEs. They turned to the black market for survival. Thus, there was an enlargement of the informal sector. Employment continued to fall until 1989, when the unemployment rate was reduced to 16 per cent. Nevertheless, after this modest fall, the rate began to rise again and reached 17.8% in 1992. A large part of the new investment made at this time came from TNCs, attracted by the future incorporation of Spain into the EC. Direct investment as a proportion of total foreign capital inflows rose from 8.3% in 1977 to 34.5% in 1988. Yet, as the 1988 figure shows, the greater part of this capital inflow from overseas consisted of portfolio investment associated with the increase in the public debt. Moreover, a significant part of direct foreign investment was in property. Hence there was only a limited growth in productive capacity and little positive effect on levels of employment in the long-run.

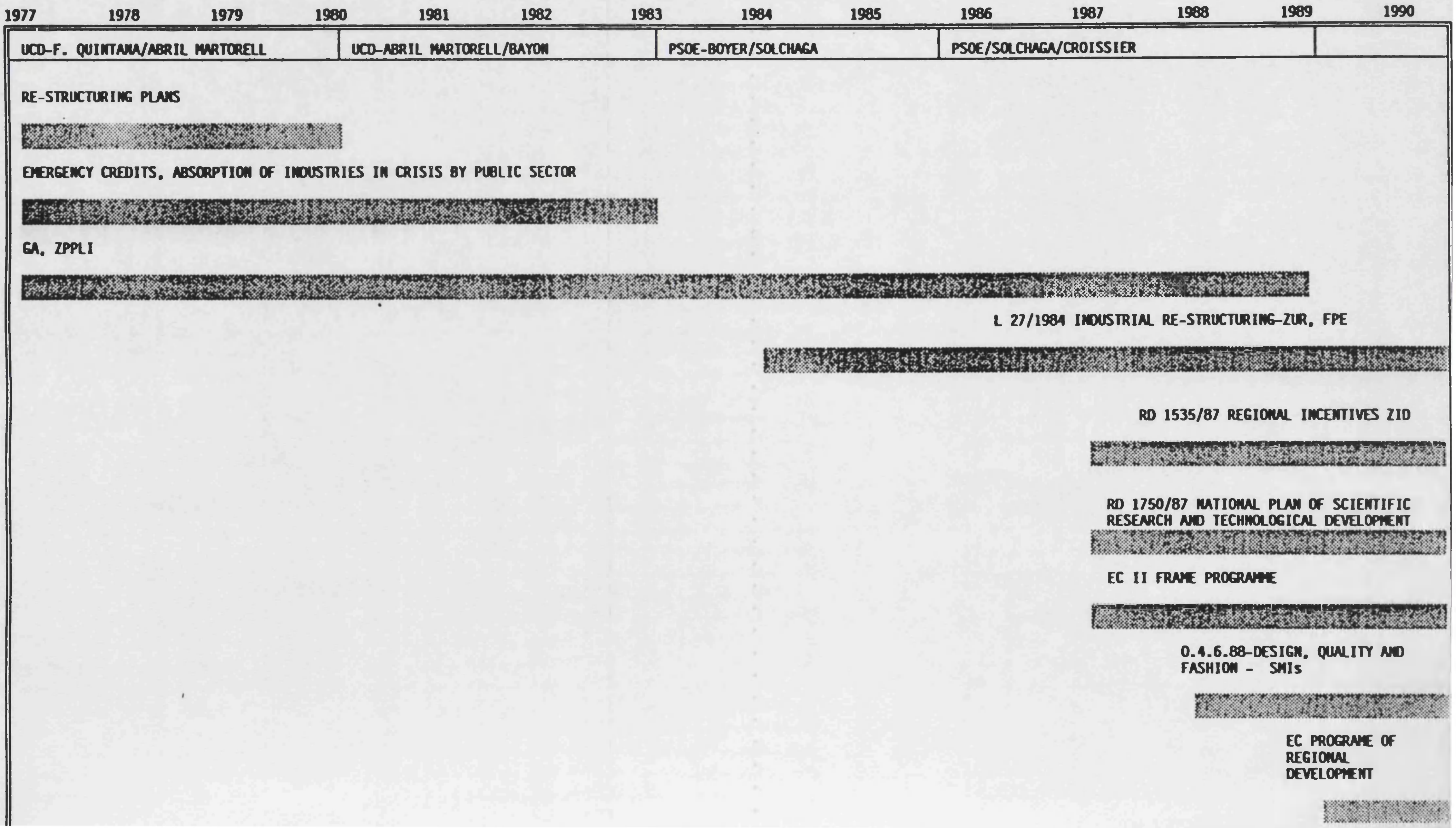
A full explanation of this will be provided in the following pages, mainly focusing on the temporal development and evolution of industrial policy, introducing cross-temporal descriptions of different matters, such as industrial debt, FDI, and SMEs. The evolution of industrial policy in the transition period can be divided into four stages which correspond with changes in government and the Ministry of Industry (MINER). Under the UCD government, there were the Abril-Martorell (1977-80) and the Bayon phases (1980-82). Under the socialist government, there have been the Solchaga (1983-86) and the Croissier phases (1986-89).

The first two stages correspond to the centrist UCD government, and will be explained briefly under the same section. Franco's death took place in 1975, and priority was given to stabilizing the political transition and to the control of inflation. Structural reforms were relegated to a secondary position. After the Moncloa Pacts (1977), the government began to put forward a policy of industrial restructuring. However, this would not be elaborated legally until 1981, and was barely applied due to a governmental crisis and the end of the UCD mandate to rule. Thus, the first democratic government was a continuation of the emergency policy initiated under Francoism -"patching up". A new industrial policy based on organizational reform was developed under the socialist government. This was evolved around three axes: the general norm for restructuring and reindustrialisation[2], the law on regional incentives for the correction of economic

[2]Law 27/1984.

FIGURE V.2.:

Industrial policy in Spain, 1977-90.



imbalances[3] and the National Plan for scientific investment and technological development[4]. However, these policies incorporated many features inherited from the period of the democratic transition. The chapter pays special attention to the policy-making process with respect to industrial restructuring, given that one of the main arguments of this research is that state dirigisme has continued in Spain after democracy, and that this was critical to the stability and success of the political transition.

V.1.B. INDUSTRIAL POLICY 1977-82: "PATCHING UP"

The period 1977-80, in which Abril-Martorell headed the Ministry of Industry, was one that witnessed a lack of co-ordination in industrial policy. As can be seen from Diagramme V.2, many of the industrial programmes launched under the Franco's regime were still in forced. However, this policy of extending the time period on concessionary loans and continuing state support for large companies that were facing difficulties had nothing to do with a continuity of the industrial development plans of the dictatorship. Rather the strategy was driven by the need to avoid political unrest. This was similar to the emergency policy developed in the last years of Francoism which came to be known as *parcheo*, or "patching up."

The eleven sectors or subsectors which were favoured during the period from before 1975 until 1982 were as follows:

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[3]RD 1535/1987

[4]RD 1750/1987.

textiles; iron and steel; mining; electronics; vehicles; household electrical goods; chemicals; pharmaceuticals; food; shipbuilding and "industries related to national defense". The support for which companies in these sectors could apply for were of two types, public grants and tax exemptions.

There were no legal norms laying down the criteria for granting concessionary loans or public assistance by the government to companies.[5] Within the Central Administration, the Industrial or Executive Commission was the arbiter when it came to determining the industries to be selected. The criteria adopted in decision making were socio-political ones: the number of workers involved, and the amount of pressure the companies could exert on the government. Thus the Executive Commission tended to protect firms already in receipt of some form of assistance. In many cases it was simply a matter of extending the time period of protection that had been granted. There were five such programmes: the restructuring plans, concerted actions, industries with preferential interest, exceptional loans to firms in crisis, and the absorption of firms by the public sector. The detailed scheme of the laws, sectors and companies is presented in table V.6.

I.Bayon took over at MINER at a difficult time. As was seen in chapter IV, there was a restructuring in the UCD's administrative team in 1980 following the vote of no confi-

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[5]Rather, this was carried out by means of a report in which a consultant from outside both the company and the government would indicate the problems the company or companies were facing. These studies used to be drawn up rather hastilly, since they did not comment on the feasibility of the investments from a national or even sectoral point of view.

dence in the government proposed by the PSOE. This political crisis took place at the same time as the second oil shock in 1979, which automatically provoked businesses to demand economic assistance to compensate for the rise in oil prices. Institutions like the National Industrial Institute (INI) and the Internal Credit Bank (BCI), entrusted with the task of absorbing firms in crisis or facilitating credit flows to firms in difficulty, pointed out the limit of the policy of "patching up"[6]. Extraordinary loan assistance, nationalisation of firms in crisis and the financing of industrial loans at preferential interest that are indicated in diagramme V.2 and table V.6 were continued. In some cases, in order to be able to apply such measures, fictitious industrial sectors were invented, such as "basic electronic equipment for cars" or "heavy forging". Also, some segments of subsectors were elevated to the status of sectors; for example, "copper semi-elaborates" or "electrical components" were included as "sectors" in industrial policies (Navarro, 1990).[7]

Finally, a regulation was drawn up in order to initiate a process of industrial rationalisation in Spain. Initially, this should have been in two sectors: household electrical appliances and special steels. However, the loans granted to the rest of the sectors were exhausted and needed to be rene-

[6]Interview to Gutiérrez-Cobos, INI.

[7]There were eleven sectors involved: household electrical appliances (RD 200/1980), special steels (RD 2206/1980), integral iron and steel (RD 878/1981), textiles (RD 2010/1981), *electronic equipment for vehicles* (RD 2793/1981), shipbuilding (RD 643/1982), copper semi-elaborates (RD 608/1982), electrical components (RD 769/1982), common steel (RD 917/1982), footwear (RD 1002/1982) and *heavy forging* (RD 1788/1982).

wed. It was then that the first general plan appeared. In accord with the Spanish government's dirigiste policy, the programme was announced by decree[8], without either consulting any of the social groups, or any possibility of holding a debate in Parliament or making amendments. However, Royal Decree 9/1981 was never implemented due to the general elections in which PSOE came to power. Even with the loss of popularity to which the UCD was confronted, its government kept with the design of an industrial restructuring policy, and the Law 21/1982 was approved which reinforced the basis of RD 9/1981.

Law 21/1982 was very significant for future policy developments given that it was the first real attempt at industrial restructuring and later laws were much influenced by it. Law 21/1982 also involved important changes in the handling of the reorganisation measures. It supposed a first step towards decentralisation, offering increased participation for the Regional (or Autonomous Communities) Administrations involved. Regional Administrations would serve as a channel of communication between the central government and the companies and would be responsible for the implementation and supervision of policy. The devolution of responsibility to the regions was due largely to pressure exerted by the Basque local government. The Basque Country was both an area of great political tension and its industries were among those likely to be most affected by economic aspects of the reform. However, as special provisions could not be made for the

[8]RD 9/1981.

Basque authorities alone, the scope of the legislation was extended to all Autonomous Communities in Spain. The elaboration of requests was now no longer left in the hands of only the company's management and the outside consultant, but theoretically was the task of the Tripartite Commission. This Commission was made up of trade unions, businessmen and the state. Although this was an important step towards regulating the rationalisation of Spanish industry, in practice the projects were presented in many different ways.[9] The organisation and running of the projects was in the hands of the administration, both central and regional, which created an Executive Commission. This Executive Commission was given the task of selecting the companies undergoing reorganisation, and controlling the implementation of the plans. Following the pattern of preference for big companies, it was the latter who benefited from the rationalisation plans. It is interesting to point out that treatment was offered independently of the origin of the company's capital, be they subsidiaries of TNCs or companies with Spanish capital.[10]

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[9]For example, in the case of textiles, the project was presented by a decision by the central administration (by Royal Decree). Only in iron and steel and in shipbuilding did the unions have a say, due to their higher level of organisation and strength (Interview to Díaz-Peña, CES).

[10]In the electrical components subsector, for example, the companies selected were Bianchi, Grupo Piher and Fagor Spain. With respect to the car industry, only FEMSA and BOSCH benefited, despite the protests of the subsector's employers' organisation (SERNAUTO) (Navarro, 1990). It is significant that the footwear sector, made up of SMEs, did not get to benefit from a single project, despite having been declared a sector undergoing reorganisation. The only option for firms in this sector was to become informal.

V.1.C. INDUSTRIAL POLICY 1982-89: THE SOCIALIST RATIONALISATION

In 1982, PSOE won the general elections. C Solchaga, who would later become Minister for the Economy (1986-), was assigned to the presidency of MINER. In the industrial sphere, PSOE began by amending the rationalisation law launched by the UCD through RD 8/1983, which then became Law 27/1984 or the General Norm for Restructuring and Reindustrialisation. PSOE did not put forward any general industrial policy apart from restructuring until Spain's entry into the EC in 1986. The problem of the public sector deficit hurried the government into abandoning the expansionary public spending programme and encouraged it to attempt to involve the private banks in financing industrial rationalisation[11].

Formally, the process continued as before, through legal decree, precluding any debate in parliament or dialogue with social actors. There were meetings throughout 1983 between entrepreneurial groups, private bankers and the administration; union representatives being excluded. It is significant that in this period the so-called Societies of Restructured Industries were formed and came into effect. The various industrial lobbies were special steels (1980), copper (1981), "heavy forging" (1983), small and medium shipyards (1983), household electrical appliances (1985) and fertilisers (1985).

[11] Interviews to Gutiérrez-Cobos, INI, and Cuevas, CEOE.

The confrontations between the government and unions reached such a level of tension that the Minister for Industry, Solchaga, ended by handing in his resignation. This was not accepted by Prime Minister González. As leader of the socialist party, González had promised that the government would always be open to social dialogue. But this dialogue only took place regarding wages, and not job creation and industrial reorganisation. Paradoxical for a social-democratic administration as the PSOE claimed to be, there was only one real social (ANE) which was signed up at the beginning of the PSOE mandate. Later attempts cannot be considered as social pacts given that at least one (and sometimes several) social organisation refused to participate in the agreement.[12] The largest union (CCOO) was not a party to any of the majority of the accords, adopting a confrontational stance with respect to the government. The reason given by the socialist party in justification for maintaining this attitude towards the unions was the latter's irresponsibility, given the unpopularity of the adjustment measures among workers. The PSOE considered that the majority of union members had been brought up in the struggle against Francoism, and maintained the same confrontational attitude towards the government without recognising

[12]AMI (Interconferential Framework Agreement, 1980-81) was supported by the employers association CEOE and the second largest union, UGT, but not by CCOO and the government. The second was the only proper social pact, ANE (National Agreement on Employment, 1982). AI (Interconferential Agreement, 1983) was not signed by the government. Finally, AES (Social and Economic Agreement, 1985-86) was not supported by the CCOO. From then onwards both unions, UGT and CCOO have maintaned a confrontational attitude towards government policies. Labour conflicts, aparently estabilised after the transition period 1975-79, have increased under socialist rule. This includes two national strikes in the period 1989-92, the first since pre-war times (Ortíz & Curbelo, 1993:85-86).

that rationalisation was necessary for the country. The argument had a point since Spanish unions failed to re-organise themselves. The number of affiliates remained very low[13]. Union had been consolidated as political delegations to express general national labour problems. However, after the death of Franco, this centralised structure did not encouraged the development of rank-and-file factory level union activities, where important productive transformations were happening -flexibility, employment adjustments and so on.[14] The immaturity of Spanish unions has given the state an important autonomy to manage labour questions without consultation.

The inclusion of banks was due to the fact that PSOE came into government needing to draw up an economic adjustment programme. The PSOE had in mind the structure of bank-industry relations of Spain, and assumed that the relationship would be maintained when industrial re-structuring was necessary. The government was aware of the financial crisis that the sector was experiencing but the worst effects were still to come in 1985, when Spain faced the biggest banking crisis in the postwar history of Europe.[15]

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[13]11% in 1986, the lowest in the EC.

[14]See Miguélez, 1991:220.

[15]Of the 110 national banks that existed in 1977, when the system was still overprotective, only 58 survived by 1985 (Table IV.11). The main causes are found in the irrational strategies developed during the 1960s bonanza years, such as the over-expansion of the number of banking outlets and the less than prudent handling of financial activities -the so-called moral hazard syndrome. As liberalisation of the financial system got underway, the only way of compensating for losses resulting from increased domestic competition was to raise the costs of intermediation. This became unsustanaible when the banking sector started to open up to international competition (Graham, 1984; Olarra, 1989:209-213).

As was noted in chapter IV, the relationship between the banking sector and industry in Spain was originally very close, as is the case with late industrializing economies. But as the Francoist protectionist system crumbled, the relationship changed[16]. As will be seen later, it was the employers who paid the social costs of the transition, and who found their debt burden rise progressively. When the government tried to involve the banks in financing industrial restructuring, the banks opted for a minimalist role. This was not so much due to changes in the relations between the banks and industry but because the banking sector itself was undergoing a process of internal restructuring[17].

Moreover, the increase of real interest rates stimulated entrepreneurs to reduce industrial debt. As seen in chapter IV, two digit inflation during the transition resulted in nominal interest rates being adjusted to changes in the price level. The restrictive monetary policies implemented by the PSOE, the fall in family savings in the crisis and the increase in the budget deficit reinforced this tendency towards rising interest rates[18]. In the Socialist period, interest rates in Spain were among the highest in Europe -oscillating between 15% and 20% in the period 1976-84 (table IV.1). Thus, industrial debt was unsustainable. Table V.3 shows the

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[16]Torrero, 1991:597.

[17]From interview to Gutiérrez-Cobos, INI, and Yagüe, MINER.

[18]In this respect, one of the main complains of the CEOE (Spanish Entrepreneurs Association) was the problem of high interest rates, even when accepting the increase in public expending in industry under the PSOE government (interview to Cuevas, CEOE).

evolution of the degree of indebtedness by sector. For industry as a whole, the equity/debt ratio declined from 1:1.62 in 1982 to 1:0.78 in 1988. The most indebted sectors were iron and steel, mining, shipbuilding (included in transport) and wood and furniture. Of these, iron and steel and shipbuilding were two sectors undergoing industrial restructuring with a debt ratio higher than 1:4 because they were protected by government and had access to public credit at interests rates lower than the market level. The reduction in the level of indebtedness in 1988 was impressive. Only five sectors showed a level of indebtedness higher than 1:1 : transport (including shipbuilding), iron and steel, electrical equipment, textiles and mining. Nevertheless, it has to be kept in mind that the rate of industrial indebtedness depends on the type of links between banks and industry. In Japan, where these relations are extensive, the ratio equity/debt in 1984 was 1:4.77, while at the other extreme, in the US and UK, where banks and industry have not been interdependent in their historical development, the rate of indebtedness was 1:0.61 and 1:1.16 respectively[19]. The degree of indebtedness is not what is important, but rather the significance of this indebtedness in the context of the concrete economic relations in a country.

Following the analysis of Gerschenkron[20], who observed that late-comers of the nineteenth century tended to develop a strong linkage between the banking and the industrial

[19]OECD data.

[20]See Gerschenkron, 1966.

TABLE V.3.:

SPAIN: EVOLUTION OF INDUSTRIAL SECTORS: PERCENTAGES OF ENTERPRISES DEBT, OF USE OF PRODUCTIVE CAPACITY AND OF INFORMALITY, 1982-88.

SECTORS	% DEBT 1982	1988	% USE P.C. 1986	% INFORMAL. 1986
ENERGY	179	66	86.5	8.3
WATER	--	--	--	
MINING (METAL)	--	--	92.1	6.2
STEEL	428	142	78.7	5.3
MINING (NON-METAL).	251	102	67.1	--
NON-METAL.INDUSTRY	41	20	82.1	--
CHEMICAL INDUSTRY	118	76	79.7	--
METAL PRODUCTS	74	78	79.4	--
MACHINERY	147	76	82.6	--
ELECTRIC MATERIAL	125	130	81.3	--
TRANSPORT MATERIAL	426	164	87.6	--
of which cars	--	--	--	--
FOOD, BEBERAGES, TABACO	69	47	72.3	17.6
TEXTIL	110	121	82.3	33.1
SHOE + LEATHER	101	67	85.4	34.9
WOOD + FORNITURE	220	27	79.1	2.3
PAPER + ARTS	124	48	83.0	16.9
RUBBER + PLASTICS	100	60	87.0	--
OTHERS (toys, optics...)	30	21	78.7	17.9
TOTAL	162.0	77.8	81.0	20.0

Source: MINER, Ministerio de Economia.

systems, Spain in the 1980s is an example of a transition from a German-style system of bank-industry relations to a liberal one. Industry distrusts the banks, and is paying its debts, and the banks distrust industry. In this case, Spain presents a good example of the disintegration of an economically nationalist alliance of finance and production.

However, the PSOE did not predict this disarticulation and launched Law L27/1984. As it was commented before, this owed much to the restructuring programmes initiated under the UCD government, and above all to the policy of elaboration, management and control of projects employed previously.

Following L27/1984, the declaration of a firm going through the process of rationalisation was made by MINER, although the firms and the unions could also make petitions. MINER was also entrusted with selecting the firms that were to benefit from the rationalisation plans. The selection criteria laid down in Law L27/1984 were very general, based on firms needing rationalisation. It seems that PSOE preferred not to make the criteria more specific, despite the problem of bureaucracy, with the multiplication of the number of petitions, in order not to commit itself legally at the time of making the selection. Looking at benefited companies, there was a logic in the selection. The rationalised industries can be put into three groups, from greater to lesser priority: (A) the hard core of the restructuring -iron and steel, ship-building, and household electrical goods; (B) sectors which were strategic in the medium term such as textiles, common steel, fertilizers, ITT and ERT groups; (C) sectors in difficulty, but with growth potential if means of promotion were applied -machinery, vehicles, motorcycles.

Once MINER had selected specific firms for restructuring, a Control and Continuation Commission was established, along very similar lines as the Tripartite Commission set up under Law L21/1982. This Commission was formed by the Central and Autonomous Administrations, and the corresponding employers and union organisations. The role of the unions continued to be minimal, despite the fact that in this case they could manage the correct implementation of plans that were not drawn up with union agreement. However, union pressure was very important when it came to analyzing the type of measures to be applied, above all with respect to the Funds for the Promotion of Employment (FPE) -analyzed below.

The measures applied in L27/1984 can be divided into four types: tax, financial, social and labour, and industrial promotion. The tax measures were based on a system of tax allowances identical to the one drawn up by UCD in the Law L21/1982. The rest of the measures, however, were much more elaborate. The financial measures were now based not only on the granting of public loans -many of which were necessary to cover the accumulated debts- but in addition attempts were made to encourage private banks to collaborate in the financing of industrial restructuring. Law L27/1984 established a number of compulsory investment ratios for all banks. The banks, however, found the risk too high, and did not get involved in a single case with a particular firm. Instead, they limited themselves to buying BCI (Bank of Internal

Credit) bonds, guaranteed by the state, leaving the role of allocating the corresponding credits to the BCI. Also, those firms who were quoted on the Stock Exchange were encouraged to issue new shares, at a nominal value below that of existing shares, but with equal rights.

The social and labour measures were the subject of a great deal of conflict. At first, MINER proposed that the labour contracts for surplus manpower in industries being rationalised be terminated. The unions were opposed to this measure, instead advocating that the contracts be suspended, since they considered that in this way the Administration would be forced to find alternative employment for the surplus workers. For the Administration, this was a bad solution, because it removed the incentive for workers to look for other jobs. In the end, union pressure meant that in decree RD 335/1984 on the Funds for the Promotion of Employment (FPEs), the question of terminating or suspending contracts remained relegated to negotiations in each sector.

The FPEs were a system which guaranteed protection to surplus workers in firms undergoing rationalisation.[21] The workers who benefited received 80 per cent of their average pay until they obtained another job, for a maximum of three years. Those who were 60 or more were offered the possibility of annulling their contracts and accepting early retirement. In the case of steel, this applied to those aged 55 and above.

[21] Finance was organised through the National Institute of Employment (INEM), Ministry of Social Security, the firms, the FPEs themselves and the so-called "solidarity quotas" -from the wages of the workers.

The FPEs were very costly for the state and their efficiency was doubtful. It is difficult to elaborate a balance of gainers and losers. The FPEs were a means of compensating workers who lost out as a result of rationalisation, but they did not stimulate real job creation. On the other hand, they were not applied to all sectors, but rather to those where the unions had the greatest power.[22] Table V.7 shows the evolution of the funds. The number of workers who had found another job in December 1986 was just 16.4 per cent, adding an extension of another 18 months. This was insufficient, and subsequently a second extension had to be added. By the same token, the government launched the National Plan for Professional Training[23], consisting of short courses to adjust the workers from the industries being rationalised to the demands of the labour market. In 1989, still only 32.1 per cent had found other jobs or had retired.

In 1989, the government decided to terminate the FPEs, convinced of their scant efficiency in terms of shifting workers into new jobs[24]. Workers who were less than 55-52 age range and who had pending job offers were forced to give up their contracts, and accept lower incentives with indemnities between 4 and 4.5 million pesetas (US$ 33,300-45,800). In the case of the special steels, electrical equipment goods and

[22]From the interview to Malo de Molina, Central Bank of Spain. These sectors, and the laws regulating FPEs, were: Special steels (7.1984), integral iron and steel (9.1984 and 1986), shipbuilding (1.1985) and household electrical goods (1.1985).

[23]Order 31.7.1985, 0.20.2.1986, 0.9.2.1987 and 0.4.4.1989

[24]Order 3.3.1989

shipbuilding, the central administration offered early retirement starting at 52 years.[25]

The balance sheet has been complex. From the state's point of view, the FPE resulted in a very substantial loss of public funds (see table V.9), 17.5 per cent of the total given over to industrial policy, which in this case was not invested in any productive activity. Despite the importance of this figure, a comparison with EC countries shows that as regards the policy of active job promotion Spain occupies an average position. In part, the state ran the FPEs badly, given that many cases of workers rejecting job offers from the INEM have been recorded. The workers preferred to remain within the FPE -perhaps in hope of getting their contracts back.[26] Also, many employees working in the informal sector while receiving money from the FPEs at the same time, have been revealed.

However, unions claims were correct in denouncing that there was no reindustrialisation policy parallel to the rationalisation policy, and the number of jobs continued to fall without the creation of alternatives. Table IV.4. shows that the quantity of formal jobs has remained constant since 1976 (around 12 million over a population of 40 million Spaniards), and there are no signs of improvement. Many firms have discriminated against workers covered by FPEs, treating

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[25]As Martín-Seco (1993) points out, if these "early retirements" are considered as "covered unemployment", the official unemployment rate (20.1% average period 1984-89) should be further increased.

[26]Navarro (1990) notes that the workers in special steels who were incorporated into the FPEs received an average of six job offers each, the majority of which were rejected.

them as individuals with a union background, who were very politicised and accustomed to very high salaries compared to the rest of the industry. The state paid compensation to those firms which took on workers from the FPEs, at a time when unemployment was very high in Spain (19.7 per cent in the period 1984-89). The alternative of using flexible contracts and part-time workers was more economical for employers. The FPEs introduced inequalities in the labour market, about which the unions themselves complained, since prioritising the re-employment of old workers hindered the employment possibilities of the others.

Finally, the industrial promotion measures involved programmes for the Urgent Reindustrialisation Zones (ZUR). As distinct from the development plans drawn up under Francoism, the ZURs aimed to restore the industrial level of the zones that were in crisis because of rationalisation. The perspective was medium term, rather than to foster long term industrial development as the development plans of the 1960s and 1970s did. The benefits of the ZUR consisted in state subsidies for activities, up to 30 per cent of the investment in a project, facilities for obtaining official loans, and tax allowances. The state in this way financed new industrial projects; only after 1987 were subsidies to the service sector included. The firms favoured in the plan, on the other hand, had to give preference to workers from the FPEs.

The declaration of an area as a ZUR depended on central and regional administration. There was a precedent to the official declaration of the ZURs[27], which was the case of Sagunto (Valencia). Sagunto benefited from similar aid in 1983, due to the process of rationalisation (in fact, closing down) of its iron and steel companies. The regions declared as ZURs after the Law 27/1984 came into effect were: Asturias[28], Cádiz[29], Madrid[30], Nervión[31], Vigo-Ferrol[32] and Barcelona[33].[34]

The balance sheet for the ZURs is also complex. It is undoubtedly positive, since the programmes promoted the creation of industry and jobs. The comparison with Argentina, where the state has not invested funds in industrial restructuring, is especially relevant when the balance is drawn up. Table V.8 shows us how important the investment and creation of jobs were in the ZURs.

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[27]L27/1984

[28]RD 188/1985

[29]RD 189/1985

[30]RD 190/1985

[31]Bilbao, in the Basque Country (RD 531/1985)

[32]Galicia (RD 752/1985)

[33]RD 914/1985

[34]It is interesting to note that since the declaration of an area as a ZUR depended on the agreement between central administration and the autonomous regional administration, the first areas declared were those communities whose governments were also socialist. Galicia and Barcelona, with conservative governments, were the last nterview to Buesa, Universidad Complutense de Madrid).

However, table V.8 also shows the weaknesses of the ZUR programme as regards its efficiency as a means of reactivating industry. The first observation is that the areas which show the greatest economic activity are Madrid and Barcelona. These were also the zones with the highest indexes of economic activity in Spain prior to being declared ZURs. The question is, then, whether it was necessary to declare them ZURs. Barcelona and Madrid have absorbed 61.1 per cent of total investment in the ZURs, 55.7 per cent of the subsidies, and have provided jobs for 63.6 per cent of the FPE workers who were employed. It is possible that they could have absorbed the same number of FPE workers and subsequently generate a similar level of investment, without the need for state subsidy.

Conversely, the rate of investment recorded in Madrid and Barcelona tended to be more capital intensive than in the rest of the ZURs. The average for projects carried out in Madrid and Barcelona was an investment of 555.1 million pesetas, whereas in the other ZURs it was just 353.3 million pesetas. This raises the question of whether the Spanish government was simply carrying out a covert industrial promotion policy, at a time when entry into the EC did not allow it openly. If this was the case, the operation was not of particularly great scope, since the ZURs only represented 1.7 per cent of the spending on industrial policy (table V.9). Another possibility is that the Spanish government declared these areas ZURs in order to benefit from the European Funds for the Regional Restructuring Programme (Zone 2). However, the hypothesis is not very feasible, since the sums received from the EC under this category represent just 0.008 per cent of the funds allocated to industrial policy[35].

As regards restructuring, the period 1986-90 shows continuity with the first socialist government. The president of the INI, L.C. Crossier, went on to be Minister of Industry, and C. Solchaga went from MINER to be Minister for the Economy. As previously stated, the industrial restructuring plans were continued until 1990.

The main difference came with Spain's entry into the EC. The EC approved the steps towards economic stabilisation carried out by the socialist government in Spain, which gave PSOE the legitimacy to carry through its programmes. As regards industry, it reinforced the pattern of restructuring, at the same time as showing the need for widening the scope of industrial policy. As is shown in Fig. V.2, two new lines were opened up: the National Plan for Scientific and Technological Investigation and the Law on Regional Incentives to Correct Economic Unbalances. On the other hand, entry into the EC supposed a sharp reduction of tariff barriers and thus an important increase of imports. The effects of this on the balance of payments and domestic production make the balance sheet very complex.

As mentioned above, the main instruments of industrial protection under Francoism were subsidies, legal regulations

[35]This hypothesis was confirmed by Landabaso, DG.XVI, Commission of the EC.

required to establish a business, tariff policy and the development of public enterprises in those fields where private capital did not invest. With respect to effective legal protection, this had begun in Spain at the time when ISI policies were implemented in the 1930s, and was based on the need to obtain administrative authorization in order to form, expand or transfer any business[36]. This remained in force until 1964. RD 157/1963 authorised the unrestricted creation of industry, except in those sectors which required minimum hygiene or technical standards, for which legal authorization was still needed. This law was subsequently modified in 1964, 1965, 1968, 1975, 1978 and 1980. Whereas in 1963 some 48.4 per cent of industrial sectors had been subject to some form of prior administrative authorization, in 1980 this applied to just 22.7 per cent (arms production, energy and pharmaceuticals).

Tariff reduction began in Spain in 1959, with the stabilisation plan and entry into the IMF and the OECD. The average rate of effective protection for industry fell from 68.4 per cent in 1962 to 31.2 per cent in 1968. The second major impulse came with entry into the EC. As was noted in chapters II and IV, a transition period of six years was agreed for Spain and Portugal where each year (including the year the treaty was signed, 1986) a reduction in tariffs of approximately 12.5 percentage points was to take place, until these countries' barriers were brought in line with those of the EC.

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[36]RD 20/6/1938

The effects of such an opening up were dealt with in chapter II, where the positive and negative aspects of incorporation into the EC were discussed. The Spanish trade balance became negative from the date of entry into the EC, and there has been no sign of a recovery. Table V.5 shows that the trade deficit was some three billion pesetas in 1989, 7.1 per cent of GDP at current prices. In 1980 prices, the deficit rose from 1.4 per cent of GDP in 1985 to 11.2 per cent in 1989[37]. In breaking down international exchange with the EC, the trade balance has gone from a positive figure to a deficit of a billion and a half pesetas. The import/export performance has been very different according to the sector. From 1985 to 1989, imports of consumer goods rose 269 per cent, those of semi-finished goods by just 78 per cent. Non-energy imports come mainly from the EC, rising by 168 per cent in the period 1985-89.

The industrial systems of Spain and Argentina have been/are oriented to the production of intermediate (semi-elaborate) goods and consumer goods. A brief international comparison shows how in the developed countries -Germany, Japan- the production of means of production is dominant over the production of consumer goods and basic products, which supply the domestic market. Table V.1 shows Spain's external trade by sector, and it can be seen from this table that it is intermediate and consumer goods which are the most important for both imports and exports. In 1975, the most largest industrial imports were in the following sectors: energy, machinery,

[37]Montes, 1991:261-262.

chemical industry and steel. By the same token, the sectors which generated the most export earnings were transport materials and cars, steel, machinery and chemical industry. These sectors were and are protected by various industrial promotion programmes, and therefore are the most dynamic sectors in the economy. The system as a whole was less integrated than in the other developed countries; that is to say that in Spain there was a lower degree of interrelation between productive activities.[38] Since the ISI policy gave priority to the maintenance of the industrial network over the question of efficiency, the technological resources needed to maintain manufacturing installations were imported.

Thus, the level industrial specialisation was low compared to other countries, since national industry supplied domestic demand and only in a few sub-sectors did an orientation towards exports exist. In Spain, 82 per cent of demand for industrial products were met with domestic production in 1980 (the figure for the EC is 75-78 per cent) and the country exported just 11 per cent of output (19-22 per cent for the EC)[39]. In proportion as the Spanish economy became more internationalised, exports grew, although always more slowly than imports. In 1985, before entry into the EC, the sectors or sub-sectors with the greatest orientation towards exports

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[38]This was especially notable in the branches of machine production. Whereas in developed countries the means of production are strongly linked with the other branches of industry, in Argentina and Spain this subsector behaves like just another branch of industry. Some machinery is produced, but not enough to meet internal requirements, so that a greater proportion has to be imported from outside (Tables V.1 and V.5).

[39]Buesa & Molero, 1988.

were shipbuilding, steel, chemicals and cars. In 1989, as can be seen in table V.1, the most export-oriented sectors were those with the highest proportion of foreign investment, with the exception of steel: cars, chemicals, steel, machinery, food and beverages. In addition, table V.5 shows that the level of exports of chemicals, steel, machinery and food and beverages did not cover the imports in the same sectors.

In the period 1986-89, there were certain changes in the field of restructuring. The chief characteristic of this period is discretionality. Rather than having a general rule for dealing with the problem, each sector was now treated in a particular manner, from the tax field to the creation of new rationalisation projects. The legitimacy of the socialists' programmes meant that the Central Administration reduced its consultation with the different social actors.[40]

The role of the EC in controlling the development of the restructuring plans was very important. This was due, in part, to the strict EC norms on the question of industrial subsidies. The Treaty of Rome clearly established that member states must not use public funds to intervene in free competi-

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[40] The role of the Autonomous Communities in the drawing up, running and control of rationalisation projects was reduced. In some cases, the Central Administration consulted with an EC commission in order to decide whether industries deserved to be restructured (integral iron and steel, and steels). In other cases, this was planned between the Central Administration and Transnational groups (telecommunications and fertilisers). In the case of domestic electric goods the Catalan local administration also intervened. The the case of common steels the programmes were worked out between employers and the governments. Finally, in the case of shipbuilding, the line followed in 1983-86 was continued, through dialogue between the administration, the employers and the unions.

tion. However, it did allow state aid directed towards social ends, compensation for natural disasters, offsetting the economic disadvantages of the poorest regions and to carry out projects of common European interest. In 1978, the Commission authorised the granting of subsidies to carry out restructuring, regulating the norms of sectoral rationalisation. The Commission considered that Spain's industrial policy was in agreement with EC directives. Only in the cases of shipbuilding and iron and steel did Spain and Portugal have a special transitional regime. The Act of Admission specified a period of four and three years respectively for reducing the volume of public aid to these sectors. EC membership gave legitimacy to Spain's Central Administration to demand greater discipline from both employers and unions.

When discussing the cost of rationalisation in Spain, it is interesting to note the lack of available data on the part of the Administration, especially from 1985 onwards. These various sources show inaccurate information: the MINER and ME statistics frequently do not indicate dates or periods which enter into the accounts, the categories vary from one year to the next and the categories on many occasions are too vague, in a non-comparable form. One possibility is the lack o co-ordination between the projects in different sectors as the rationalisation policy was broadened out[41]. Another possibility is that the Spanish government did not want to commit itself, given its imminent entry into the EC. Table V.9

[41]This was the reason given by government technocrats when interviewed (Yagüe. MINER).

presents estimates of the total expenditure on industrial policy in Spain 1978-90, which should only be taken as a reference point.

After Spain's entry into the EC, two new lines of industrial promotion were launched, in agreement with EC policies. These are the Law on Regional Incentives to Correct Economic Disequilibria[42] and the National Plan for Scientific and Technological Development[43].

The system of regional incentives in Spain was established through five programmes of promotion in the most deprived areas, apart from the ZUR programme mentioned above. These areas are: Great (or Large) Areas (GA), Preferential Zones and Industrial Complexes (ZYPPLI), Declining Industrialised Zones (ZID) and Economic Promotion Zones (ZPE). The first three came into force in the previous periods; the second two from 1988 onwards. It is interesting to look at the map of Spain according to deprived areas (figure 3). All the areas that make up the extent of Spanish territory, with the sole exception of the Balearic Islands, are considered as deprived areas in need of industrial restructuring and/or promotion. Surprisingly, the map even includes the enclaves of Ceuta and Melilla in Africa! This policy may be related to two objectives: promoting political decentralisation and the demand for European Structural Funds. With respect to the first point, it was noted in chapter IV that one of the most skilful of PSOE's

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[42]RD 1535/1987

[43]RD 1750/1987

TABLE V.11.:

DISTRIBUTION OF SPANISH SUBSIDIES BY SECTORS, IN MILLION PESETAS, PROGRAMMES ZUR, ZID, ZPE, ZYPPLI & GAEI, 1985-90.

SECTOR	N.PROJECTS	SUBSIDY	%	SUB/PROJECT
ENERGY	25	800.3	0.5	32.0
METALS (mining+industry)	79	4,862.8	3.3	61.5
NON-METAL (")	596	25,432.0	17.4	42.6
CHEMICAL	251	15,417.1	10.5	25.8
METAL PRODUCTS	586	14,708.0	10.0	25.0
MACHINERY	262	6,978.5	4.7	26.6
ELECTRONICS+COMPUTERS	68	16,604.9	11.3	244.1
TRANSPORT	179	14,760.6	10.1	82.4
FOOD INDUSTRY	359	11,908.6	8.1	33.1
TEXTIL,LEATHER,SHOES	565	7,418.0	5.0	13.1
WOOD+FORNITURE	565	10,380.0	7.1	18.3
PAPER+PRINTING	234	4,501.8	3.0	19.2
RUBBER+PLASTICS	46	2,468.3	1.6	53.6
OTHER MANUFACTURES	323	9,879.8	6.7	30.5
TOTAL	4,138	146,120.7	100.0	35.3

Source: MINER 1987, 1989.

policies was to encourage "civil liberties", including favouring nationalist political activities and regional decentralisation. It was, then, necessary not to have discrimination by the Central Administration. This should be put in the context of that in the democratic transition, when the priority was given to political aspects over economic ones.

With respect to demand for the European Structural Funds, one of the requirements for the granting of overall subsidies is cofinancing with national regional development plans. There was, then, a need to initiate such policies in areas which, because of their low GNP, high unemployment or need for rationalisation and modernisation of production would be eligible to receive EC subsidies. In 1987, this was all the country's regions.[44] With the exception of the Baleares, whose principal economic activity is tourism, and the cities of Barcelona and Madrid, the rest of the regions of Spain are classified as developing areas and eligible to request aid from the EC's Structural Funds. As is shown in Fig. V.9, EC grants are not very substantial, amounting to only 0.6 per cent of the aid which comes from Spanish public funds. The Spanish governments' requests for EC funds was not, however, illegitimate. Barcelona and Madrid benefit from the ZUR programme, but are not included on the list of developing regions, and the other regions fulfil all the criteria for being incorporated into the EC's category of Less Developed Zones (EC Zone 1 in Diagramme V.3, to which the Programme of Regional Development,

[44] If average GNP per capita in the EC is 100, Baleares was 98, Madrid 97, the Basque Country 96, Catalonia 93 ... with finally Andalucia and Extremadura with 59 and 47 respectively (Cuadrado Roura, 1991:763)

1989-93, is applied) and Zones undergoing Restructuring (EC Zone 2 in Diagramme V.3, to which the Programme of Regional Restructuring, 1989-93, is applied).

Table V.10 shows the regional distribution of industrial promotion subsidies. It can be appreciated that the areas which receive the most are precisely those which in 1983 had the highest NNP, with the exception of Castilla-Leon. Galicia received 18.6 per cent of the industrial subsidies, Andalucia 15.9 per cent, Castilla-Leon 15.8 per cent, Catalonia 9.5 per cent, the Basque Country 8.8 per cent and Madrid 8.1 per cent. Of these regions, only Andalucia had a negative rate of growth of GDP. The rest had a GDP growth of 1.5%, which was the average growth in Spain. The region of Valencia, with an NNP on 1983 of 10 per cent and average GDP growth of 2.2 per cent in 1978-83, received the lowest amount of industrial subsidies -0.4 per cent.

Table V.11 shows the sectoral distribution of the projects approved by the control commissions of the ZUR, ZID, ZPE, ZYPPLI and GA programmes. The sectors that were most favoured by the industrial promotion programmes were mining and non-metal industries (which received 17.4 per cent of the subsidies), electronics and computers (11.3 per cent), chemical industry (10.5 per cent), transport (shipbuilding, cars etc) (10.1 per cent), food (10.1 per cent) and metal products (10 per cent). Considering that programmes for fostering technological development are not included in the regional aid programmes in Table V.11, it is interesting to note that the level of subsidies per project for the electronics and

TABLE V.1.:

SPAIN: IMPORTS AND EXPORTS BY INDUSTRIAL SECTORS, IN PERCENTAGES, 1975-89, SELECTED YEARS.

SECTOR	IMPORTS			EXPORTS		
	1975	1985	1989	1975	1985	1989
ENERGY	30.6	39.0	13.1	3.6	8.7	5.8
MINING	4.0	2.5	3.0	1.6	1.2	1.3
STEEL	10.4	7.9	7.4	14.5	17.2	10.4
CONSTRUCT.MATS.	1.1	0.4	1.4	4.3	2.8	3.8
CHEMICALS	15.3	14.0	13.3	13.2	15.5	13.7
MACHINERY	23.0	12.2	16.6	14.4	9.8	9.5
ELECTRON.+COMP.	1.4	8.5	14.7	1.4	3.8	7.7
TRANSPORT MAT.	5.7	8.5	15.1	20.2	27.1	24.2
of which cars	0.3	1.4	11.6	3.5	9.9	20.4
FOOD+BEBERAGES	4.9	2.0	3.5	7.6	6.2	6.9
TEXTIL	1.6	1.4	2.1	5.7	4.4	2.4
SHOE+LEATHER	0.5	0.9	2.8	9.9	5.7	6.2

Source: MINER

computers sector is seven times higher than the average. If we analyze these results in the light of Tables V.1, where it shows that the sectors with the highest level of exports in 1985 were, in order, transport, steel, chemicals, machinery, energy, food and beverages, it must be concluded that Spain's regional promotion programmes have benefited the sectors which export the most. In 1989, the export "winners" were transport, chemicals, steel, machinery, electronic and computers, and food and beverages. That is to say, with the exception of mining and non-metal industry, which consist of construction materials for the most part and which supply internal demand, all of these are sectors that are promoted not only by systems of regional aid but also by the industrial rationalisation programmes.[45]

The key factor seems to be investment, either in the form of state subsidy or FDI -and rarely reinvestment of profits given industrial debt repayments as seen above. It should be noted that in a larger or lesser form, the Spanish government has subsidised all successful industrial sectors, rationalising their firms before welcoming FDI or directly promoting the sector's development.

The growth in industrial output recorded in Spain in the 1980s has not only been due to the reinvestment of profits in

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[45]A more desegregated analysis shows that not all sectors have been successful in exports due to the subsidies. In transport, the main exporting subsector was shipbuilding in 1985 which benefited from subsidies. However, in 1989 it was vehicles, which benefited from lesser subsidies but expanded through FDI; in any cae, the Spanish government helped in the rationalisation of vehicle firms to welcome FDI (interview to Molero, Universidad Complutense de Madrid).

a way which would be typical, in Gerschenkronian terms, of the Anglo-saxon liberal model. Investment in a country like Spain has been in large part due to foreign direct investment (FDI). Table V.4 shows how FDI in industry counted for 8.3% of the total direct investment in 1977, changing to 34.5% in 1988. There were several reasons, low labour costs, a favourable government attitude, expansion of domestic demand in the period 1986-91, and the perspective of integration into the EC. Given that labour costs were lower in Portugal or Greece, domestic demand higher in France or Germany and government policy towards FDI more favourable in the UK or Ireland, the expectations of future integration of Spain into the EC seem to be to be one of the key factors to attract TNCs as a way of gaining later entry into the European market. This is once again in stark contrast to Argentina. If the key factor is protected markets, economic liberalisation in Argentina should be questioned.

Table V.4 shows that the ratio of foreign investment to total investment from 1977 to 1988 has risen in all sectors, except in energy, steel, metal products, motor cars and rubber and plastics. The relative modest growth in the motor industry is due to the large investments which were carried out before Spain entered the EC. Looking at the percentage of FDI in each industrial sector as a proportion of all overseas investment in Spain, we can see that the sectors which have absorbed the largest proportion of FDI are the most subsidised as well: chemicals; food and beverages; paper and graphic arts and the vehicle industry. In the case of chemicals and vehicles, these are two of the most competitive sectors in terms of exports;

whereas food and beverages and paper are sectors with a high internal demand.

It is interesting to note that the Spanish government has indiscriminately subsidised capital, both national and transnational. The administrations of the transition period in Spain never pronounced on the form of property or the organisation of companies. Criteria such as the size of the business or the origin of its capital are not considered as relevant. With the exception of the Funds for the Promotion of Employment (FPE, see below), priority has been given to investment, modernisation and industrial efficiency, independently of factors such as nationality or the capacity to generate jobs. It will be argued later that the association of efficiency with big companies is not justified.

Concluding the restructuring and reindustrialisation implemented in Spain between 1982-89, the Spanish government has been carrying a policy of industrial promotion. It is interesting to note that although the socialist administration's rhetoric has been for liberalisation and modernisation, there has been a massive expansion of public sector spending. In chapter IV it was indicated how the Spanish public sector, which in 1975 was an almost model example of the minimalist state advocated by liberal economics as a panacea, increased its expenditure from 25 per cent of GDP to 42.1 per cent in 1987 [46]. That is to say, the Spanish state has liberalised and deregulated part of its economic

[46] See Alcaide, 1989.

activities, but at the same time has increased the state's actions in some of these sectors in transition. The comparison with the Argentine case is more relevant than ever, since the various administrations, faced with the possibility of public expenditure blocked by external debt, were forced to liberalise and deregulate without the possibility of protecting those activities or social groups that needed it. Contrary to Waisman's thesis, which considers the ISI policies as generating economic backwardness and inefficiency, the Spanish case shows that the question does not lie in ISI, but rather in the manner in which the policies are corrected in the transition to another type of organisation of production.

After 1989, the Spanish government took industrial restructuring plans as terminated. However, as it was mentioned before, there were other industrial promotion plans underway. With respect to the National Plan for Scientific Investigation and Technological Development, it was the other major channel for industrial promotion in co-ordination with EC programmes. The Plan was launched in 1987 (RD 1750/1987), with three principal guidelines: it promoted technological innovation in general, and research in the pharmaceutical industry and in electronics and computers. The Centre for Technological and Industrial Development (CDTI) was created in order to evaluate projects of technological interest and to promote their exploitation.[47]

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47. The CDTI was created in 1978 with U$S 40 million (18 funded by the World Bank and 22 by the Spanish government).

The Spanish public funds allocated to each programme are shown in Table V.9. Until 1990, subsidies to R & D made up just 1.6 per cent of total expenditure on industrial promotion in Spain, or 2 per cent if EC aid is included. The EC subsidised 32 per cent of R & D activities in Spain, this being the area which received the highest contribution from the EC. However, Spain received just 5.4 per cent of EC R & D subsidies. In the period under study, the Spanish state was in a transitional phase of its entry into the EC. Both sides, Spain and the EC, were trying to take advantage of this transition period. In this case, Spain was not receiving its proportion of R & D aid, while it was nonetheless contributing 100 per cent of the quota to some of its agencies which it had been incorporated into prior to 1986. The Spanish government has constantly maintained a stance of demanding aid for the less developed zones from the EC. This has continued to be one of the chief sources of tension after the Treaty of Maastricht (1991).

The subsidised areas are shown in Table V.12. Information technology and Electronics are prioritised. From 1990 the Programme to Promote an Environmental Industry, Energy and Technological Base came into effect (1990-94), which is to receive new subsidies, amounting to 80 per cent of the total. In any case, the programme's objectives are very broad, covering many areas which have to be desegregated, from energy through to chemical industries[48].

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[48]MINER, 1990.

Finally, it is necessary to mention a couple of plans put into effect by MINER. The first is the Plan for the Promotion of Design, Quality and Fashion (Q & D).[49] The programme could have had great potential, if the resources had not been allocated so meagrely (just 0.1 per cent of Spain's total industrial policy funds). The plan ran over four years (1988-91), and its objective was to increase the sophistication of design in industrial textiles, leather, footwear, costume jewelry, furniture, toys and ceramics. One of Spain's possible international specialisations could be developing design products, but one of the problems in promoting a project of this type has been the black market economy and the high number of "invisible" SMEs operating in this field.

Spanish promotion to SMEs during the period 1979-89 was pure tokenism, just 0.1 per cent of total public spending on industry (Table V.9). This aid has been organised by the Institute for Small and Medium Sized Industrial Business (IMPI), which is dependent on MINER. The aid has been centred on two areas: systems of information and consultation to firms, and cofinancing projects through the Collective Action Associations (SAC) and the System of Reciprocal Guarantees (SGR).

The Spanish government has opted for a strategy of support for big business. There are two possible causes of this. The first is that the Spanish government may have pursued a policy of pick-up-the-winners: encouraging those activities which promote economic success regardless of political fac-

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[49] 0.1/6/1988.

tors. The second possibility is that big companies have received 99.8 per cent of industrial funds due to neither economic criteria nor to any strategy of industrial promotion, but rather to the simple fact that big industrial groups possess much more capacity to exert socio-political pressure on the government. Given the importance of the democratic transition and the process of selection of the firms which were to benefit (seen above), the answer seems to indicate that the criteria used have been socio-political motives, rather than it being a strategy based on developing future competitiveness. Is this reason why the SMEs, which could have played a critical role in the creation of jobs, have not been fully integrated into the industrial policy plans. The Spanish socialist government, however, has embarked on no experiments to encourage cooperatives and SMEs in the industrial arena. Instead, state aid has been given to large companies arguing that they are the most efficient.[50]

ISI protection and orientation towards the domestic market in previous decades meant that the average firm size was smaller than in the developed countries. According to the INE in 1978, some 88 per cent of firms in Spain had between 1 and 49 employees. Since the domestic market was made up for the most part by SMEs, the monopolies and/or oligopolies were to be found in very specific sectors. Buesa and Molero[51]

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[50] The lack of interest shown by successive Spanish governments in SMEs is paradoxical given that Europe's largest and most successful co-operative, Mondragon, is found in Spain. Mondragon's efficiency seems to stem from the co-operative creation of its own banks, in such a way that the savings are reinvested (Thomas & Logan, 1982).

[51] Buesa and Molero, 1988:90-97.

presented an analysis of the degree of concentration and competition in the various sectors of Spanish industry. The results are in four categories, the first two being monopolies and very concentrated oligopolies with a high ability to influence the market, representing just 7.7 per cent of employment. In 1978, these subsectors were: energy, mining, telecommunications, tobacco, paper, vehicles, office machinery, shipbuilding, watchmaking and sugar. Category III corresponds not to large firms but rather to medium sized firms, which acted like oligopolies despite the fact that the degree of concentration was less than in categories I and II: iron and steel, signal equipment, salt extraction, and optics. The rest of the subsectors were in category IV, competitive SMEs, which accounted for 84.6 per cent of employment. Nonetheless, control of markets is not achieved only through oligopolistic practices. Tamames and above all Brunet[52] have analysed the interconnections between industrial groups and the role of employers' pressure groups in influencing the government on prices and incomes policies during the last years of the dictatorship and the transition. They found 22 cases in which institutional strategies were altered to the benefit of the employers during the transition.[53]

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[52]Tamames, 1977:180-204; Brunet, 1986.

[53]. These pressure groups were: FENINASA (Fertilisers), ANFA, AGFAE y AGFAM (Sugar), UNESA (Electricity), Union Salinera (Salt mining), Potasas Espanolas, OFICEMEN (Concrete), SERCOBE (Machinery), ANFAC (Vehicles), ANFE (household electrical appliances), Consorcio de Neumaticos, Instituto papelero Espanol SA, CAMPSA (petrol), UNESID (iron and steel),

The problem with these analyses is that the sectors where this takes place are the most concentrated ones, in which the employers' associations seem to be a sign and a reinforcement of oligopolistic power over the market. In 1970, some 46.6 per cent of prices were controlled through authorizations; in 1983, controls still existed on 35 products, affecting the RPI by 15 per cent[54]. Oligopolistic practices and international pressure to liberalise forced the Spanish state to pass Law L.110/1963 on the Suppression of Practices Restricting Competition. The Tribunal for the Defence of Competition was created through this law; this tribunal penalised price agreements, refusals to sell or supply services, "disloyal competition", and division of markets. Between 1964 and 1984, the Tribunal initiated an average of 19 cases per year, of which on average sentence was passed on only 11.4 each year; in the most active period (1981-) 50 per cent were absolved[55].

The subject of SMEs is complex, since one strategy for resisting the increased pressure of taxes at the time of opening up the economy has been "submersion" into the black economy. Calculations about the black economy in Spain use various methods, and therefore are not comparable. The results are varied (table V.19), estimating the black economy as 33

CONSTRUNAVES (shipbuilding), CARBUNION (Coal), FARMAINDUSTRIA (pharmaceutical), CEOPAN (bakeries), AFHAE (flour), ANIEL (electronics), AEFVP y ANFEVI (glass) y ANDELUZ (lamps) (Tamames, 1977:180-204; Brunet, 1986:85-87; Buesa & Molero, 1988:90-97).

[54]^See Brunet, 1986

[55]Buesa & Molero, 1988:100-103.

per cent of GDP[56], 2.3 per cent of GDP[57], 6.5 per cent of GNP[58], 22.9 per cent of National Income[59], 27.1 per cent of the employed population (Ministry of the Economy, 1985) and between 9.6 per cent and 11.3 per cent of the active population[60]. Some pioneering studies in specific sectors and regions of Spain indicate that black economy activities amount to as much as 20-25 per cent of the textile industry in the Valencia region, 15-30 per cent of Catalan textiles (Tarrasa-Sabadell), 30 per cent of car repair workshops in Cordoba (Andalucia), and 21-36 per cent of informal businesses in shoe manufacturing in the Alicante area (Valencia). Various methods have been used, from lighting consumption to direct interviews with workers and employers[61]. These studies show that the degree of involvement in the informal sector for industrial SMEs was approximately 27 per cent in Spain during the 1980s, and 21.9 per cent for all economic activities (Table V.3). The black economy seems to have been developed mainly in agricultural activities (30.9 per cent), in small industry producing consumer goods (food -17.6 per cent; textiles -23.4 per cent; confectionary -42.9 per cent; leather -32 per cent; footwear -37.8 per cent), as well as the service sector (construction -18.7 per cent; hotels -26.1 per cent; shops -24.9

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[56]Terceiro, 1982, using unspecified methods.

[57]Bank of Spain, 1981, based on Gutmann's method on money demand.

[58]Frey & Wech, 1983

[59]Lafuente, 1980.

[60]Ruesga, 1988:63.

[61]Ruesga, 1988:88-99.

TABLE V.19.:

Estimation of the Spanish and Argentinian informal sector.

COUNTRY	METHOD AND YEAR	INFORMAL SECTOR
ARGENTINA	NOT MENIONED (PORTES, A., 1990)	1950 - 22.8% OF ACTIVE POPULATION 1980 - 25.7% OF ACTIVE POPULATION
	VALUE OF INDUSTRIAL PRODUCTION - 1984 INDUSTRIAL CENSUS (KANTIS, H. & YOGUEL, M., 1991)	1% OF INDUSTRIAL SECTOR
	1980 POPULATION CENSUS (BECCARIA, L. & ORSATTI, A., 1987)	42% OF ACTIVE POPULATION
	1980 POPULATION CENSUS (LIMDENBOIN, J., 1988)	32.6% OF ACTIVE POPULATION
SPAIN	1985 DIRECT SURVEY (MINISTERIO DE ECONOMIA, 1988)	27.1% OF OCCUPIED POPULATION
	1979 NOT MENIONED (TERCEIRO, J.B., 1982)	33% OF GDP
	1979 MONEY DEMAND (TANZI) (LAFUENTE, A., 1980)	22.9% OF NATIONAL INCOME
	1981 MONEY DEMAND (GUTMANN) (MOLTO, M.A., 1981)	2.3% OF GDP
	1980 FISCAL METHODS (BANCO DE ESPAÑA, 1981)	13.2% OF GDP
	1978 CAUSAL METHOD (FREY, B. & WECH, H., 1983)	6.5% OF GNP
	1980 LABOR MARKET (INDIRECT SURVEY) (RUESGA, S., 1982)	9.6-11.3% OF ACTIVE POPULATION

per cent; workshops -16.2 per cent; domestic service -60.4 per cent; and private education -20.4 per cent). Looking at the regional distribution of informal activities, the highest percentage is to be found in areas where official statistics show a higher figure for unemployment and a lower figure for economic activity[62], or where agriculture[63] or the service sector[64]) play an important part.

The black market economy is not just a means of survival for the SMEs. Although reliable figures do not exist on the amount of subsistence activity, there are studies on the importance of subcontracting. A large number of big companies reduce costs and increase flexibility through subcontracting to SMEs in the informal sector. Lawrence Benton[65], in a study of small informal firms in the electronics sector in Madrid, shows how subcontracting to informal SMEs has been due not only to their lower costs, but also to their higher quality and speed of production in semi-finished goods. The electronics sector is of course one of the sectors undergoing restructuring in Spain, and 70 per cent of its production is located in Madrid. The businessmen in the informal sector were for the most part specialised workers who began by using family labour, going on to create firms of no more than 25 workers who had no official protection. Although some of these firms enjoyed strong demand from big companies, they also

[62]Andalucia, the Canaries, Extremadura.

[63]Castilla-Mancha

[64]The Mediterranean regions.

[65]Benton, 1990:255-271.

began to experience serious financial difficulties, given the impossibility of gaining access to loans. The case of textiles, footwear and toys in the Valencia region (Ybarra, 1990) it emerges that the informal sector is organised by the businessmen themselves who supply the technology and materials to families.[66] On the other hand, the use of informal workers has led to the closure of industrial plants, with the employers claiming this is due to "the crisis" and the need to increase the competitiveness of production.

Overall, there are various reasons for the informal sector, and these do not seem to be limited to the reduction of tax costs and the protection of jobs, but also to flexibility of the labour force, and the speed and quality of production. This is related to the evolution of Spain's industrial economic policy in the last 50 years. Under the dictatorship, the economy did not experience a high rate of growth, but was totally formal, coordinated by a paternalistic state which fostered full employment with low wages. In proportion as the political power of Francoism was growing weaker and labour discontent grew at the end of the 1960s, the state got itself out of the situation by increasing repression and at the same time wages when political conflicts got out of hand. Thus, it was the employers who paid the costs of the opposition to the

[66]Some 84 per cent of the workers in the informal sector indicated that their wages are lower than those in factories, and only 2.8 per cent received payment for illness and/or fixed costs. However, 51.6 per cent work between 5-8 hours a day, less than in factories. The largest amount of this work is carried out by housewives, in order to supplement their husbands' earnings (46.7 per cent). If the head of the family has an official job, this means that both the wife and the children have access to state social security (Ybarra, 1990:241-251).

regime. The transition did not make the situation any better. After the massive strikes of 1975-76, the unions were recognised and wages rose. The Moncloa Pacts were the first attempt to regulate them, as was seen in chapter IV, not only for reasons of business competitiveness, but also basically to control inflation. However, the vicissitudes of the transition to democracy led to a relaxation of the incomes policy, postponing the adjustment to the period of socialist rule. Once the PSOE was in power, part of its policy has been to protect those groups of workers with the greatest political muscle: this was the case of those from the large firms which were undergoing rationalisation. The FPEs accounted for 17.5 per cent of total expenditure on industrial policy up until they were finally ended in 1989. Given that one of the principal concerns in PSOE's economic policy has been to foster economic activity in Spain and to increase competition, they opted for a policy of "pick-up-the-winners," giving aid to big business and ignoring the informal sector. Despite the fact that the government has not fostered the SMEs, it has maintained a very tolerant attitude towards them, due to their importance in promoting employment and business competitiveness, in spite of the negative effects on inflation and tax receipts. The large extension of social security provision is related to this policy of permissiveness towards the informal economy.[67]

[67]The General Law of Public Health extended public medicine services to all the Spanish population in 1986. This meant a real increase of 6.3 million beneficiaries although investment only rose by one per cent of GNP in the period 1982-89 (see chapter IV).

In this way, Spain is evolving towards post-fordism thanks to informality. On the one hand, the advantages of a new division and organisation of labour are achieving positive effects, offering quality and speed of production at the same price because of decentralisation and the size of SMEs. PSOE may not be wrong in protecting big enterprises since they lead SMEs through subcontracting their services. On the other hand, this has been developed by the informal sector, so workers pay the disadvantages of this post-fordist evolution.

At the policy level, this carries the implication that two of the central justifications put forward by the socialist government lack any basis. The first is that supporting big business results in an increase in efficiency. As Sabel, Piore and Berger,[68] demonstrate, the informal firms' flexible specialisation can produce high increases in efficiency and productivity at the same time as fostering employment. The second is the question of wages. The government claims that the reduction of wages is a necessary prerequisite for increasing the competitiveness of Spanish production. Comparing Spain's labour costs with the rest of Europe, it emerges that Spain's remain markedly lower (chapter IV); in addition these figures are not very representative, given that the informal sector accounts for 9.6-11.3 per cent of total employment and thus real labour costs are unknown but lower.

The economic consequences of such growth of the informal sector are important. Not only for the reasons put forward,

[68]Piore and Berger, 1984; Sabel, 1982; Capecchi, 1990.

namely a change in the structure of production that has been achieved by means of subcontracting, but also because the real rate of growth of the Spanish economy has been underestimated by about 20 per cent. It would also raise doubts about the extent of the economic crisis in the 1980s, and of PSOE's legitimacy to implement austerity policies and to ask for social sacrifices. There has been an industrial crisis, as in Europe, where there has been a process of restructuring and deindustrialization from 1973 to 1986. In Spain, the "formal" GNP has grown substantially since 1986, but as has been seen in Chapter IV this is due more to the service sector than to industry. As distinct from other European countries, Spain's service sector has not responded to international changes, accompanying productive activities, but rather it has been a question of expansion of construction and public services. However, services to industry seem also to have developed from the informal economy. The extension of the informal industrial sector seems to indicate that there has also been an increase in this sector.

Concluding this section, the Spanish government has pursued an active policy of rationalisation and industrial promotion, increasing public expenditure in this sphere beyond the levels in previous decades, including the ISI period. The criteria of for selection in this policy of promotion appear to have been socio-political ones. The subsidies were concentrated in those sector which had the greatest capacity to exert union or employer pressure. The SMEs received scarce state aid, and thus around 27% of Spanish industries opted to "turn black" as a survival strategy confronted with the effects of trade opening and tax reform. The Spanish government has pursued a policy of toleration towards the growing informal sector, justifying this on the grounds of the need to increase competitiveness and efficiency nationally. However, the evidence appears to indicate that a great part of the productive efficiency and flexibility has come from the use of subcontracting to precisely this informal sector[69]. Further, given the important decrease of labour costs and the extension of unemployment, Spain may be evolving towards post-fordism through an enlargement of the informal sector. Further, given that the black economy counts for 22% of all economic activities, there are reasons to doubt about the real extent of the Spanish crisis in the 1980s.

Part of the incoherence of this process of transformation of the structure of production derives from the bad diagnosis carried out by the first socialist government, which did not foresee the spectacular rise in interest rates and the appreciation of the peseta. Incorporation into the EC has done no more than to accelerate the economic transformation, in a process of restructuring of production which is still inconclusive. Benefits coming from integration have not yet been fully shown. The reduction of tariffs after 1986 and the real appreciation of the peseta have created a worrying trade deficit; only those sectors with greater technological plants have been able to maintain/improve their export performance. These sectors have been among those with the highest proportion of foreign investment and which have also received the

[69]See the discussion in section VI.4.C. of the conclusion.

highest level of public subsidies. The dismantling of the dictatorship's economic nationalism has resulted in an industrial network which is less extensive and more specialised, and which seems to have found an economic niche within the EC in cars and semi-elaborate goods (chemicals, steel, machinery). That is to say, Spain is incorporated into the world economy in the same way as seventy years ago -as a European semi-peripheral country. However, decades of economic nationalism have brought about some changes: Spanish export production is now not only agricultural but also industrial.

V.II. INDUSTRIAL POLICY IN ARGENTINA

As in Spain, the ISI system had created a very diversified and oligopolistic industrial network, globally non-competitive and dependent on technological imports. The ISI system had been modified overtime. After 1955, it was "deepened" thanks to an expansion of the domestic market, the promotion of inter-mediate goods production and the welcoming of TNCs. From 1964 to 1974, industry grew at a rate of 7% p.a., increasing its percentage over GNP from 25% to 28%. The decade supposed an important increase in productivity, rise on real wages and fall of relative prices. The sectors leading this industrial expansion were metal-mechanics, chemicals and food-industry. These sectors counted for 60% of total industrial output.

Katz[70] describes the structural characteristics of the Argentine industry in terms of its duality, vertical integration and distinct technological conditions. Duality refers to the existence of an exporting-oriented industry in parallel to a national industry oriented to the domestic market. Both have different productive structures. The size of industrial plants is ten time smaller in the later, productivity is lower and it has a high mix of production, consisting of a short series and many different models. Vertical integration refers, like Spain, to the poorly integrated industrial system. Self-provision of supplies is a common practice in firms, instead of recurring to the services of other companies, in a way that the global efforts of industry are multiplied. Finally, a distinct technological behaviour refers to the need to adapt imported technology from developed countries to local productive needs.

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[70] In Azpiazu & Kosacoff, 1989:11-12.

Despite these differential characteristics, non-traditional manufactured exports increased their share on total exports overtime. From 3% in 1960, to 6% in 1965, 14% in 1970 and 24% in 1975. This was due to several factors, mainly the existence of a qualified labour-force, state subsidies, regional trade regimes, bilateral government agreements and the existence of TNCs[71]. Nevertheless, despite state programmes of export promotion, firms did not show an aggressive export orientation; exports were usually surpluses non-consumed in the domestic market.

V.II.A: INDUSTRIAL POLICY 1977-90: DIAGNOSIS AND OUTCOME

However, a general consciousness about the exhaustion of the ISI model started expanding by the 1970s. This consciousness may have been promoted by the fact that Perón came back to power in 1973, after fifteen years in exile. He was an aged Perón, with a language and mentality of the 1950s. The two years he stayed in power until his death in 1975 were shaken by political violence and economic crisis. Perón expected to recompose the corporatist system, and to achieve a social pact between entrepreneurs, trade unions and the state. However, social expectations were too high and the social pact proved difficult to establish[72]. His administration raised wages and boosted domestic demand. This triggered inflation and the resulting connection produced another cycle of recession. After the brief mandate of his wife, the military came back to power with a new economic plan for the Argentine: liberalism.

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[71]Azpiazu & Kosacoff, 1989:13.

[72]See Kaufman, 1985

From Neo-Liberal policies it was expected much more than economic recovery. The military government also expected social change, the dismantling of the corporatist society that had coordinated the Argentine during forty years. The liberal discourse of the minister of Economy, Martínez de Hoz (1976-81), was based on the need for trade opening and the reduction/elimination of union power to achieve a reduction in costs and inflation.

Neo-liberalism was applied in a discriminatory manner. The dismantling of forty years of corporatism proved to be difficult. Social groups were highly organised and politised as to allow large reductions in their redistribution share. In the view of this, the military government used different strategies, depending on the interlocutor, from a brutal repression of unions to a polite indication to industrialist on the adequacy of private credits instead of public subsidies. However, the military themselves were splitted into several factions, since not all of them agreed either with the "new" neo-liberal philosophy or the way it was implemented. Most military had been trained with populist ideas, and thus neo-liberalism was suitable from the perspective of "ordering" and having a "hard hand" with "the anarchic" Argentine society, but not from the point of view "protecting" the population. This is a further complication when analyzing policy-making in the period 1976-82. As it was described in chapter III, the result was a mix of contradictory policies. Paradoxically, the Argentine neo-liberal discourse was parallel to an expansion on public expenditure, especially high on the fields of defense and health (tables III.3). Public expending moved from 25.1% of GNP in 1970 to 35.3% in 1980 and to 38.5% in 1982, this is, from the expending side, before the military the Argentine state was almost the minimalist state that liberals claim.

The annual company reports of ACINDAR are one of the best examples of the ethos of the 1976-81 policy-making, the mix between political nationalism and a very particular economic liberalism:

> "Inflation... is the main enemy of national grandeur... Inflation started when public sector companies were statised, and kept growing without a pause. In order to reduce it, it is necessary to diminish drastically the public sector, adjusting public spending to real needs and possibilities of the country. To make public opinion to become conscious about this... we should demonstrate that statism is not a synonym of nationalism. On the contrary, it weakens the roots of the Nation, given it is based on the marxist idea of poisoning the currency of the country we are wishing to built up" (the president, López-Aufranc, 1980-81) "...[In this year] there were some transcendental happenings in this country. The most significative was the attempt to re-integrate The Malvinas to the national patrimony, given they were usurped 149 years ago with a total lack of respect for our rights as inheritors of the Spanish domination. Further to the negative result of the operation, the positive side is the evidence in front of the whole world that the Argentine has as a national objective the re-incorporation of these territories; and in this objective [the country] is accompanied by all Latin America and by most nations in the five continents, which agree that colonialism is an aberration in the twentieth century... ACINDAR, a totally Argentine enterprise, gave the materials that were necessary, and shows its condolence to the citizens which gave their lives..." (the president, López-Aufranc, 1981/82). "As it was predictable, the first year of democracy has not been easy... The state did not reduce its excessive intervention and public expenditure to the levels needed to control inflation... To finance [external] debt... will alleviate the balance of payments, but in parallel it will impose sacrifices. It will demand a great deal of energy from the government and the consensus of the population to carry the burden..." (The president, López-Aufranc, 1983/84).

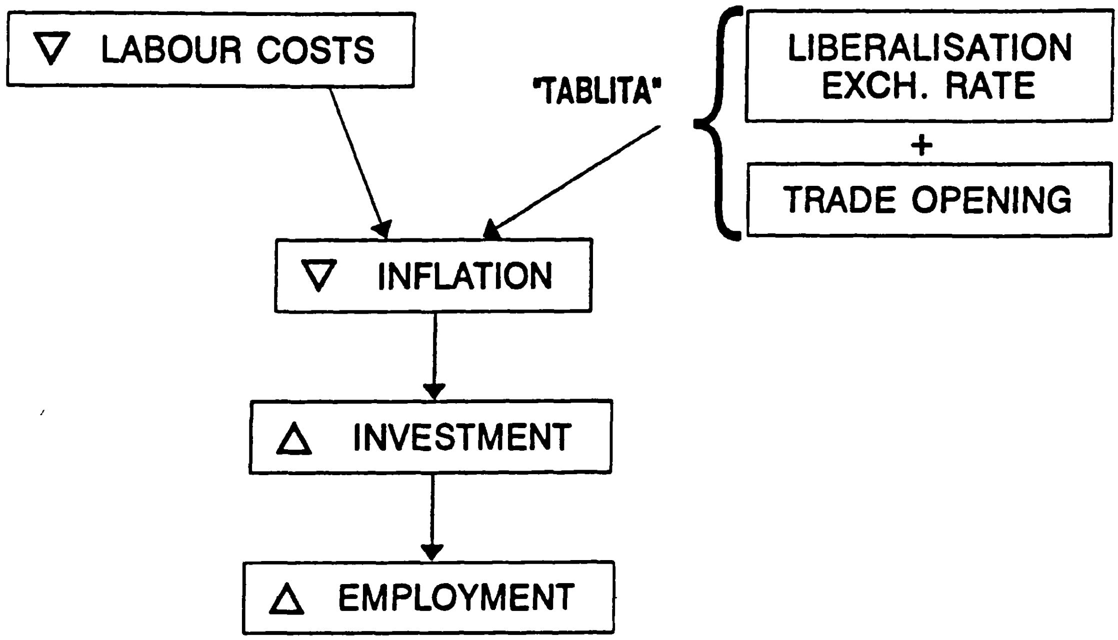
The text above is illustrative in its attack on state intervention in industry, characteristic of the ISI period, while justifying privatisation and reduction of public spending in 1980/81. This is written when Martínez de Hoz, the previous president of ACINDAR, was Minister of the Economy and the company was being financed thanks to private credit. However, López-Aufranc makes a defense of public spending on the Malvinas/Falklands affair in the following exercise, 1981/82. It also shows the militaristic phobia of the marxist threat that justified the repression under the doctrine of "national security"[73] and the emphasis on an "ordered Nation" and "glorious Argentine". López-Aufranc accuses the government of not being able to control inflation because of incapability to reduce public intervention and spending. Also, he encourages both the government and the Argentine population to have courage and take the sacrifices needed to restore macroeconomic equilibria. This is rather cynical when considering that state deficit came with the 1982 external debt crisis, due to the nationalisation of private debt, including all the ones that ACINDAR contracted in the period 1976-82!

Figure V.4 gives an scheme of the diagnosis that the military government made in 1976. Globally, it was expected that liberalisation would encourage economic efficiency. As explained in detail in chapter III, the body of this liberalisation was based in the *tablita* anti-inflationary programme, a chronogramme of progressive devaluations in order to equal the domestic rate of inflation with the international one. The other planned factor to reduce inflation was a reduction in labour costs. The fall in wages while a large expansion of private credit should encourage investment and correct the public deficit. In parallel, trade opening would force Argentine industry to specialise and to compete internationally. In the medium term, the expected result was an increase in domestic competitiveness, economic activity that would result in an increase in employment.

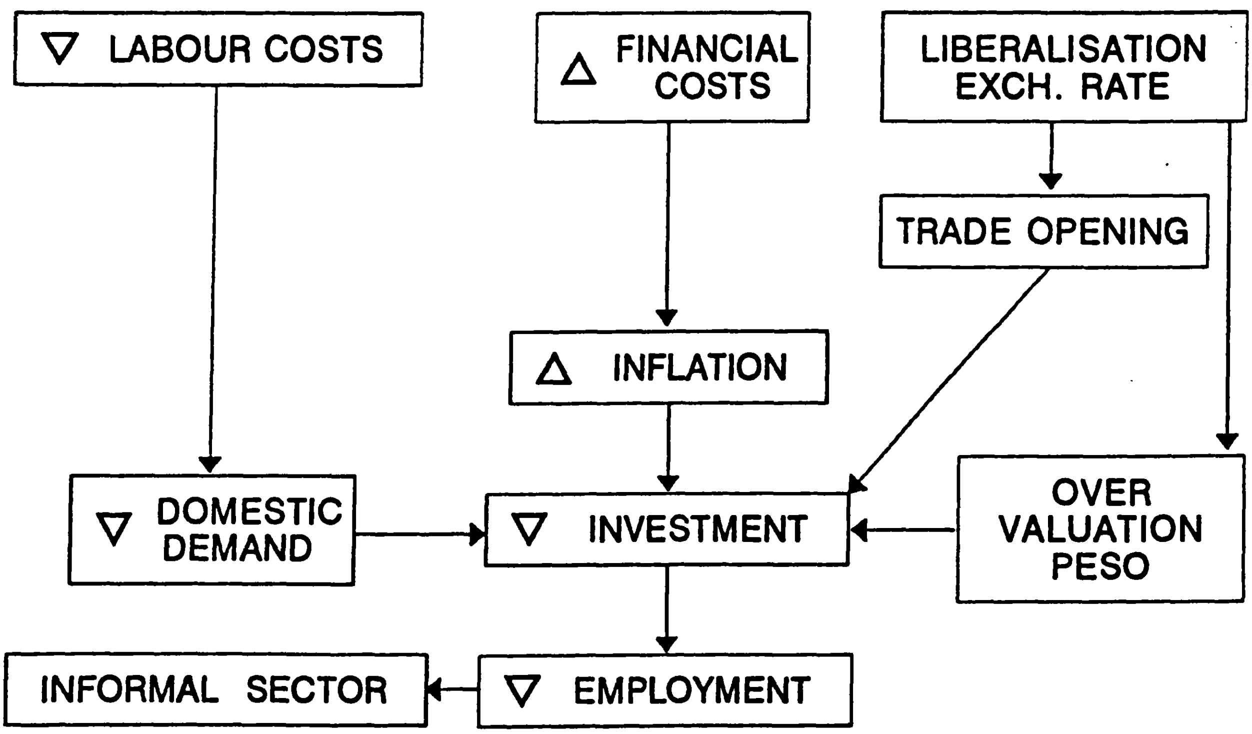
[73] See chapter III.

Figure V.4. : DIAGNOSIS AND OUTCOME OF ARGENTINIAN INDUSTRIAL POLICY. 1977-1990

DIAGNOSIS (1977-81)



OUTCOME (1982-__)



The outcome differed from expectations. There was some re-activation of investment in those sectors benefited from state protection -coming mostly from the nationalisation of their debts. However, as in Spain, there was an unexpected factor, the increase in financial costs. The 1977 financial reform freed interest rates and created a totally different mechanism in the assignment of domestic credits.[74] The effect of the rise in international interest rates was worsened by high domestic inflation and the results of the exchange rate policy which overvalued the Argentine currency. This led to a vicious circle: the increase in financial costs pressured prices to rise, causing more inflation and thus increasing more domestic interest rates. Profits were not re-invested as expected but used to cover for financial costs. On the other hand, domestic demand decreased and trade liberalisation increased the quantity of imports which further reduced the demand for domestic products.

These policies had multiple effects. Initially, financial facilities produced an increase in investment. Although import tariffs were reduced 40% during the period 1976-78[75], domestic industry did not feel threatened by trade opening given the existence of tariff redundancy and remaining forms of industrial protection. However, economic liberalisation was accompanied by a policy of wage restriction and a regressive distribution of income which reduced domestic demand. National production encountered a market problem in the period 1978-81, which was

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Between 1930s-1977 the Central Bank provided subsidised loans and credits to industry, with negative interest rates. Thus industrialist were used to have an access to credit and kept using it after the 1977 financial reform (Kosacoff, 1992)

[75]On average, from 90% to 50% in the period (Azpiazu and Kosacoff, 1989:14).

worsened by the "tablita" anti-inflationary programme[76] which overvalued the peso and thus reduced exports. In 1981-82, the situation kept decaying, given that remaining trade protection was disappearing and international competition was undermining domestic production. It was then when the results of the sui-generis liberalisation implemented by the military were shown in its worse side. An important number of public enterprises which generated substantial employment, were dismantled, favouring private firms of dubious efficiency. These private industries became heavily indebted. In 1982, in the view of firms' bankruptcy, the government nationalised private debt, absorbing a large share of public funds, at the cost of further reductions on state expenditure in social affairs -health, education, pensions. In the name of the new order and the doctrine of national security, there had been a violent repression of "subversive" union and student activities. Kidnappings, tortures and assassinations cannot be forgotten when doing an overall balance of the social aspects of the military regime. Investment fell dramatically, not only because of the increase of financial costs but also because of a lack of business confidence in the government economic team after the failure of the anti-inflationary plan.

As in Spain, industrial policy in Argentina had a secondary importance in front of the priority of anti-inflationary programmes. This is more justified in the Argentine than in Spain, given three-digit inflation. However, objectives were not accomplished in Argentina. On the one hand, inflation adjustment was slow and imperfect, in a way that the exchange rate was

[76]See chapter III

overvalued. On the other hand, trade opening produced a massive increased on imports, which were later further encouraged by the overvaluation of the peso. The balance of payments was compensated through a parallel entrance of foreign capital. The final result of this badly implemented liberalisation was a large industrial crisis and a massive external debt. The minister of Economy, Martínez de Hoz, had to resign, and a new military faction took power. As it was explained in chapter III, its government was brief but had profound effects on Argentine society. The response to economic crisis was nationalism: the Falklands/Malvinas conflict. After losing the war, the military abandoned government leaving the country in the worst economic crisis since the 1930s.

The new government was confronted not only with the challenge of a domestic crisis, but with the external debt. Inflation increased after the first months of democracy, so once again anti-inflationary policies were given priority. These were the Austral (1985) and Primavera Plans (1988), heterodox programmes designed to create a "positive adjustment", reducing inflation while increasing demand, investment and exports. However, technocrats at the Ministry of Economy had underestimated the extent of the economic crisis. Investment fell, and the industrial crisis was deepened. High interest rates inside and abroad attracted capital to domestic and international banks instead of productive activities. Further, in this context the credit system was based on the short-term, so long-term loans were almost non-existent.

Making a difference to the Spanish case, the Argentine government was not able to increase public spending to conduct the economic transition. Debt repayments had been carving up the Central Bank reserves, and the peculiarities of the fiscal system, based on indirect taxes which would increase inflation if they were raised, made that further spending was very limited.[77] The remaining solution was to reduce the extent of the public sector, privatising assets and cutting expenditure. Tables III.3 give a relative and absolute account of public investment. After 1982, there was a dramatic fall for the economic sectors. Social expending was already reduced in 1979 under military government, but the fall was still larger after the 1982 crisis, although it should be noted that public account do not consider transfers to enterprises, only public investment. The reduction in public spending did not only affect industry, but especially social services, such as health, housing, education, transport, and further re-enforced a regressive distribution of income.

The public deficit problem made that initially the democratic government opted to not increase industrial subsidies but to leave tariffs as they were. The military faction of Galtieri (1982-83) had rised them totally after Martínez de Hoz left the Ministry of Economy. This is one of the reasons why the industrial census of 1984 does not really reflect the effects of the 1976-81 liberalisation. The only difference was that a 20% reduction of tariffs for those products coming from ALADI. However, in 1984 there was a redefinition of the tariff system

[77]As explained in chapter II, the traditional resource of taxing agricultural exports became difficult since between 1981-86 there was a 50% fall in the international prices of primary products. This meant that the Argentinian government could only use indirect taxes, VAT and the so called "inflation tax" (printing money by the Central Bank). Table V. gives an account of public resources/expenditure, and the ways of financing the deficit. External borrowing was no larger possible after 1982, the so-called "inflationary tax" created massive inflation and had to be controlled.

under democratic rule, initiating a gradual and selective opening.[78] Initially, this new system made not much difference since people in charge of import licences -like Israel Mahler, later to become president of the Industrial Union- were pro inward-market development. However, in 1986 R.Lavagna took the secretary of Industry. Lavagna belonged to the Sourrouille's technocratic team, and his programme was to favour a gradual opening in parallel to an export promotion. Trade policies kept in this way during the rest the Alfonsín period (1983-89).[79] Besides, the system of maximum tariffs was changed by an unique and global 22% tariff. Menem's Administration (1989-) speeded MERCOSUR negotiations with Brazil, Uruguay and Paraguay, and the MERCOSUR tariff system was fully adopted. The guidelines for the system were 0% for primary products or goods non-produced domestically, 11% for intermediate goods and 22% for final goods.

Thus, there is a continuity between the Alfonsín and Menem governments. Along six years, there was a gradual and rapid reduction of tariffs, coordinated with the MERCOSUR counterparts. However, the lack of public resources made that the second part of Lavagna's programme, the promotion of exports, could not be

[78] The decree 4070/84 defined three anexes for imports. Annex I included a list of products which simply were not allowed to be imported. Annex II the majority of goods, which could be imported but after consulting to the SICE, which would give the licences and quantities (quotas) allowed to be imported; most products were in under this category. Finally, annex III was a list of goods which could be imported freely -those not produced in the country.

[79]The core of Lavagna's policy was the dismanteling of Annex II. Every four months, a list of products was left out of the need to consult the government to be imported. Annex II was converted into a binary system: either one product could be imported, or not. In 1988 another modification is introduced, remaining tariffs have a maximum of 55% ad valorem. This was changed again in December 1990; by then, only a hundred products were under annex II, so the whole annex was eliminated.

properly implemented. The main problem was the existence of seventeen different incentives on export promotion since the 1970s, all of them still active when Alfonsín took power. These included from draw backs[80] and exemptions to pay VAT on intermediate goods to easy credits to cover for packing, storing or shipping costs and loans to third countries to import Argentine manufactures. The redundancy of incentives resulted in the state's loss of control on the distribution of resources and the evaluation of results. Many companies benefitted from several mechanisms.[81] In 1985, the law 23.101/85 was approved, with the intention of creating a single normative for export promotion. However, the implementation of the anti-inflationary Austral Plan the same year stopped its development, and traditional incentives kept functioning. Yet, the quantity of public funds devoted to export policies reduced over time. This was initially compensated by the devaluation of the currency, until November 1989, when the declaration of state bankruptcy forced the Law of Economic Emergency. The law allowed to pay export incentives in BOCREX, two-years credit bonus issued by the state, adjustable to LIBOR rates and negotiable at the domestic stock-exchange market. While export promotion incentives were differed two years in time, the chronogramme of tariff reduction continued to function. Moreover, Menem's Administration Laws 23.696/89 on State Reform and 23.697/89 on National Economic Emergency were launched to further reduce state expenditure. The later has supposed a 50% cut on industrial promotion programmes, besides the abolition of laws

[80]Duties on those imports used in the exported goods are returned

[81]Bisang, 1990:135-145, analyzed the use of these promotion régimes by a universe of 341 manufacturing firms. 80.9% of them were being beneffited from 2 to 6 of these export incentives at the same time.

concerning state demand for domestic products[82]. Lack of reserves and the pressure of external debt have changed the distributive role of the Argentine state. Paradoxically, the military achieved their liberalising goals, but not through the designed policies, but through the effects of incoherent measures such as overexpansion of government spending in defense while reducing welfare and industrial promotion. Also, through unexpected external factors such as debt and the fall in the prices of primary commodities. It was after 1982, when the state became bankrupt that the redistributive mechanism that sustained Argentine society collapsed.

V.II.B: ARGENTINE INDUSTRIAL POLICIES 1977-90

Thus, the military regime was further from implementing strict neo-liberal policies. However, the effects of this mix of liberalism and nationalism produced a change in the pattern of Argentine development. It initiated a period of "import desubstition". Although Argentina's turbulent political history between 1940s-70s, there were important lines of continuity in its economic policies. There was a continuous support of an import substituting industrialisation. The cyclic inflation strokes were a result of the expansion of the public sector, and they required brief periods of stabilisation in order to be corrected -the "stop-and-go". Although these periods of social tension, which usually were accompanied by a military government, the corporatist state continued to function since it was created in the 1940s.

From the industrial side, this continuity was even more

[82]The "buy national" law 5.340/63 and its later versions.

explicit. Since the law 14.630 in 1944, industrial promotion has been a constant for Argentine industry. Thus, this law was corrected by the laws 14.780/58, D.5.338/63, D.3.113/64, L.18.587/73, L.20.560/73. After 1976, despite the neo-liberal rhetoric, the military government maintained an extense programme of industrial promotion through law 21.606/77. As it will be explained below, this law was kept under democracy, with some modifications regulated in law 22.876/83.

Figure V.5 shows the main lines of industrial promotion in Argentina. From the policy point of view, it is interesting to note that Argentina did not only maintain industrial promotion, but also increased it during the "Neo-Liberal" period 1976-82. Paradoxically, its reduction came under democratic rule, given the effects of external debt (1982-) on the public sector. Main extensions of industrial promotion were regulated and implemented under military regime. These were the creation of programmes for regional industrial development: La Rioja[83], San Luis and Catamarca[84], San Juan[85] and the extension of the industrial promotion regime of Tierra del Fuego[86].

This shows a basic contradiction in the economic planning of the military government 1976-82. On the one hand, there was an attempt to liberalise overseas trade and the exchange rate. On the other hand, programmes of industrial promotion were enlarged and deepened. There are two possible explanations for

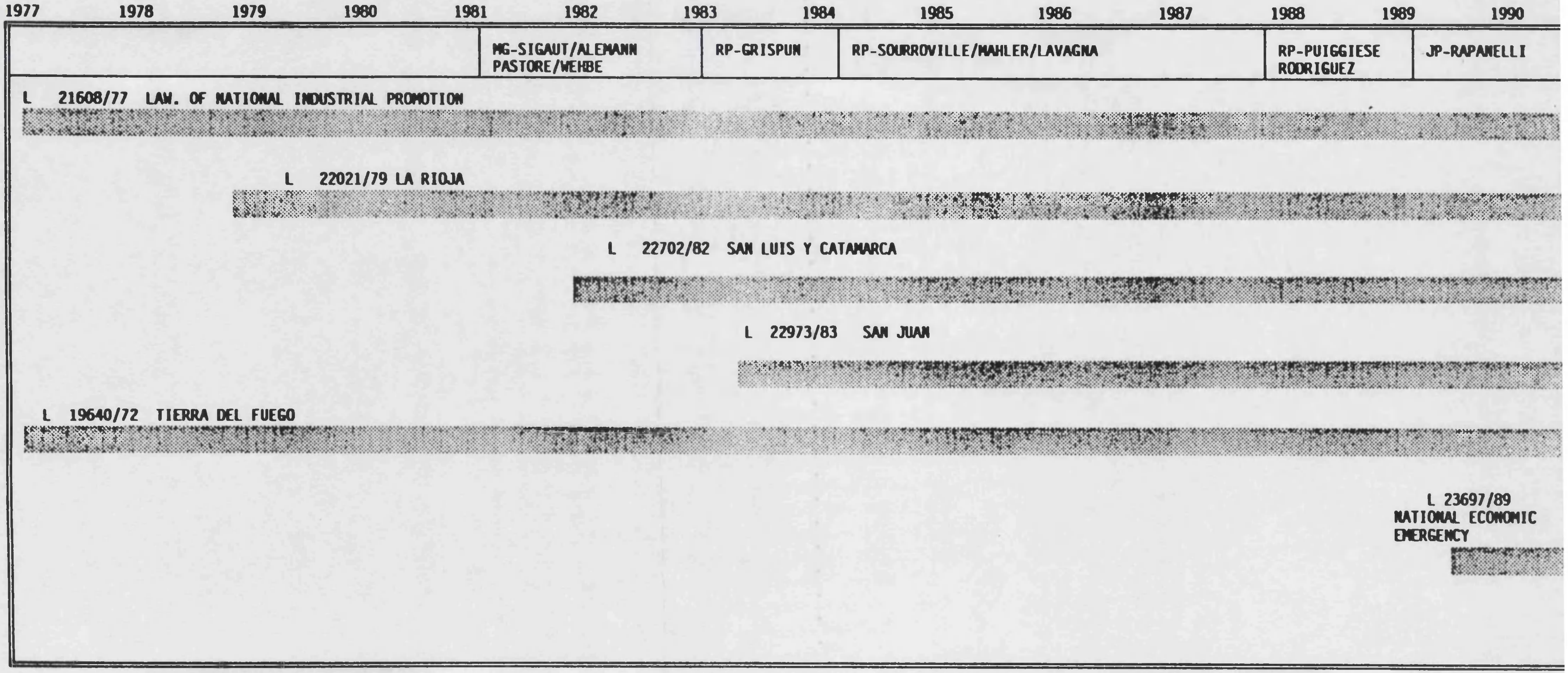
[83]L.22.021/79.

[84]L.22.702/82

[85]L.22.973/83.

[86]L.19.640/72 and D.1.057/83.

Industrial policy in Argentina, 1977-90.



this. The first would simply point to the lack of coordination between the Secretary of Industry (SICE) and the Ministry of Economy. The second would confirm the hypothesis mentioned two paragraphs above; the military government took from liberalism only those aspects which were convenient politically. The fact of Martínez de Hoz, minister of Economy, was the president of Acindar before López-Aufranc, the main Argentine steel industry, might be an example of the implication of the government in industry. Most relevant may be the case of Military Factories (MF, *Fabricaciones Militares*), whose industries produced from furniture to energy. Thus, the military government modified the corporatist state, breaking the compromise to protect all industries, excepting only those of "national interest". The ones not considered under such category did not get the benefits of industrial promotion and were left at the mercy of market forces.

Like in Spain, the objectives of the Argentine industrial promotion programme after 1976 were based on the diagnosis that it was necessary to correct the ISI model. The objectives of laws 21.608/77 and 22.876/83 were: (a) To encourage improvements in industrial efficiency through modernisation, specialisation, integration, fusion, economies of scale or changes in the structure of firms. (b) To generate an accelerated regional development and employment creation in specific provinces (c) To further encourage an industry for national security and defense. The instruments for these objectives were three: (a) Tariff benefits, of two types: temporal import restrictions to protected products and the reduction or total exemption to pay tariffs on imported inputs (b) Fiscal incentives, of four types: exemption, reduction of allowance to differ the payment of VAT, taxes on capital, profits and mail stamps (c) Export promotion, covering up to 20% of exports (only in Patagonia and Tierra del Fuego). Law 21.608/77 assigned these benefits for a maximum of ten years, but the period was extended five more years in law 22.876/83. The pre-requisites to get the benefits of promotion were two: (a) To incorporate at least 20% of capital (10% in exceptional cases), and (b) to obtain SICE's or provincial authorities approval, depending on the project belonging to the national or regional programme of promotion.

From laws 21.608/77 and 22.876/83 it can be deduced the importance of official authorization, given that capital requirements were extremely low. From the firm point of view, it was more difficult to get the benefits of industrial promotion from the national programme than from the regional ones. Bureaucracy work was also slower through SICE than through local authorities. On the other hand, provincial authorities had less rigour in plan-approval, and the possibility of using political influence was much higher, given that there were not mechanisms of evaluation or responsibility in the implementation of projects. This is to say, since the regional programmes of industrial promotion started functioning, it was easy to get an almost risk-free investment at the provinces[87].

On the other hand, if one of the main objectives was to promote efficiency, modernisation and specialisation, benefits given by the state were excessive and redundant. Benefited industries were not encouraged to rationalise production given that in the case that firms had to close down losses would be the

[87]See Azpiazu, 1989:41-50.

initial 10% or 20% of total investment. Even when annual profit taxes and taxes on imported inputs had to be paid, their economic importance was minimal given that the payment period was extense in a context of high inflation.[88] Moreover, laws 21.608/77 and 22.876/83 contradicted the objective of creating economies of scale, since they promote imports of industrial inputs. This is difficult to quantify in the national balance of payments, but the impact of such policy can be clearly appreciated at the regional level in the province of Tierra del Fuego. As it will be seen when analyzing the regional impact of industrial promotion, this province has developed an assembling-type industry, importing electronic components, with little integration in the national industry and very low participation of local technology.

Finally, it should be noted that the criteria to denominate a province as beneficiary of industrial promotion were not economic, but political. To promote employment and welfare in poorer regions is a world-wide usual strategy of development, and it is also the case for San Luis, San Juan and Catamarca in Argentina. However, the criteria for the National Territory of Tierra del Fuego are also geo-political. The area has been traditionally in dispute with Chile.[89] Tierra del Fuego has a

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[88]Law 21.608/77 introduced indexation; even in this case, high bank interest rates made that payable quantities were lower in real terms (Azpiazu, 1989:41).

[89]The province is located in the southest region of Latin America, and its control is considered by the Argentinian and Chilean military as the strategic control of Cabo de Hornos and of the Antarctic Peninsula. The Chilean Ministry fo Defense has traditionally kept an active expansionist policy, populating the West side of the Patagonia and Tierra del Fuego. During the Alfonsin Administration, there were many tensions over the Beagle Channel Islands in the area; in the threat of an armed conflict, president Alfonsin finished giving part of them to Chile (Poneman, 1987).

polar climate and its location is more than 2,500 Km (1,600 miles) from Buenos Aires; nevertheless, strategic reasons made that the military government on power in 1972 started a programme of regional development to stimulate Argentine activity in the area. Population increased; however, the distance factor has made that economic activities were not integrated with the national ones.

Public investment in industry in the period 1974/87 consisted of 693 projects, which generated 53,772 new jobs with a gross investment of U$S 7,300 million. These quantities only represent 0.5% of the number of enterprises and 3.5% of employment in the 1973 census. From this perspective, the programme of industrial promotion may not have had much impact. However, it is interesting to observe that the distribution of funds was not equal among sectors nor regions. Table V.14 shows that for the period 1974-87, the industrial sectors of textile and leather and food and beverages got the largest number of projects; however, the ratio subsidy by project were among of the lowest. The highest corresponded to paper and graphics, metal industry (steel, aluminium) and chemicals. Below, it will be analyzed how these same sectors got state protection and hidden subsidies through different ways out of the programme of industrial promotion.

From the regional viewpoint, table V.15 shows the two most favoured provinces/territories have been Tierra del Fuego and Buenos Aires -out of any specific programme of promotion. Paradoxically, La Rioja, San Luis, San Juan and Catamarca, were the second last set of provinces with less funding. The regions with major subsidies in absolute terms and in relation to the number of projects were Buenos Aires, Cordoba and Santa Fe. Thus, the programme of regional development did not seem to especially promote it, except for Tierra del Fuego. Even there, the ratio investment/project is less than half than the one in Buenos Aires. Tierra del Fuego has become a centre for assembling factories in electronics. However, the regional consumption capacity is minimal since population was only 15.700 in 1970. On the other hand, the possibilities of exporting are weak given the location of the region -Ushuaia, the capital, is the southest town of the world. While regional imports were U$S 3,385 and exports U$S 8,329 in 1974, in 1980 the positive ratio had reversed to U$S 79,285 and U$S 9,059, and further worsened by 1986, when imports summed up U$S 385,187 and exports U$S 18,487 (Azpiazu, 1989, based on data by INDEC). In the same year, 1986, Tierra del Fuego imports counted for 8.1% of national imports, thus the effects of regional development have been negative for the national balance of payments. Until 1982, Tierra del Fuego imports did not suppose a weight on the national balance of trade (1.9%), but their importance kept growing and the regional policy was not modified.

V.II.C: EVOLUTION OF INDUSTRIAL SECTORS

The comparison between the industrial census of 1973 and 1984 show the effects of such policies. Manufacturing industry lost 5% of its participation of Argentine GNP, from 28.3% to 20.7%. Industrial activity decreased by 25%, in a process of terciarisation of the economy. In relative terms, the most affected industrial sectors were steel, where output fell by 26.5%, wood and furniture (14.2%), food and beverages (10.4%), machinery (8.5%), textiles, leather and shoes (4.5%) (table V.16). However, other sectors and subsectors managed to avoid international competition through different factors. Sugar, steel, chemicals and machinery, through entrepreneurial pressures to keep state protection. Gas cookers, thanks to legal regulations on production standards. Concrete, thanks to a natural competitive advantage and to the costs of transportation when it is imported. Cigarettes, sweets and cars, thanks to the control of distribution networks[90] Chemicals, petrochemicals and machinery were leading the deepening of ISI after the 1960s, and kept their protection thanks to pre-1976 programmes. The chemical sector had an increase on the national share of production of 39.3%; this was not only due to the fact of keeping ISI policies, but also to the increase in petrol prices after 1973 and 1979. Machinery reduced its share of production 8.5%, but this behaviour is not shared by all its subsectors. Desegregated data show that this was caused by a 30% fall on the production of metal products and electric machinery, but the rest of the subsectors -non-electric machinery and transport materials- increased their production. Non-metallic minerals -basically, concrete- kept its share of production. Concrete was under

[90]From the intervirw to B.Kosacoff, UN ECLA Buenos Aires.

promotion thanks to a pre-1976 programme, so investment kept its rate. Demand for concrete also kept its levels since the state is the main demander. Finally, paper and the graphic industry increased its share of total production by 20.5%. The sector also had industrial protection and the state as its main costumer.

The number of enterprises reduced by 4% for the whole of argentine industry. Steel reduced the number of plants by 61.6%, textiles by 21.5%, wood and furniture 9% and non-metal minerals 7.8% (table V.17). Like in Spain, trade opening had a massive impact on SMEs. On the other hand, some sectors show an increase of their number of enterprises: food and beverages and chemicals.

The effects of the 1976-81 liberalisation were various and change depending on the characteristics of the sector. Different sectors tried to avoid the bad effects of trade opening as they could, and adapted to the new environment in distinct ways. Compared to the 1930-80 period, one of the main structural changes occurred during the "import de-substitution" of 1977 onwards has been a growing heterogeneity of Argentine industry. Aggregated industrial stagnation should be desegregated into firms/sectors which have been dismantled or reduced and firms/sectors which have expanded and modernised.

Food and beverages expanded its number of enterprises and employees, and had a reduction in both production and productivity. The fall in production was due to the fall in international prices; nevertheless, this is not applicable to all subsectors. The rise on enterprises is due to the expansion of SMEs supplying the internal market, in the subsectors of bakeries, wines and fruit packing. This sectors not only survived trade opening but

TABLE V.14.:

ARGENTINA: INDUSTRIAL PROMOTION BY SECTOR, 1974-87.

SECTOR	N.PROJECTS (A)	%	TOTAL INVESTMENT (B) Thousand U$S	%	B/A
FOOD+BEBERAGES	130	18.8	603,238	8.3	4,640
TEXTIL+LEATHER	168	24.2	853,358	11.7	5,079
WOOD+FORNITURE	55	7.9	368,714	5.1	6,703
PAPER+GRAPHICS	23	3.3	1,103,687	15.1	47,986
CHEMICALS+PETR.	104	15.0	2,232,539	30.6	21,466
NON-METAL MINE.	73	10.5	1,205,402	16,5	16,512
METAL INDUSTRY	21	3.0	515,728	7.1	24,558
MACHINERY	115	16.6	401,100	5.5	3,487
OTHERS	5	0.7	4,137	0.1	827
TOTAL	693	100.0	7,287,903	100.0	10,516

Source: UN ECLA.

also expanded thanks to the control of distributive domestic networks. However, this is not applicable to agroexporters, given that from a firm point of view, exporter agribusiness are big enterprises in 92% of the cases, with a mean of 83 workers by company. Traditionally, Argentina has been an agroexporter country. As it was pointed out at the begging of the section, the weight of manufactured exports kept raising after the 1960s through programs of export promotion. However, it is interesting to note in table V.16 that in 1984 Argentine agroindustries have increased their importance in terms of exports. This is mainly due to vegetable and animal oils and fats, which in 1973 counted for 10.8 of total industrial exports and in 1984 for 34.1%, while the traditional agroindustrial export, frozen and preserved meat, has reduced its importance from 39.4% of total manufactured exports in 1973 to 9.3% in 1984[91]. Thus, in 1984 Argentina shows a trend towards an international specialisation in semi-elaborate primary products. Yet, the problem this specialisation finds is that its main market is the EC, where oils and meat are refined and packed, getting most of the added value[92].

The textile and leather industry was another main exporter, and this was due to leather and fashion clothes. Globally, production decreased 4.5% in relative terms, and the number of firms was reduced by 21.5% (table V.16). The opening badly affected to SMEs, which could not compete with the quality of Brazilian exports and the design and cheap prices of Western

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[91]Gatto & Gutman, 1990:37.

[92]In the interview with J.Bogo, this was the main complain of the Chamber of commerce of Argentinian Agrobusiness.

TABLE V.16.:

ARGENTINA: SHARE OF THE PRODUCTION, EXPORTS AND FDI BY INDUSTRIAL SECTORS, IN PERCENTAGES, 1973 AND 1984.

SECTOR	% PRODUCTION		% EXPORTS		% FDI	
	1973	1984	1973	1984	1973	1984
FOOD+BEBERAGES	26.9	24.1	41.6	49.3	21.2	19.4
TEXTIL+LEATHER	13.1	12.5	5.7	15.6	14.3	13.4
WOOD+FURNITURE	2.1	1.8	0.1	0.1	2.8	2.0
PAPER+PRINTING	3.9	4.7	4.0	1.0	20.2	11.6
CHEMICALS+PETR.	18.8	26.2	10.4	16.8	42.2	33.1
NON-METAL MIN.	3.1	3.1	0.8	0.4	26.4	21.1
METAL PRODUCTS	8.3	6.1	9.3	7.1	30.1	35.8
MACHINERY	23.3	21.3	28.1	9.7	45.5	38.9
OTHERS	0.4	0.4	-	-	5.3	18.4
TOTAL	100.0	100.0	100.0	100.0	30.3	26.8

Source: UN ECLA, World Bank.

clothes.[93] However, investment did not reduced in this period given the existence of a pre-1976 promotion programme. This has become a paradox with MERCOSUR. Only the strongest design companies will find an economic "niche"[94].

Chemicals were the second largest export, the only sector which largely increased its production and expanded instead of concentrating. Part of this dynamism is due to the rise in petrol prices after the late 1970s. In 1973, industrial chemicals counted for 5.3% of total exports and petrol derivates only for 0.6%. In 1984, chemicals still only counted for 5.5% of total exports while petrol derivates had risen to 8.3%. The fact of this industry being considered of national interest made that it kept its level of ISI protection, and thus it was not affected by the 1976-81 liberalisation. Petrochemicals were under heavy state promotion after 1973 (Decree 592 within law 20.560/73) and especially after 1979 (Decree 814); this programme continued under democracy. Fabricaciones Militares (Military Factories, FM) have a mean of 20% of the shares of petrochemical companies. Besides, 68% of the firms are benefited by state promotion and it may explain the massive increase in production (39.3%), in number of enterprises (15.5%), productivity and exports (61.5%) between 1973 and 1984 (tables V.16 and V.17). Also, the state is not only the main demander but also accepts whichever prices the

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[93]The fact of Argentina being in the Southern Hemisphere and seasons being inverse than in the Norther Hemisphere makes that Norther-Western textile/fashion producers export the rest of their out-of-season products at bargain prices (Interview to Golbert, CIEPP. See also Golbert, 1983: Monetarismo global y respuestas industriales: El caso Argentino, OIT-PREALC, Santiago de Chile).

[94]E.Colombo insisted on this point. It was interesting to see ADITA's office, overstuffed with company reports and industrialists complains because of trade opening.

companies ask in the field of petrochemicals. Azpiazu and Basualdo[95], analyzing the company records of Petroquimica Bahia Blanca, mentioned that in 1986 the price of a ton of ethylene was U$S 458 for satellite companies, U$S 350 for especial firm negotiations and U$S 250 for exports. Domestic prices subsiding exports is one of the characteristics of Argentine manufactures, and also of another late-comers such as Japan, possible given the mono/oligopolistic structure of the industry. This sector enjoyed of this state protection until 1988, when pressures towards de-regulation started changing some of the conditions.

A similar case are metallic industries -steel, aluminium. Like chemicals, this was a leading sector after the deepening of ISI in the 1960s. In 1974, the decree 619 specifically protected steel in order to reach national self-sufficiency and to keep state control on the sector. Until 1983, the sector kept under either national or regional promotion, receiving subsidies and the rest of benefits observed under the law 20.560/73 and its later versions. 60% of the transfers went to ACINDAR, a private-owned steel firm whose previous president was the then minister of Economy Martínez de Hoz (1977-81). Yet, direct subsidies counted only for 11.3% of total investment, so the importance of direct subsidies for investment does not seem determinant. Investment was done basically through private bank credits. There are reported many other ways of subsidising Argentine steel, although the absolute numbers are difficult to quantify -for instance, the practice of overpricing products in the domestic market. State demand has been important (public works, military) but not decisive. The main demand comes from machinery industry

[95]Azpiazu and Basualdo, 1989:108.

and motorcars. The transfer which seems much more relevant was the nationalisation of the debt in main steel companies. Azpiazu and Basualdo (1989) analyzed ACINDAR balances in 1982-83 and showed the "statisation" of two-thirds of company debt.[96] Thus, direct or indirect promotion allowed to increase levels of investment, to modernise technology and to develop new products. Costs were reduced and productivity increased as shown in table V.17 which pushed towards further concentration and re-structuring in the sector.

Given the existence of practices such as overpricing of domestic goods, it is difficult to know which companies may be the most efficient within a sector[97]. Price differentials may sum up to 200% the export price. However, overpricing is not directly linked to better export performance. Table V.18 shows the most successful exporters in 1984 had a 101-125% and 26-50% price differentials. The most common rate, between 51-76% overprice, was developed by sub-sectors with a low performance in exports. The two subsectors which have the highest exports and overpricing rates were steel and petrochemicals, which also benefitted from many other subsidies and incentives to have this high performance in exports.[98]

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[96]From this perspective, it is interesting to see the cynism of Lopez Aufranc's editorials shown in section V,II.A..

[97]See Sanmartin, 1986.

[98]The defense employed by steel industrialist in the interviews was that diferential prices (domestic/ international sales) are common in most developed countries -Japan, US- given that production is mainly oriented to the internal market and non-consummed products are exported. In the case of Argentina, overproduction was caused by bad planning. Investment in basic industries has to be done predicting the level of demand in a mean of 20 years time. Industrial promotion for the sector was started by the early 1970s, assuming a constant increase in domestic demand as it was the trend at the time. However, national consumption decreased dramatricly after the 1976-81 liberalisation, and overproduction forced to export excedents.

This is also the case for motorcars -included within machinery. The car industry developed thanks to FDI investment during the 1960s, under a regime of industrial promotion which gave total trade protection. As demand rose and the state offered good conditions, TNCs invested. Competition was not based on prices, but on models and design[99]. Producers would offer a different model within the same category at similar price. Price differentials between cars for the domestic market and exports were 122% in 1969, and 184% in 1976. This was due to the fact that only non-consumed cars in the domestic market were exported -5.1% of total car production in 1972, 9.2% in 1977, 6.8% in 1982, 7.6% in 1988[100]. In Argentina, TNCs did not establish because of low labour costs in order to achieve competitive exports, but to supply the domestic market. This is why the severe wage reduction and adjustment policy implemented by the military government in 1977-81 badly affected domestic demand. Of a total of six firms, General Motors and Chrysler left Argentina in 1977 and 1979 respectively, and moved to Brazil. Interviewed industrialist in the sector agreed that the main reason was the contraction of domestic demand. Trade opening did not really affect car manufacturers given the existence of multiple non-tariff barriers which protected car production[101].

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[99]Sourroille, 1980.

[100]ADEFA annual report, 1989.

[101]As commented by I.Dasso (director of ADEFA, Argentinian Motorcar Industry Association) analysing statistics of the sector, the saturation point of the Argentine market came in 1973/74 (around 300.000 vehicles produced). The Martínez de Hoz liberalisation coincided with a small increase in retail saling, but not significant from a long-term perspective. Producers were conscious about the declining line of motorcar demand in Argentina from 1973-74 (in 1990, there were 130.144 vehicles produced, this is, 50% reduction from the 1973/74 level). This was also confirmed by A.Amasanti, from SEVEL Argentina. Further, the strategies for expanding demand in the late 1970s-early 1980s finished being a key for the survival of vehicle companies. As described by H.Salerno (SICE), the "car savings plan" allowed companies to

With respect to investment, there was a fall in investment coefficients both in the private and public sectors. While investment was 19.6%% of Argentine GNP in 1974, it decreased to 12.5% of GNP in 1984 and 7.5% of GNP in 1990[102]. Macroeconomic uncertainty led to the transnationalisation of savings, which further reinforced economic crisis and thus capital flight. The loss of dynamism in industrial investment has been the most characteristic trait of the period. However, the overvaluation of the peso during the military trade opening led to an increase of imports, including technological imports. Some sectors renewed their equipments along 1976-81, when domestic industrial investment raised up to 22% of GNP. As explained above, most of this technological investments were due to an expansion of private credit, which led to the problem of external debt in 1982.

The level of FDI also fell from all sectors -with the only exception of metal production (table V.16). There has been an important academic debate on the causes of TNCs to expand; the Argentine case may show that there is a positive relationship between industrial promotion and protection of domestic markets and FDI. This was also the case in Spain, where the percentage of FDI is much larger than in Argentina, and was stablished before Spain joined the EC as a way to penetrate the European market. However, the case of Spain is more controversial since also the country has one of the lowest labour costs in Europe.

Finally, the most noticeable effect of the 1976-81 trade

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compensate for the reduction of demand, given the high levels of inflation and interest rates.

[102]CEPAL data.

opening was the relative reduction in employment rates. The global 3% increase in employment is related to the growth of active population, given that unemployment also grew from less than 3% to 4.6% . The most important increases in employment were in food and beverages (21.3%), paper (12%), wood and furniture (11.8%) and chemicals (9.3%). However. steel reduced its numbers of employees by 30.6%, and machinery by 6.7%. This leads to the question of productivity. Table V.17 shows massive increases in terms of productivity in steel and chemicals, and important decreases in food and beverages and wood and furniture.

During the ISI period, Argentina had a highly qualified labour force compared to the rest of Latin America, due to the extension of the social welfare system. There were no employment problems and wages were also higher than in the rest of the South Cone. Migrant workers were not a problem for the Argentine labour force since they were unskilled; on the contrary, migrants were a complement in the cyclic periods of economic expansion. Unions played a critical role in the determination of wages, which also were higher than in the rest of Latin American countries. Compared to them, the Argentine showed a positive relationship between increases in productivity and improvements in real wages. However, productivity in the period 1976-90 was increased only in big enterprises, thanks to massive reductions in the number of employees. This was caused by a situation of "over-employment" in 1974/75 due to union pressures in large firms. These workers were initially absorbed by SMEs, which paradoxically increased the number of workers due to lower labour costs but decreased output and productivity. This is especially the case for food and beverages and for wood and furniture. The military employed the liberal motto that market forces would balance the economy, including the labour market. Minimum wages were abolished and trade unions dismantled; however, government intervened when market forces were not adequate to state policies, freezing nominal wages. The reduction in state protection to labour allowed industries to implement important adjustments in productivity. Yet, the beneficial effects of this policy were not clear. Few Argentine industries were net exporters, and the reduction in wages and increasing unemployment caused a contraction in domestic demand.

As Argentina advanced in the 1980s, unemployment rates and informality grew. The unemployment rate move from 4.2% in 1974 to 7.4% in 1990, and sub-occupation increased from 5% in 1974 to 9% in 1990. In 1990, Real wages were a third less of their value in 1974. The process of economic concentration has to be associated with a large increase in poverty. The number of poor households increased from 8% in 1980 to 27% in 1990[103]. Further, this regressive distribution of income should be understood in a context where the existing social welfare system is being dismantled. Thus, poor families are in a much worse situation than they could be two decades before, given that poor households have no access to public education, health, etc, and they do not posses income enough as to pay for private services. Blindly, these were encouraged by the government as a more efficient alternative to public services.

V.II.D: SMEs AND THE INFORMAL SECTOR

There is a debate on the dimensions and raison d'etre of the Argentine informal sector. As in Spain, calculations use

[103]Cepal data.

different methods and produce different results. Portes[104] calculated that it was 22.8% of the active population in 1950 and 25.7% in 1980, but the method is not mentioned. Kentis and Yoguel[105], analyzing exclusively the industrial sector, concluded that informality supposed 1% in terms of value of production. Beccaria and Orsatti[106] based on the 1980 population census -not the industrial- registered that 42% of the active population was informal; under this category the authors included household cleaning work, temporary and independent workers and entrepreneurs and workers in firms with less than five persons. Lindenboim[107] also based his study on the 1980 population census, using the term "un-structured workers" to mean informal. This group was 32.6% of the active population, of which 21.5% were independent small entrepreneurs and workers while only 6.7% of the active population were working in household cleaning services.

Looking at the reasons of the growth of the informal sector, H.de Soto (1989) concluded for Perú that the extension of informality was mainly related to bureaucratic inefficiency and the high costs of licences and paper work in over-regulated states. This hypothesis looked plausible for Argentina, given the low level of taxes on capital and profits. However, although bureaucratic inefficiency may be a reason, the main reported reasons seem to be taxes, union quotas and labour protection, this is, fiscal reasons. In many cases, informality is a

[104]Portes, 1990:28.

[105]Kentis and Yoguel, 1991:26.

[106]Becaria and Orsatti, 1989.

[107]Lindemboim, 1988:153-177.

temporary strategy to liquidate stocks before closing down. For Kantis and Yoguel[108], Argentina is not evolving towards an increase of the informal sector but just towards a reduction of SMEs and increasing unemployment.[109]

It is unfortunate that the 1991 population census has not yet been analyzed. In any case, if 21.5% of the active population was enroled in productive informal activities, it might mean that subcontracting may be a much more common practice than it has been calculated. It may also contradict Kantis and Yoguel's hypothesis, based on their calculations on value of production. On the other hand, Beccaria[110] assumed that the increase in informal activities would lead to decrease in productivity in Argentina. Beccaria's argument should be understood in the context of an economy with a large public sector. The increase of informal activities may be done by using public infrastruture, thus increasing costs while apparently not increasing outputs.[111] The case may be the opposite; in Spain the growth of informality has been parallel to important improvements in

[108]Kantin and Yoguel, 1991:30-31.

[109]Kantis referred to "industrial rotation". As he expressed in the interview, there were closures and mergers, not all SMEs were affected by trade opening. Many survived thanks to strategies such as diversifying production and markets, and rationalising employment. But, in his view, there was not an expansion of the informal sector.

[110]Beccaria, 1989:21.

[111]This was the research field of Fundación Progreso y Trabajo. Anibal Martínez-Quijano's team was analyzing data on Gross Internal Product of Argentine Public enterprises. As reflected in the interview, the research was finding many problems in getting desegregated data. The [partial] results showed that, while gross internal product of public enterprises had risen from 100 base in 1970 to 166 in 1989, the increase of some costs such as communications had risen from 100 in 1970 to 221 in 1989,energy from 100 in 1970 to 239 in 1989. this data, though, may not prove an increase in parallel informal activities, since new technologies in aluminium and steel required important increases in energy consumption.

industrial efficiency. On the other hand, Argentina's specialisation in MERCOSUR may favour informal activities. The size and scale of production of Brazilian companies is much larger than their Argentine counterparts.[112] Hence, Brazil may keep big assembling companies and Argentina may develop specialised SMEs. Brazil may the be the centre of industrial decisions, and Argentina may lose "economic sovereignty", but the later will generate employment in a new Latin American division of labour.

Concluding this section on Argentine industrial policies, to make an assessment is a difficult task. On the one hand, there are so many mechanisms and incentive redundancies, that the costs of such policies are difficult to be quantified. Globally, the effects of trade opening while stopping export promotion and reducing industrial promotion have been negative for Argentine industry. Sectorial differences show that some sub-sectors have successfully developed without any type of state subsidy -i.e. oils. Others have successfully developed precisely thanks to state promotion -i.e. steel, chemicals.

On the other hand, the evolution of Argentine industry in recent times should be put into context. Like Spain, it is a case of a transition from a highly interventionist corporatist regime to another system where the state modifies its role and control over the economy, opening up to international forces. The main actors, entrepreneurs, trade unions and the state, did not have consciousness of the extent of the transformation in the initial stages. All of them have been using traditional corporatist

[112]Argentina has an advantage in design (textiles), special products (steel) and components and parts (motor industry) (see chapter II).

mechanisms to deal with economic change. By the late 1970s, both Spanish and Argentine industrialist tried to survived what it seemed a conjunctural crisis. In Argentina, a country used to inflation and rapid changes, industrial pressures and ways to manage the first opening were done in a much rapid way. For the Spanish, used to a relative economic stability, it looked as a deep crisis. However, in both countries the strongest industrial groups claimed and obtained state protection. The state itself has been rather low in both countries in dealing with the problem. Political transitions, changes in government and economic teams, and the priority given to solving inflation, have seriously retarded the industrial and social questions. Surrounded in a feeling of crisis, the Argentine and Spanish states have performed a policy of "pick-up-the-winners", and thus securing future economic performance. The cost has been the reduction of SMEs, and an important fall in employment rates. In parallel, social aspects worsened given that initially states overexpanded expenditure and later they have been faced with the problem of public deficits. The extent of the crisis is much more important for Argentina, where external debt repayments have put further pressure on government's spending. Unions have been using corporatist ways -pressuring the government to change. The strongest unions obtained important concessions -such as the case of the Spanish Funds for the Promotion of Employment. However, both the Argentine and Spanish governments have been keeping emergency measures, leaving social aspects as a second issue. This has been a political decision: the binomy economic growth/social equity has been understood as conflicting, giving priority to the first.

CONCLUSIONS

The political transitions occurred during the late 1970s and the 1980s in Latin America, Southern and Eastern Europe made academics to question the prospects of democracy in an environment of economic crisis. Most of the studies[1] can be accused of economic determinism: it was the economic crisis/development which allowed or not an adequate political transition.

This study has attempted to show that the interdependence between the political and the economic arena are far more complex. The two variables need to be linked in order to understand the transformations occurred in the world semi-periphery. It is not accidental that all the semi-peripheral countries experienced democratic transitions in parallel to structural economic changes. Together, these changes have produced extensive transformations in the productive, financial and societal systems of these countries. This is, they have produced the dismantling of nationalist, corporatist, interventionist systems of either a left (Eastern Europe) or a right wing political orientation (Latin America and Southern Europe).

Further, it would be more useful to reverse the analysis, and question which could have been the best political environment for economic transformation. Democracy gave a new political setting in which the traditional corporatist alliances were not valid anymore, and thus the new rules of the economic game had to be re-written.

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[1]See chapter I.

This conclusion will attempt to integrate the detail of the preceding chapters along four main lines of discussion. First, the problems coming from economic liberalisations, mainly -supposedly- temporal economic recession and regressive income distribution. Second, the debate around political transitions and neo-corporatism as the best solution to deal with the social tensions coming from transformations in the productive sphere. Following from this, it will be examined the question of the autonomy of the state, given that one of the main paradoxes of these economic transitions is that it has been the state itself that has had to promote a reduction in state intervention and de-regulate the sphere of its activities. Finally, a description of the main economic structural changes and its social implications will be provided around three axis: industrial restructuring and new international economic specialisations, the breakdown of the nationalist link between finance and industry, and the growth of the tertiary sector and the extension of the informal economy.

VI.1. ECONOMIC LIBERALISATIONS

The fatigue from tensions over income distribution within corporatist societies and the economics of stop-go were aggravated by international shocks in the period 1973-82. It is then that the policy makers in the semi-peripheral countries preferred not to implement the necessary corrections and adjustments to maintain economic nationalism. This was not the first crisis that their economies had faced; however, the feeling of exhaustion of the ISI[2] system meant that it was deemed preferable to try the neo-liberal alternative.

[2] Import-Substituting Industrialisation.

Both Neo-Liberalism and Neo-Structuralism underline the need to liberalise the economy to some degree. If economic liberalisation is desirable, which are the best ways to implement it? The issue is complex, given that every country starts from a specific regime of interventionism. A government has several ways of evolving towards economic de-regulation. The appropriate timing and sequence of reforms is vital for an optimal liberalisation. An important debate has been on the adequacy of implementing policy reforms all in one stage[3] or undertaking them in a gradual form. Most authors agree that gradualism seems more adequate from a political point of view, given that deregulatory policies will lead to an initial worsening of income distribution and an increase in unemployment[4]. Moreover, usually there is/has been a need to first stabilise the economy, and thus the social impact will be further worsened given the negative effect of adjustment on wages and public spending.

Empirical evidence seems to indicate that gradualism is the most prudent option[5]. The effects of a sudden (it could be argued that badly designed) liberalisation in Argentina in 1976-81 have been briefly outlined in chapter III. The *Tablita* programme did not count with financial volatility, so that the effects of the opening up of trade and finance were not parallel. Capital mobility underlines the necessity of applying different treatment to the financial and the productive sectors. Thus, if a government chooses gradualism, then the next question is whether there should be a discriminatory or uniform treatment of

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[3]Sachs, 1991.

[4]Atkinson & Micklewright, 1991; Krueger, 1986; Michaely, 1986; Mussa, 1986.

[5]Korea in 1964, Argentina in 1978, Chile in 1980, Poland in 1990.

sectors. Most economists agree on the adequacy of non-uniform processes. A.Krueger suggests that an optimal liberalisation should start with the deregulation of current account transactions, followed by the decontrol of agriculture prices, domestic labour and capital markets, leaving the capital account for last[6]. Those sectors that generate large employment should have a slower process of deregulation[7]. Moreover, an important debate has emerged among neo-liberals as to whether an optimal liberalisation should go beyond deregulation and should subsidise to some extend unprotected sectors[8] or not[9].

As compared to the Argentina, it could be said that "socialist" Spain 1982-92 is a successful example of this gradualist and discriminatory liberalisation[10]. Relatively to other semi-peripheral countries, the PSOE managed over a decade to stabilise macroeconomic variables, de-regulating the financial and industrial sectors, transforming a highly interventionist society into a fast growing country. The lesson coming from the Spanish liberalisation is the cautious, step-by-step, dirigiste and interventionist manner in which the PSOE government managed reforms. However, as it will be discussed below, this relative success raises doubts when analyzing variables such as the trade deficit, unemployment rates and the extension of the informal economy.

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[6]Krueger, 1986.

[7]Atkinson & Micklewright, 1991; Michaely, 1986.

[8]Mussa, 1986.

[9]Rottenberg, 1986.

[10]See chapter IV.

Argentina, on the contrary, shows a failed "one-stage" liberalisation (under the military government 1976-81), and a series of new failed attempts under democracy, until a second stage of the Menem Administration (1991-). The first liberalising impulse led to a reactive "closing back" of the country. Tariff barriers were risen again, and private debt nationalised in 1982. External debt plus the fall of primary products prices confronted the democratic administrations with a large fiscal problem, which only could be temporarily solved issuing internal public debt, printing money and thus boosting inflation -ending in two hyperinflations in 1989. The eight teams at the from of the Ministry of Economy in the period 1983-1990 tried different stabilisation plans without success, but privatised state assets and carried out a progressive trade liberalisation. Stabilisation was achieved in 1991, when the quantity of foreign reserves allowed the Central Bank to maintain a fixed exchange rate (Cavallo Plan). This is, again the state played an interventionist role to secure the success of macroeconomic policies. The balance sheet of the period 1976-91 for Argentina is a relatively successful liberalisation, but with still no results in terms of investment, and with a high social cost. For the most alarmist, the period 1980-90 has been a "lost decade"[11]. GNP fell 9.9%, industrial output decreased 19.9%, investment fell 36.2%, wages were reduced by 32.8% and, among other indicators, foreign debt rose from U$S 27.2bn to U$S 63.3bn.

The initially adverse effects of liberalisation opens another Neo-Structuralist debate. The option of discriminating

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[11]See, among others, Azpiazu, 1991:41; Nun, 1987:109-116.

some sectors has risen another controversy on which should be the priorities to subsidise. The question comes in either a social compensation emphasis or in a growth promotion priority. For Neo-Structuralists, the orthodox target of combining macroeconomic stabilisation with export promotion and trade liberalisation is contradictory in the short-run: it is incorrect to amalgamate many goals as if they were part of the same package[12]. An example of that are the cases of Korea and Japan in the post-war. These countries first stabilised their economies, when neither of them looked promising. After a considerable period of greater concern for controlling inflation, they moved towards export-led growth, achieving powerful international positions. Further, this was done without liberalising trade, protecting national industry, and controlling foreign direct investment (FDI). Drawing a parallel with other semi-peripheral countries, liberalisation was carried out in East Asia when growth had been achieved and governments had perform a relatively equal redistribution of income, which attenuated the effects of liberalisation. This is the opposite case in today's Third World countries where, in the absence of such income equality, policies oriented towards efficiency may exacerbate an already highly unequal income distribution.[13] Also, Neo-Structuralist writers insist in that stabilising/liberalising is not enough to correct domestic distortions, since Third World countries are today confronted with the problem of external debt[14].

The second set of concerns about discriminatory gradualism

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[12]Thorp, 1987:338-340.

[13]For these reasons, Berlinski has proposed that if international agencies desire to open trade, then the GATT principles should be modified to allow developing countries to subsidise exports as a program of "import liberalisation" (Berlinski, 1987).

[14]Sebastian, 1987.

for Neo-Structuralism has been social compensation. Beyond the theoretical debates, both the Spanish and the Argentine governments found themselves with the paradox of whether a government needs to protect certain sectors during the period of liberalisation if it is to ensure the success of the economic transition. This is, one of the key questions is how to make economic liberalisation sustainable. In general, for policy reforms to be sustainable the cost they impose on some key social groups cannot be excessive. Economic liberalisation must be politically acceptable, so all groups get some gain. Thus, it is important to know which are the groups likely to win from policy changes, and especially who are the losers and what is their degree of political activity and power. Liberalisation may be easier when the state can somehow compensate the losers; but this may be difficult in underdeveloped countries, given governments' lack of resources -worsened in the 1980s by external debt. One of the key prescriptions for a successful transition -be it political or economic- is that there be no absolute losers, and that all social groups perceive some kind of relative benefit from the changes. In the majority of semi-peripheral countries the [in the long run structural] processes of liberalisation have been accompanied by economic adjustment in the short term. This has made it difficult to implement long term policies, since the population identified the harsh effects of economic austerity with structural reforms.

This identification is by no means erroneous with regard the interest of wage-earners. The adjustment programmes brought with them a drastic contraction of real wages in the short term[15].

[15] In Argentina, real wages in industry fell 32.9% between 1980 and 1990. See chapter III.

Economic liberalisation in the semi-peripheral countries has brought with it a regressive redistribution of income which has benefited those sectors of the economy which are competitive in international terms (normally semi-elaborate and/or primary products) and has adversely affected industrial groups and workers linked to the protectionist policies of ISI[16]. Given the existence of absolute losers in these economic transitions, the majority of states found themselves in the duty to somehow protect some of the most adversely affected sectors in order to alleviate the radical effects of the processes of liberalisation. This protection has not only been applied to workers, who have been most affected by the severe adjustment programmes, but also to all the economic agents tied to the old ISI system -industry, services and the state itself. One of the paradoxes of these economic transitions, which will be analyzed below, is that it has been the state itself that has had to promote a reduction in state intervention and the sphere of its activities.

For economic liberalisation to be sustainable, it is also necessary that a coalition of winners will support state reforms; that will happen if there is confidence in future benefits[17]. Thus, the prospects of Spanish integration into the EC have been an important factor in making economic liberalisation easier. In Argentina, on the contrary, there was a strong feeling of crisis, and no easy alternative to integration. And the main motivating factor in History for the implementation of economic regulations has been the perception of crisis -real or not, which makes the private sector try to circumvent it through state intervention.

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[16]See Atkinson & Micklewright, 1991; Nelson, 1990.

[17]Greskovits, 1991:22.

The fundamental question of the implementation of adjustment processes and economic liberalisation is that of its legitimacy or lack of it[18], and the state's degree of autonomy as regards carrying these policies through.

VI.2. POLITICAL TRANSITION, CORPORATISM AND AUTONOMY OF THE STATE

In 1986 O'Donnell, Schmitter and Whitehead published a collection of studies in four volumes, the results of comparative analysis of the transitions in Southern Europe and Latin America. In their conclusions, they stressed how convenient a strategy of social pacts was for carrying out a successful transition, and pointed to Spain as an example of successful neo-corporatist practice. However, a retrospective analysis, seven years later, of the transitions in Spain and Argentina raises questions about Schmitter, O'Donnell and Whitehead's thesis.

Firstly, social pacts were of very limited scope in Spain. The policy of pacts was promoted by the state itself in the initial period 1977-86, at a time of confusion among the social groups in the transition. Despite the extensive literature on the

[18]This is one of the reasons why these processes of restructuring have taken place at the same time as political transitions. The Spanish and Argentinian cases show two moments when it has been easier to achieve political legitimacy. There is an initial "momentum" in the transition to democracy, in which the population may be better disposed to carry the burden of economic adjustment in exchange for obtaining civil liberties. The PSOE government in Spain knew how to make use of this strategy, whereas the Alfonsin government in Argentina did not. Once this initial momentum is lost, the government loses the credit for carrying out the adjustment. However, the Argentine case shows us that there may also be a second period in which the population is ready to accept economic austerity: when it is recognised the existence of a "national crisis". The problem of legitimacy is a problem of perceptions: in the eyes of the Argentine electorate, there was always a political alternative to Alfonsin -Peronism- whereas the was no such alternative to Menem's Peronist government. Menem's rhetoric was based on presenting his policy as the only one possible, without any alternative, in a country in crisis. As will be stressed below, PSOE in Spain have also put this argument forward.

significance of the Moncloa Pacts (1977)[19], these were not really social pacts. The employers' organisation (CEOE) was formed that very year -at great haste, with no tradition in protecting business interests. 1977 was also the year in which the Francoist vertical unions were dismantled and the right of association was recognised. Neither the employers nor the unions signed the Moncloa Pacts, it was the political parties who did: it was a state policy aimed at legitimising a programme of economic adjustment. The vicissitudes of the period 1973-77 required austerity measures, beyond democratic debate and party policy. It is for this reason that a political agreement was drawn up so rapidly. It was a political agreement and not a social one because the unions and the employers' organisation were not mature enough to take on the task of ensuring the implementation of the adjustment plan. Once the social actors were more organised, the government hoped to be able to proceed to a genuine policy of social pacts, in line with the fashionable theories on consociational democracy[20]. The paradox of the Spanish case is that social democratic ideas were adopted as the most appropriate for economic transition, but that in the absence of a consolidated system of pressure groups, the state itself promoted and institutionalised the relations between the social actors. That is to say that is not the case that neocorporatism was a practice that consolidated the political transition in Spain, as Schmitter and O'Donnell[21] maintain, but rather that neocorporatism was a theory which justified the practice, in this case a combination of decisions which the state had already

[19]See, among others, Albizu, 1983; Alcaide, 1990; Fuentes-Quintana, 1984; Lago, 1989; Martínez-Cortiña, 1990; Pérez-Díaz, 1984; Velarde, 1989.

[20]Lijphardt, 1974.

[21]In O'Donnell, Schimitter and Whitehead, 1986b:38-39.

adopted beforehand.

An analysis of the participants in later "social pacts" confirms this position. Given the irregularity of the agreements, it is not possible to talk about the institutionalisation of neocorporatism in Spain. Of the five agreements drawn up by 1992, the two largest union organisations participated in just two (ANE and AES), the employers' organisation CEOE took part in all five, and the government in just two (ANE and AES). If we take social representativity as our criterion, only ANE (1982) can be properly considered a social pact.[22] Since 1987, when both unions and employers became better organised, the government has not managed to secure a single social pact, even in a time of expansionary economic policy. Given that there is no continuity in the formula of the pacts, the social democratic system seems more a justification of the policy carried out by the Spanish government than a policy which has had an effect on the outcome.

[22]Even in this case, representivity is low, since the level of union membership in Spain in 11% (in 1986, according to the European Social Institute) compared to 50% in Argentina (according to Godio, 1991:427). The two largest union organisations (UGT and CCOO) argue that participation in union elections is representative (77% of the "formal" workers in the large companies) such that the workers do not participate actively but use the unions for the purpose of making demands on the state. However, this figure only amounts to 20% of the total active population in Spain. With respect to CEOE, what gives it its stategic power is the fact that it is the only employers' organisation, is also its weakness. There are strong tensions within CEOE because of the different interests of the various employers; groups. The Small and Medium Sized Enterprises (88% of the total number of companies) claim that they are not adequately represented by CEOE.

PARTICIPANTS IN THE SOCIAL PACTS OF THE SPANISH TRANSITION 1977-90

SOCIAL PACT	PARTIES	CEOE	UGT	CCOO	GOVT
Moncloa, 1977	X				X
AMI (Interconference Framework Agreement) 1980-81		X	X		
ANE (National Agreement on Employment) 1982		X	X	X	X
AI (Interconference Agreement) 1983		X	X	X	
AES (Economic and Social Agreement) 1985-86		X	X		X

Secondly, the features of the Spanish case are exceptional and difficult to apply to any other country. This is especially the case for Argentina, which had developed a tradition of corporatism since 1945. All social groups have a tradition of political confrontation with the state, given that the state provided each group's share of income through social bargaining. It is interesting to note that, in this sense, there is a continuity between the dictatorship and the democratic governments: the attempt to correct the corporatist society by reforming it.

Argentine democratic governments did not have any other option: corporatism could not be sustained economically, given that external debt and the fall in primary product prices left the Argentine state with no fiscal resources as to keep a redistributive role.

In 1985, president Alfonsín chose a group of technocrats with no ties to any of the economic *gremios* (guilds or associations) at the front of the Ministry of Economy, in a new attempt to break the corporatist structure. Traditionally, each corporation had nominated a candidate to defend its interests at the head of a Ministry (SRA-Agriculture; CGT-Labour; Church-Education). In this way, Alfonsín hoped that Minister Sourrouille and his team would draw up an economic adjustment plan that was fair to all social groups. This was the Austral Plan (1985-88), for which the government did not even attempt to draw up a prior social pact. Sourrouille himself eyed this with scepticism, because of the social confrontational tradition and because of the recent memories of the bad effects the adjustment under the military government had on both employers and unions. Thus, social consultation did not take place prior to the launch of the plan, but came a month later, with the Economic and Social Conference (CES), in which the employers and the unions accepted the adjustment. It was a brief agreement. Soon, the various social groups took note of the fact that the prospects of growth were nil, and therefore the economy was a zero sum game in which gains for one meant losses for another. The industrialists, brought together in a platform known as "the captains of industry", withdrew their support for Alfonsín in 1987 on finding out his policies of privatisation of public firms and tax reform. The unions, traditionally Peronist, questioned the plan's credibility even earlier, in 1986, with the result that there were an average of 250 labour disputes per year during Alfonsín's administration, including 13 general strikes during the Austral Plan. Nor was any social pact established during the brief and also unsuccessful Primavera Plan (1988).

It was against this backdrop of economic crisis and political distrust that C.Menem launched an electoral campaign promising a new "revolution in production" and "*salariazo*" ("salary *coup d' etat*", meaning raising wages) in the most traditional Peronist style, which gave him the majority in the 1989 presidential elections. Menem claimed to be returning to the tradition of co-optive pacts, where the authorities nominated a representative from each corporation to head the respective ministry. He even extended this spirit of social reconciliation - "strategic alliance" according to the press of the day- to the non-economic field and annulled all sentences passed on the military during the Alfonsín period. However, on coming to power he recognised that the policy of expansion had to wait, since it was necessary to have a severe economic adjustment beforehand. That is to say, he returned to the situation of Alfonsín, although the social groups had changed their attitude. Now they did not present a unified opposition to the government's policy, but rather were divided.[23] As in Spain, the Argentine social actors also went through a initial period of disorientation during the transition, in which there was no real consciousness of the necessity and the scope of the adjustment process, such that they continued to pursue the same confrontational approach. Only in 1989, with the Peronist candidate C. Menem in power, did they change their attitude. However, the new attitude was not co-optive; both the union and the employers were divided, and although the government only recognised the official factions, the important opposition of the others made arranging a real social pact problematic.

In Argentina, what resulted was what Mancur Olson has called

[23]Within the CGE, the inward-market oriented faction confronted the faction in favour of the government's economic policy. The CGT union grouping was divided between the pro-Menem CGT-San Martin and the opposition CGT-Azopardo. See chapter III.

pluralist stagnation[24]. However, this situation did not require a society with a long tradition of institutional stability like the UK or the USA, as Olson argues; rather, a few decades of corporatism were enough. The Argentine case shows the difficulty to co-ordinate co-optive social pacts in countries with a tradition of corporatism and rigid pacts, and that the prescriptions of O'Donnell and Schmitter, and of Olson himself, are orientational, morally preferable in the face of authoritarian governmental attitudes, but barely operational in practice.

It would be an error to judge the two democratic governments in Argentina by their incapacity to arrange social pacts. Neither Alfonsín nor Menem put this forward as a priority among their objectives, but rather the contrary. What both tried to achieve is precisely to dismantle the corporatist system, that is to say, to achieve greater autonomy for the state in order to implement policy reforms. This was what lay behind Alfonsín's failed manoeuvre of putting Sourrouille and his team of technocrats into office. The Peronist opposition took note of the fact that social groups were too well organised because of the long tradition of confrontation, and changed their strategy. Once in power, under the rhetoric of the "strategic alliance" Menem returned to nominating a representative from each socio-economic corporation to head the respective ministry. That is to say, he formally took the political situation back to the corporatist "normality". However, in the same year in which he was elected, he proclaimed the National Economic Emergency and Reform of the State laws, two extraordinary laws which, despite the "formal"

[24]See Olson, 1965.

defence of corporatism, gave the state great room for manoeuvre. Later decisions on economic policy, for example the law on convertibility in 1991, have also been adopted by law-decree, which does not allow them to be either the subject of parliamentary debate or subject to a social pact. That is to say, the Menem government is continuing what was initiated under the military dictatorship -the dismantling of Argentina's corporatist system.

If the Spanish case is paradigmatic of anything, it is of greater state autonomy, rather than of good neocorporatist management. This is a difficult question in the social science, since the autonomy of the state cannot be measured and is always subject to relative criteria. Even so, it is possible to infer the hypothesis by analyzing the role of pressure groups at the time of accepting or modifying the government's economic policy. In Spain, the fact that there had been no tradition of confrontational social corporatism under the dictatorship created a technocratic elite which was much more isolated from social pressures than was the case in Argentina. This seems to be a key factor in the transition. The disorientation of all the social actors, including the state itself, gave the government an important margin for manoeuvre, such that it continued with the dirigiste style followed under the dictatorship. Between 1977 and 1982, it was the state itself which promoted social pacts and encouraged the organisation of pressure groups. From 1982 on, PSOE won absolute majorities in three consecutive elections, so that the government had greater room for manoeuvre for implementing its economic policies. These electoral victories were not only due to the population's acceptance of the political management of the country, but also to the apparent absence of a political alternative. The right is viewed poorly after the dictatorship, the left is divided and considered as too radical, and the parties of the centre have not known how to co-ordinate strategic programmes. This combination of factors is difficult to repeat in any other transition. The Argentine case seems more paradigmatic related to other semi-peripheral countries, where, through a series of trial-and-error attempts, the formal structure of corporatism was maintained but nonetheless a greater degree of autonomy of the state was achieved through the declaration of a National Economic Emergency.

This is not to argue that social pacts are not viable in the transition to democracy, but rather that "pactism" is just one strategy among others that may feasibly be implemented in those countries where conditions allow it. The central question, however, has been economic adjustment and restructuring. To be able to carry through such changes, the key factor from the point of view of policy-makers has been to achieve a greater relative state autonomy, so that dismantling the structures of corporatism has been a central axis in the transitions of the 1980s.

VI.3. REFORM OF THE ROLE OF THE STATE

Neo-Liberalism, adopted to a greater or lesser degree by the majority of central and semi-peripheral countries in the 1980s, advocates the reduction of state intervention in the economy. Both "public choice" and Neo-Liberal theories consider states as institutions with a tendency towards overexpansion, without real control over the uses and effects of the expansion of public expenditure[25]. The recommended measures are to limit state

[25] Brennan & Buchanan, 1980.

intervention to the sphere of public goods, and to control the management of both expenditure and income -taxes, debt and money creation. That is to say, for Neo-Liberalism it is a question of attaining "minimal states" which behave like businesses with a few concrete public objectives, which usually exclude redistributive measures, which are considered to distort the national economy.

Keynesianism generated a case of "Wagner's Law", an empirical tendency observed in the nineteenth century according to which state expenditure tends to grow in line with the development of society and the demands from citizens for better living standards. This situation was sustainable so long as there was economic growth, but the oil crisis ushered in a new period of intermittent recessions in which maintaining the rate of public expenditure would have required increases in fiscal pressure. However, the decision taken in the majority of countries was the reverse: to reduce the sphere of state intervention. That is to say, the Neo-Liberal proposals.

The extension of policies of a Neo-Liberal nature in the central countries converted them into a desirable alternative for the semi-peripheral nations. The deregulatory tendencies have served as overall guidelines for action. Liberalising implies that the state reduces the scope of its activity in the economy; in practice, the protection granted to some economic sectors has been cut, but globally state action has not been reduced. What has characterised the way that both the Argentine and the Spanish governments have handled their economic policies has been discretionality. The unpopularity of the liberalisation measures has meant that sectors of production, finance or services have been deregulated by decree, without parliamentary debate, whilst it is made apparent that there is the possibility of differential treatment for those subsectors or companies which are considered by the state to be of special interest. Only those sectors which are not considered of national interest in this way have been abandoned to the fate of market forces. That is to say, the Argentine and especially the Spanish states have maintained their interventionist stance, guiding the processes of economic liberalisation.

An example of this discretional intervention is the case of the Spanish banking system[26]. The attempt at financial deregulation between 1978 and 1985 created the greatest banking crisis in post-war Europe. The state found itself at the crossroads: either it had to leave the 110 Spanish banks to the dynamics of market forces and abandon 51 banks to bankruptcy, or it had to intervene to protect both depositors and businessmen. Finally, the state opted to intervene in the stabilisation of the banking sector. It nationalised 20 holdings belonging to the RUMASA group and created the Deposit Guarantee Fund, known has the "banks' hospital", which acted in 26 cases. The cost in terms of public expenditure was high (US $4.7 billion, excluding the capital which went to RUMASA). However, the financial collapse was avoided: only one bank went into liquidation.

Yet the most significant case of discretionality in the two countries is that of industry, the sector developed through the ISI policies, and of which the greater part owed its existence to the protection of the domestic market. The reduction or

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[26]See chapter IV.

elimination of subsidies and/or tariffs meant that this sector went into crisis practically in its entirety. On this basis it has been argued on many occasions that the governments of the transitional period lacked an industrial policy. In the section on new productive structures it will be argued that industrial policies did exist, the changes in their content and the instruments used will be analyzed, and the differential treatment given by the state to various sectors will be commented on.

With respect to state expenditure, it is interesting to note that in both countries there was a notorious increase in public expenditure during and after the periods of economic transition. The Spanish and Argentine states were almost model minimalist states before the processes of liberalisation. In Argentina, public expenditure was 25.1% of GNP in 1970 and 38.9% in 1981, from which it had to be reduced during the period of adjustment, under democratic rule -it was 31.7% in 1986. Even then, public expenditure in Argentina was greater than it was in 1970, before the first attempts to liberalise the economy. In Spain, the situation of economic growth allowed public expenditure to expand. As in Argentina, expenditure grew as the processes of economic restructuring progressed, passing from 33% of GNP in 1980 to 42% in 1987.

There has also been an important change in the allocation of public resources. In Argentina, the large scale reduction took place in social sectors (above all, social security), defence and administration. Public investment in economic sectors is the least affected, with the exception of the industrial promotion programmes which officially were stopped after 1982[27]. However, the statistics on public expenditure in Argentina become less relevant when it is born in mind that foreign debt -debt contracted privately by banks and industries- was nationalised in 1982. This meant that the state indirectly financed indebted companies with amounts far above those included in public expenditure. In Spain, public expenditure on industry is higher than it was under ISI promotion, but social sectors have barely seen any increase in funds. Furthermore, relative to GNP, spending on health actually fell. Neo-liberal democratic governments have followed the Kuznetsian policy of promoting "growth first, redistribution later".[28] The balance between economic growth and social equity has been one of the most criticised aspects of the transitional government's policies.

That is to say, the Argentine and above all the Spanish cases show that in terms of both public expenditure and state intervention in the running of the economy, the role of the state has not diminished, as Neo-Liberalism postulates. With respect to expenditure, it has increased. With respect to regulatory intervention, the role of the state has been transformed. The states are re-regulating new rules of the economic game in which less control of economic activities is envisaged, but paradoxically the states themselves have to chart this

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[27]See chapter III.

[28]As described in chapter IV, the Spanish government's policy has been for quantitative increase in the numbers of people covered, rather than qualitative improvement in the services themselves. The aim has been to extend cover to the majority of citizens, but with minimal investment, in such a way that health, education and other social services have become mass services with poor attention to the citizens needs. It could be said that Spain has a limited welfare state system, where the typical welfare state institutions exist nominally, but their capacity and resources are much less than those existing in a mature system.

transition. Although Neo-Liberal theory advocates a reduction in the functions of the state in order to promote individual initiative, what it fails to mention is how to carry out these changes. In Spain, the state adopted a clearly dirigiste role n the transition. In Argentina, the lack of resources after the debt crisis of 1982 dictated that the state adopt a less interventionist process of liberalisation.

VI.4. NEW PRODUCTIVE STRUCTURES

A decade of changes in regulation and distribution of resources has given rise to important effects in the productive structures of both Spain and Argentina. Chapter V offered an study of the last industrial censuses available for Argentina (1973 and 1984) and Spain (1978-1989), and a description of the restructuring process as information was available along 47 interviews and the bibliography. At the structural level, four changes are most relevant: A. industrial restructuring and new international economic specialisations; B. bank-industry relations; C. the growth of the tertiary sector and the increased role of the informal sector.

VI.4.A. INDUSTRIAL RESTRUCTURING

In Spain, the first measures were put forward under the first government of the democratic transition, UCD. However, political tensions made that this policy only "patched up" the most immediate industries in crisis. In 1981 the policy of aid to bankrupt firms began to be abandoned in favour of a programme of reorganisation for three industrial sectors. But it was to be under the socialist government of the PSOE (1982 -) that the reorganisation programme would really be put into force[29]. The diagnosis which underlay the industrial reorganisation policy launched under the socialist government bore the marks of the perceptions that have been noted above. Spanish industry, developed thanks to a policy of ISI from the end of the last century, was rigid and unbalanced, made worse by the additional distortions of the 1970s: the rise in labour costs and petrol prices. From the perspective of Spanish policy-makers, the crisis of industry was not a crisis of effective demand, but a crisis of productive structure which required adjustments on the supply side. The comparison is always made with the situation in Europe. The failure of the Keynesian policies implemented by the socialist governments in Greece and France at the start of the 1980s provided a very timely example. The public sector deficit strengthened this tendency to take supply side measures, and it was preferred that the private sector undertook the adjustments. The only strategy for boosting private investment without increasing the public deficit was to reduce labour costs, make the labour market more flexible and reduce the cost of finance.

Figure V.1 presents the diagnosis and what followed in Spain's industrial reorganisation in the 1980s. It was hoped that the reduction in labour costs and the cost of finance would result in an increase in profits, which would then be translated into a higher level of investment and thus of employment. However, the outcome was less simple and less desirable as expected. Part of the problem lay with the diagnosis of the industrial policy carried out by the Ministry of Industry concerned the increase in the cost of finance. It did not count on the

[29]Particularly with the implementation of L.27/1984; for further details, see chapter V.

restrictive monetary and credit policy adopted by the Bank of Spain in order the reduce inflation. Moreover, the overvaluation of the peseta made Spanish competitiveness to decrease. Labour costs fell, and industrial profits rose, but there was little new reinvestment. Rather, companies used profits to liquidate debt. Also, there were channelled towards less risky activities such as public debt or property speculation. The most affected industries were the SMEs, most of which opted to turn black as a survival strategy, so there was an enlargement of the informal sector. Employment continued to fall until 1989, when the unemployment rate was reduced to 16 per cent (!), but kept rising since then reaching 17.8% in 1992. A large part of the new investment made at this time came from TNCs, attracted by the future incorporation of Spain into the EC. Direct foreign investment changed from 8.3% of total direct investment in 1977 to 34.5% in 1988. However, most of this was also on property and finance, with little effect on stablished productive capacity. Thus, proportionally TNC investments had little positive effect on levels of employment.

The main problem that the PSOE government faced was the question of reducing labour costs. This was not only because of the paradox that a socialist government was having to manage with the problems of economic adjustment and making Spain's labour market more flexible, but also because the party inherited a situation of grave unemployment -18.1% in 1983. Making the labour market more flexible came into conflict with the socialist government's objective of reducing unemployment. Precisely, one of F.González' election promises in the 1982 campaign had been the creation of 800,000 jobs. With a programme which stood for the adoption of corrective measures on the supply side, the achievement of such an electoral promise necessarily remained postponed until such a time as new private investments appeared. However, they did not obtain the results they had hoped for: unemployment rose to 20% in 1987. Moreover, the government's fear of inflation impulsed the adoption of deflationary policies which further reduced wages, causing the confrontation of unions. Unions demand for the creation of jobs is very correct when analyzing the worrisome evolution of "formal" employment in Spain. While population has grown from 36 to 40 million, the quantity of jobs have remained constant since 1975 -around 12 million[30]

Although PSOE's diagnosis was incorrect, there was an overall growth of industrial output. Closures and mergers took place, such that the number of enterprises fell 14.6% between 1981 and 1988, and productivity grew thanks to a reduction in industrial employment of 17% over the same period. However, industrial growth was 1.8% between 1975 and 1985, and 5.2% in 1986-89. One factor is the effect of entry into the EC, although this should not be overestimated since entry into the EC has caused a trade deficit of 11.2% of GNP in 1989 -when it was just 1.4% in 1985. More relevant is state intervention in industry. Public expenditure on industrial policy between 1982 and 1990 has been far higher than during the dictatorship and ISI.

An analysis of public expenditure in this sector shows that resources have been allocated to the largest industrial groups. By size, 99.9% of the resources have been granted to big industry (0.1% to Small and Medium Sized Enterprises after 0.1/6/1988),

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[30]See table IV.4.

whereas SMEs represented 88% of firms in Spain. The lack of support to "internationally non-competitive" firms (SMEs in the government's view) explains part of the unemployment situation, given that protectionism allowed the expansion of local SMEs. By industrial subsector, those which have received the largest grants and subsidies have been mining and non-metal industry (17.4%), electronics and computers (11.3%), chemical industry (10.5%), transport (10.1%), food (10.1%) and metal products (10%), which coincide with the main exporting sectors. In 1989, the ranking of Spain's exports by subsector was transport, followed by chemicals, metal industries, machinery, electronics and computers, and food. That is to say, with the exception of mining and non-metal industry, which basically consists of construction materials with a high domestic demand, all the export "winners" are industries promoted not only through regional aid schemes but also through industrial restructuring programmes.

Once again, the Spanish state adopted an interventionist stance in a process of liberalisation. The various democratic governments protected certain companies in need of restructuring. The selection of which companies were to be protected is part of a discriminatory strategy of industrial promotion. A question could be risen on whether this policy was the fruit of a strategy worked out along the lines of "pick-up-the-winners" or the result of socio-political pressures on the part of the most powerful social or industrial groups who were resisting the harshness of economic liberalisation. With respect to the size of the company, for example, it is possible that the government allocated assistance on the basis of the equation "big company = greater efficiency", or it is also possible that the big companies had greater power to apply pressure and were better represented in the employers' organisation CEOE. Given that the Spanish government has favoured some uncompetitive industrial subsectors, the criteria for preference in the industrial promotion policy seem to have been socio-political. As explained in chapter V, among these cases the ones that stand out are the "heavy forging" and "basic electrical equipment for cars" sub-sectors[31] or the discriminatory choice of companies by the state Executive Commissions, despite the complaints from employers in the subsectors. The state was not only pressured from the employers' side, but also from the workers. The Employment Promotion Funds (FPE) were created to ameliorate the effects of restructuring, and despite their scant success in generating alternative employment they absorbed 17.5% of all funds devoted to industrial policy between 1977 and 1989. However, they were not applied extensively, but rather in a manner which benefited those sectors where the unions were most confrontational[32]

In Argentina, there was an industrial and trade policy, but the state did not embark on the restructuring of industrial subsectors as in Spain. There were two distinct periods: the military (1977-83) and the first democratic governments (1983-90).[33] As with Spain, it is interesting to note that industrial promotion was not only maintained with a certain degree of continuity, but that in addition was increased during the processes of "liberalisation" (Law 21,608/1977). From the

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[31]Categories invented by the UCD government in order to elevate these industries to the rank of industrial sectors (Navarro, 1990).

[32]Special steels, integrated iron and steel, shipbuilding and domestic electrical appliances.

[33]Out of the period of study of this analysis, the second stage of the Menem administration (1990-) initiated another liberalising impulse.

regulatory viewpoint, the broadening out corresponds to the regional industrial promotion schemes: La Rioja[34], Sàn Luis and Catamarca[35], San Juan[36] and the extension of the Tierra del Fuego National Territory promotion programme[37]. From the expenditure side, the massive enlargement of public subsidies to industry came with the nationalisation of external private debt in 1982, when the military government took responsibility of industrial re-payments.

During Argentina's military government (1976-82) a contradiction in the planning of industrial policy was apparent. On the one hand, attempts were launched to liberalise the exchange rate and reduce tariffs. On the other hand, the national and regional industrial promotion programmes were continued and deepened. There are two possible explanations for this. The first is that there may have been a complete lack of co-ordination between the Secretariat of Industry (SICE) and the Ministry for the Economy. The second possible explanation, which could lend support to the hypothesis laid out above, is that liberalism was only applied to those aspects which were politically convenient. There were many linkages between military policy-makers and industry[38]. Fabricaciones Militares (FM, Military Factories) covered a wide range from furniture construction to energy. These are not proves of direct military intervention in industry;

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[34]Law 22,021/79.

[35]Law 22,702/82.

[36]Law 22,973/83.

[37]Law 19,649/72 and Decree 1,057/83.

[38]For example, the Minister for the Economy, Martínez de Hoz, had been president of Acindar, the most important iron and steel company in the country. See chapter III.

however, they are indicative of the military government's involvement in industry, and of its interest in continuing and deepening the industrial promotion programmes. These, along with the simultaneous trade liberalisation, allowed the corporatist state to be reformed, in such a way that not all companies were protected, but only those which were "of national interest". The ones that were not considered as such went under the deregulation of state protection programme.

The aims of the Argentine industrial promotion programme after 1977 correspond -as was the case in Spain- to the diagnosis that it was necessary to correct the ISI model. The aims of Law 21.608/77 and Law 22.876/83, in force until 1990, were: (a) to promote increased efficiency of industry through modernisation, specialisation, integration, mergers, economies of scale or changes in their structure; (b) to foster accelerated regional industrial development in the regions selected, and to stimulate job creation; (c) to push forward industries for national defence and security. There was an extensive range of instruments, from export promotion to tax exemptions, such that its redundancy contradicted the objective of promoting industrial efficiency.

Despite these problems in the delineation of the industrial promotion programme, overall it was hoped (Figure V.4) that economic liberalisation would provide the incentives for economic efficiency. The 1976 liberalisation programme was based in the *tablita* anti-inflationary programme, a chronogramme of progressive devaluations in order to equal the domestic rate of inflation with the international one. The other planned factor to reduce inflation was a reduction in labour costs. The fall in wages while a large expansion of private credit should encourage investment and correct the public deficit. In parallel, trade opening would force Argentine industry to specialise and to compete internationally. In the medium term, the expected result was an increase in domestic competitiveness, economic activity and therefore an increase in employment.

The outcome differed from expectations. There was some re-activation of investment in those sectors benefited from state protection -coming mostly from the nationalisation of their debts. However, as in Spain, there was an unexpected factor, the increase in financial costs. The 1977 financial reform freed interest rates and created a totally different mechanism in the assignment of domestic credits.[39] The effect of the rise in international interest rates was worsened by high domestic inflation and the results of the exchange rate policy which overvalued the Argentine currency. This lead to a vicious circle: the increase in financial costs pressured prices to rise, causing more inflation and thus increasing more domestic interest rates. Profits were not re-invested as expected but used to cover for financial costs. On the other hand, domestic demand decreased and trade liberalisation increased the quantity of imports which further reduced the demand for domestic products.

At the beginning of the military administrations, in 1976-78, the financial facilities gave rise to an increase in investment. National industry did not find itself under threat from economic opening up due to the redundancy of the tariffs and the continued existence of various forms of industrial

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[39]Between 1930s-1977 the Central Bank provided subsidised loans and credits to industry, with negative interest rates. Thus industrialist were used to have an access to credit and kept using it after the 1977 financial reform (Katz and Kosacoff, 1989: 32-33).

protection. However, the liberalisation policy was accompanied by a restrictive wages policy and a regressive distribution of income which reduced domestic demand. National production faced a genuine problem of markets in the period 1978-81, made worse by the *tablita*, which overvalued the peso, also reducing exports. In 1981-82, the situation continued to worsen, since the remanences of industrial protection were disappearing and international competition was stagnating domestic production. Investment rates fell dramatically, not only because of the rise in interest rates, but also because of lack of business confidence in the government's economic team after the collapse of the anti-inflation programme. The branches of industry that were most badly affected were wood and furniture, whose production fell 40%, textiles, hides and footwear (35%) and machinery and mechanical products (30%). Other sectors and subsectors, however, managed to avoid international competition through employers' pressure on the government to maintain state protection (steel, chemicals, machinery, sugar), legal regulations on standards of production (gas cookers), and control of national distribution networks (tobacco, food, cars).

The second period corresponds to the rule of democratic administrations. These found themselves less able to act because of the debt crisis in 1982, which culminated in the nationalisation of the debt. As in Spain, the government's priority was anti-inflationary policy, although three digit inflation justifies the Argentine administration's objective. The necessity of implementing an adjustment programme concentrated the efforts of the Sourrouille team on the implementation of heterodox austerity measures aimed at a "positive adjustment" -to produce not only monetary results but also promoting productive activities. However, the technocrats at the Ministry of the Economy had underestimated the extent of the crisis, and aggravated the stagnation of Argentine industry. The high domestic and international interest rates attracted capital to non-productive activities, and the scarcity of loans did not lead to the hoped for re-investment. Furthermore, the various attempts at financial liberalisation permitted capital flight.[40] Making a difference to Spain, the size of the public deficit left scant room for manoeuvre, so the main instruments for liberalisation were de-regulatory. From 1984 to 1990, a progressive reduction in tariffs was begun, with the same discretional criteria applied as elsewhere. The SICE retained a consultative role for itself, in which it could maintain tariff protection or offer special import licences. On the other hand, the industrial promotion laws were maintained, but the instruments available were increasingly limited as time went by to the point of their elimination. The National Economic Emergency Law (L.23697/1989), passed under President C. Menem, granted autonomy to the state to abolish 50% of industrial subsidies and to eliminate many of the benefits of industrial promotion.

There has been an extensive debate against Argentina's industrial promotion[41]. Two arguments are put forward. Firstly, the scarcity of state resources compared to previous programmes and their inefficient allocation[42]. Secondly, the fact that the

[40]The Central Bank estimated that in 1982 capital flight rose to US $21,500 million, almost half the value of Argentina's foreign debt (in Carciofi, 1990:37). This capital is no more than "internationalised savings", and therefore is liable to return to the country when the macroeconomic situation is seen as being stable.

[41]For a polemic review, see Waisman, 1987.

[42]Azpiazu, 1989.

subsector which is at the top of the export ranking is food industry, a subsector which has not benefited from industrial promotion. Not only that, but the subsector has also moved away from its traditional exports and successfully developed new areas -vegetable and animal oils[43]. However, it cannot be concluded from this that there is no direct relation between industrial promotion and competitiveness. The second most important exporting subsector in Argentina is chemical industry, which benefitted from ISI promotion from 1973 on the grounds that it was in the national interest and which was therefore hardly affected by the liberalisation process between 1976 and 1981. Until 1991 FM held an average of 20% of all petrochemical companies, and 68% of the firms benefitted from specific industrial promotion schemes[44]. The state is the main customer of these products, and it allows the practice of overpricing because of the industry's oligopolistic structure (the prices the state pays are 95% higher than export prices). The third ranking export subsector, metal industry (steel, mainly), is a similar case. Not only did it benefit from the industrial promotion programmes and used overpricing practices, but it also carried out substantial investment during the period of liberalisation between 1976 and 1981, financed through private debt. The foreign debt crisis of 1982 would have bankrupted the companies in the subsector had it not been for the intervention of the military government, which nationalised two-thirds of the main firms' debts. In real terms this meant that the public sector subsidised the metal industry's restructuring in Argentina.

[43]Gatto & Gutman, 1990.

[44]Decrees 592/73 and 814/1979.

The Argentine and Spanish experiences show us how state intervention has been important in the implementation of liberalisation measures. Those sectors or subsectors of industry which have been temporarily protected in the processes of deregulation are among those who have performed best. Political considerations have impeded the marginalisation of the rest of industry, and so governments have used liberal rhetoric but its practice has been discretional. Those sectors that were not considered to be of national interest, or which had less ability to exert socio-political pressure on the government, did not receive state protection and were abandoned to market forces.

On the other hand, the dismantling of economic nationalism has led to less extensive and more specialised industrial structures. Spain seems to have found an economic niche within the EC in cars (transport) and semi-finished goods (chemicals, steel, machinery). Argentina has found an economic niche with agroindustry and semi-finished goods (chemicals, steel). That is to say, both Spain and Argentina have incorporated themselves into the international economy as they were in the 1930s: part of the world semi-periphery. However, decades of economic nationalism have left their effect: export production now is not only from agriculture, but also from industry.

VI.4.B. BANK-INDUSTRY RELATIONS

Both the Spanish and the Argentine governments wanted to put an end to their costly industrial promotion schemes. In addition, both Spanish and Argentine industry had traditionally maintained high levels of indebtedness, the product of norms which imposed obligatory investment ratios on the domestic banking sector. It was thought that the best way of terminating the protectionist system would be to liberalise the financial sector and to link industry to private financing, in such a way that the market would allocate resources to the most efficient industries and Adam Smith's "invisible hand" would take care of eliminating the inefficient ones. However, the result was not as expected, but rather the relations between banks and industry dissolved.

Part of the error of judgement derived from a poor understanding of the problem. In the first place, indebtedness is not necessarily a bad industrial strategy. Industry's indebtedness ratio depends on the type of relations between bank and industry. In the majority of late-comers, these relations are usually very close, so that the banks finance industrial development[45]. For example, in Japan in 1984 the equity/debt ratio was 1:4.77, whereas the figures for the US and the UK, countries with a liberal tradition where financial and industrial activities are not related, were 1:0.61 and 1:1.16 for the same year respectively. It is not the degree of indebtedness which is important so much as the significance of this indebtedness in the context of the concrete economic relations of a given country.

It is therefore interesting to note the evolution of bank-industry relations in semi-peripheral countries like Spain and Argentina. The inflationary situation and financial deregulation led to a tendency towards short-term perspectives in the banking sector. In Argentina, the financial sector found it not only more rewarding but also safer to speculate on exchange rates and interest rates in the short term than to lend long-term to an industry of dubious efficiency. During the period 1976-91, loans

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[45]Gerschenkron, 1966.

were scarce and always short term. There were two main reasons for this: inflation and the security of lending to the state.[46] Thus the Argentine state faced the paradox of having to take responsibility once more for long term investment. In Spain, the situation was similar. The government tried unsuccessfully to get the banks involved in financing industrial restructuring,[47] as the financial sector was also undergoing a process of reorganisation and the prospects of restructured industry were not very clear.

In their turn, employers also distrusted the banks, and the rapid increase in interest rates prompted repayment of debts. For industry as a whole, the equity/debt ratio went from 1:1.62 in 1982 to 1:0.77 in 1988; for the subsectors of industry that were undergoing reorganisation this ratio fluctuated around 1:4 in 1982. The reduction in the rate of indebtedness shows how an integrated system of bank-industry relations, typical of late-comers, is giving way to a disarticulated liberal system. That is to say, once more Spain and Argentina are examples of the disintegration of economic nationalism.

VI.4.C. THE GROWTH OF THE TERTIARY AND THE INFORMAL SECTORS

The reduction in the number of industrial enterprises led to increase in industrial unemployment. The deregulation of the labour market brought the previous nationalist priority of full employment to an end. The labour force was absorbed by both the service sector and the informal sector.

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[46]From the time of the Cavallo Plan, when the administration really constrained the public sector, the banks went back to offering lending facilities to the private sector.

[47]Law 27/1984 on compulsatory investment ratios. However, the banks limited themselves to buying the minimum quantities of Internal Credit Bank (BCI) certificates, leaving the BCI the task and responsibility of allocating the corresponding loans. See chapter V.

With the respect to the service sector, the state accounted for the largest demand. The political transitions brought with them processes of administrative decentralisation, so that a large part of the shift in the labour force towards the service sector is due to the broadening of public administration. Again, the states played an interventionist role, themselves absorbing workers, leaving the question of rationalisation for the future.[48]

However, one of the most important effects of economic deregulation and the lack of protection for small and medium sized enterprises has been the expansion of the informal sector. Different approaches produce different estimates of the extent of the informal sector; in terms of the active population, it accounts for 32.6% in Argentina[49] and between 9.6% and 11.3% in Spain[50]. There are a number of reasons for the development of the hidden economy. As well as the "negative" reasons like tax evasion, reduction of labour costs[51] and union power[52], avoiding the long bureaucratic processes involved in obtaining licences[53], and just economic survival in times of economic

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[48]The magniture of Argentina's public deficit meant that the first measures were put forward under Menem in 1989, with the Law on Reform of the State (L.23.696/89), which included a programme of privatisation, tax reform, and reduction of the "hyperbureaucracy of the state", through which it is estimated that 68,300 state functionaries lost their contracts. In Spain, the expansionary policy followed during the period 1986-89 and 1991-2 relegated the question until the "post-Olympics" adjustment of August 1992.

[49]Lindenboim, 1988:168-169.

[50]Ruesga, 1988:63.

[51]Sabel, 1982.

[52]Stepick, 1990.

[53]Portes, 1990; de Soto, 1989.

crisis[54], there are also some of the firms in the informal sector which exist because they can meet demands that are not covered elsewhere, offering greater speed and higher quality of production than "formal" companies[55]. Both Spain and Argentina show both types of informality. In this way, it is interesting to note that these semi-peripheral societies are evolving towards post-Fordism through informal activities. The large companies subcontract the services of small informal firms because of their flexibility in offering changes in product and the speed with which they deliver their services, normally at the same or lower price. The Spanish and Argentine governments themselves have adopted a very tolerant attitude towards the informal sector, since their flexible specialisation is producing increases in efficiency and productivity, and alleviates unemployment even though the sector escapes tax collection.[56] The problem, however, is that the workers are paying the price for this post-Fordism, since the small scale of small and medium sized enterprises and their informal status neither facilitates unionisation nor offers security on their own account. Furthermore the segmentation of firms and activities makes it difficult to create a collective identity and a consciousness of the common problems of the "informals".

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[54]Pahl, 1984.

[55]Benton, 1990:255-271; Capecchi, 1990:213-239; Piore & Berger, 1984.

[56]In Spain, the large extension of social security provision is related to this policy of permissiveness towards the informal economy -i.e. the General Law of Public Health extended public medicine services to all the Spanish population in 1986, meaning a real increase of 6.3 million beneficiaries although investment only rose by one per cent of GNP in the period 1982-89. In Argentina, government's tolerance towards the informal sector is even greater given the extension of the public deficit and the need of a tax reform -this is, the argument of supporting "formality" on tax grounds is not relevant in the Argentine 1976-90.

The political effects of this diversity are important. The corporatist model has been dismantled, and with it the capacity of social actors to influence state affairs. After the crisis of the 1930s, states were adopting civil responsibilities to correct market failures, in a way which involved increasing public spending. It was in the 1970s when the tensions coming from redistributive policies plus the dynamics of the stop and go produced among policy-makers a feeling of exhaustion of the Keynesian model. States began to reduce public spending, in a way which rolled back its sphere of action on society, and with this the corporatist system was losing its *raison d'etre*. This is especially relevant for the late-comer countries which developed within a framework of economic nationalism -Southern and Eastern Europe and Latin America. The result of this reduction in the degree of state intervention in social activities has been a society that is increasingly segmented, where the social groups formed within the corporatist framework lose their representativeness. Such is the case with unions and employers' groups; in Spain and Argentina, these found themselves divided and disoriented. Social segmentation makes it increasingly difficult to create a sense of collective identity and consciousness of common interests. Increasingly, labour disputes are being resolved through local rather than national channels. This reinforces the state's reduced capacity for action. To abandon its role of social mediator means also to lose part of its control over the regulation of wages, and therefore control over inflation and tax receipts.

It is interesting to note that the extension of the sphere of state activities in the twentieth century led many authors -Huxley, Orwell- to project their imagination and describe the aberrations of totalitarianism.[57] At the end of the twentieth century, societies have evolved to the opposite direction, towards a more heterogeneous and segmented society, where conflicts are increasingly more specific and treated in an isolated manner. This increasing separation of the economic and the political spheres has led some Marxist sociologists to talk of "the disorganisation of capitalism"[58] Perhaps the most appropriate term would be reorganisation, were the social actors -the state, unions, businesses- which made up the Keynesian-nationalist systems from the early part of the twentieth century are losing their importance, and where the states themselves are re-regulating less autocentric systems, favouring processes of economic and political decentralisation, and progressively separating the interrelations between the economic and the political arenas.

To conclude, if the 1930s crisis created ISI and corporatism, the 1980s crisis is generating a new system which is not fully evident. Adjusting and opening national systems to the world economy while reducing state protection meant that some social and economic sectors would lose their privileged domestic conditions. However, such transformations have not yet configured a new model of accumulation.

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[57]However, segmentation and heterogeneity have been inherent characteristics of liberalism. Contrary to the first writings of Piore and Sabel (1984), mercantile capitalism in the XV-XVI centuries appears to have developed through the surpluses generated by the use of labour not linked to the guilds (Kriedte, 1982), and the informal sectors have always been present in all economies. Further, segmentation grew with the development of capitalism, as it expanded cities and reinforced the urban-rural dichotomy (Shanin, 1980). It is possible that the perception of the evolution of society towards homogeneity may have resulted from the expansion of state activities themselves.

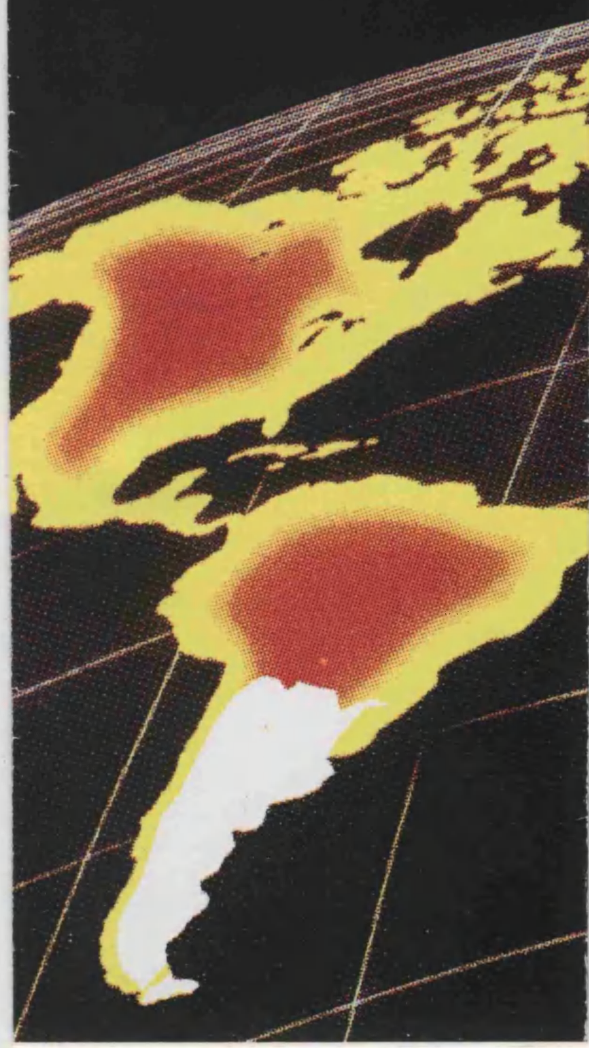
[58]Lash & Urry, 1987.

This re-regulation of the new economic system may be still incomplete, but it seems difficult to reverse. While the extension of the informal sector is very malleable, "submerged" activities may emerge easily, other transformations such as the separation between finance and industry are not.

Given that the world periphery is evolving towards a larger integration into the international economy, it is questionable wether the economic transition will be sustainable or not for those semi-peripheral countries who may not easily find an economic niche. States like the Argentine are dismantling their own sphere of action, and looking for new private international development partners in a domestic atmosphere of rising conflicts and political discontent. Whether these semi-peripheral countries will be able to find these "associates" in order to generate an extensive impact as Neo-Liberal governments hope for, is still a matter of history fiction.

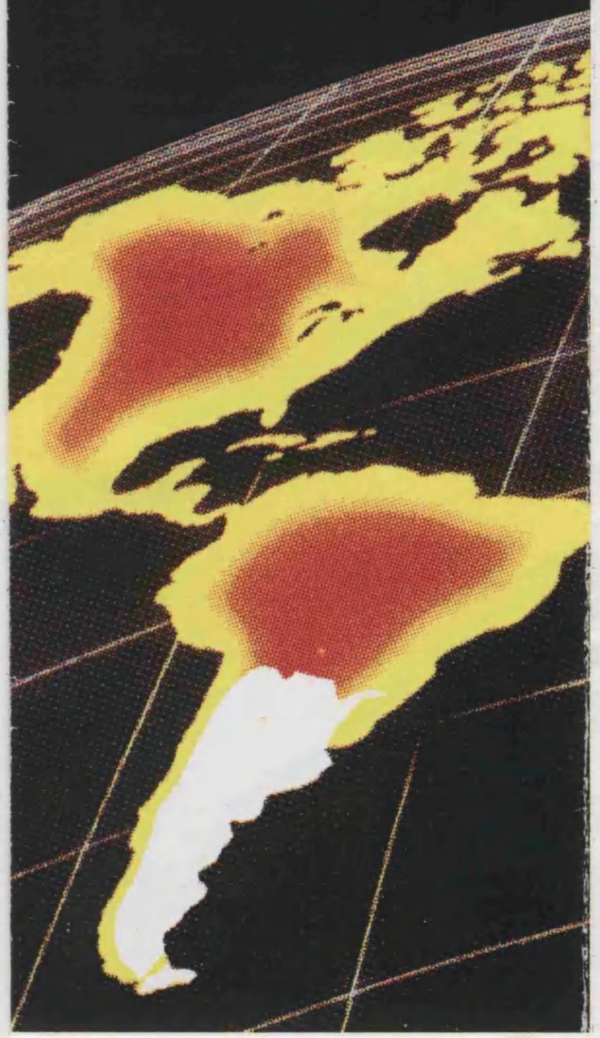
The intention of these lines is far from pessimism. Transitional governments have often defined Neo-Liberal policies as the only alternative to "a new age" of international changes. However, the analysis of industrial re-structuring shows that governments have been more cautious than initially it may seem. It is just a question of extending the same discretional discriminatory philosophy to other sectors, and applying some of the available Neo-Keynesian tools when short-term neo-liberal policies may not offer many guarantees of success in the long-run. Given that, if there is a definition of politics, it is the search for alternatives to solve present problems.

ARGENTINA: THE BEGINING OF A NEW AGE



MINISTRY OF ECONOMY
AND PUBLIC WORKS
AND SERVICES

ARGENTINA: THE BEGINING OF A NEW AGE



THE NEW AGE BASES.

Today, Argentina is involved in a deep transformation process, which includes political, economical and social fields.

1992 will be the key year for the explotation of entrepreneurships in Argentina. The peso, launched on the first of this year as the country's new currency, is a fitting symbol for Argentina's awakening to a new age of economic development.

Many investment opportunities have emerged as a consequence of the current Economic Plan:

- The integration with the new world order increases business posibilities.
- American integration agreements, such as Mercosur, open up new markets.
- Privatization offers new and very interesting opportunities for business.

Privatized companies

- Telephones
- National Airline
- TV channels
- Radio Stations
- Railways
- Roads
- Metropolitan services (i.e. traffic control, repairs, cleaning, etc)

Companies to be privatized

- National oil company
- National energy company
- National gas company
- Petrochemical and siderurgical plants
- Other railways
- Subways

- Stock Exchange Market is growing as a consequence of new capital investment, the development of new industries and the incorporation of new companies (such as the ones recently privatized). Blue chips growth in 1991: 381%.

ARGENTINA'S TRANSFORMATION IN NUMBERS.

	YESTERDAY	TODAY
Government	Political instability: predominance of **De Facto** rules	8 years of democratic governments
Inflation	184% per year (annual average) 1971-1988	Less than 1% per month Last quarter 1991
Unemployment rate	8.8% June 1989	5.3% October 1991
Gross National Growth	Annual drop of 1.2% (1987-1990)	5% 1991 6.5% 1992(*)
Investment	13.2 % of G.D.P. 1990	17% of G.D.P. 1991
Central Bank Reserves in US dollars	112 millions June 1989	5,780 millions (*) January 1992
Quoted value of Foreign Debt Papers	13% June 1989	33% January 1992
Daily trading volume on stock exchange	4 million dollars December 1990	40 million dollars December1991
Private deposits in US dollars in local banks	816 millions May 1989	6,450 millions December 1991
Interest Rate Time deposits	40% per month (monthly average) 1989	Less than 1% per month Last quarter 1991

(*) Estimated

IN NUMBERS.

TODAY

8 years of democratic governments

Less than 1% per month Last quarter 1991

5.3% October 1991

5% 1991
6.5% 1992(*)

17% of G.D.P. 1991

5,780 millions (*) January 1992

33% January 1992

40 million dollars December1991

6,450 millions December 1991

Less than 1% per month Last quarter 1991

(*) Estimated

FOREIGN INVESTMENT GUARANTEES TODAY.

Political Stability.

Economic Stability.

Free Exchange and Prices.

Deregulation of the Economy.

Fiscal Equilibrium.

Privatization of State Companies.

Deregulation of Foreign Investment.

Equal Treatment of Domestic and Foreign Investors.

Freedom to Remit Dividends and Capital Abroad.

Treaties for the Guarantee of Foreign Direct Investment.

Simpler and Better Controlled Tax System.

Reduction of Import and Export Tax.

Flexibility of the Labor Market.

Regional Integration Agreements.

MINISTRY OF ECONOMY AND PUBLIC WORKS AND SERVICES

ANNEXES

TABLE I.1.:

ARGENTINA AND SPAIN: MAIN INDICATORS, 1950-80.

YEAR	ARGENTINA				SPAIN			
	REAL WAGES 1974=100	UNEMPLOY. % active labour force	INFLATION (%)	POPULAT. (000)	REAL WAGES 1974=100	UNEMPLOY. % active labour force	INFLATION (%)	POPULAT. (000)
1950	145.3	7.2(*)	--	15,893	--	2.8(*)	--	27,800
1955	122.2	--	--	17,070	--	--	--	29,250
1960	100.0	--	--	20,669	62.0	--	1.8	30,400
1965	122.6	5.5	--	22,352	49.8	--	9.7	31,600
1970	118.7	5.4	21.7	23,748	176.8	4.1	6.6	34,000
1975	100.0	5.3	335.1	25,383	100.0	16.1	24.0	35,800
1980	128.1	3.2	87.6	27,863	121.4	19.8	15.5	37,600

Sources: Argentina: real wages- INDEC in BAC, 1982; unemployment- INDEC in BAC, 1982; inflation- Dornbuch & De Pablo, 1988.
Spain: real wages- Ministerio de Trabajo in Tamames, R. 1986; unemployment- INE in Rodriguez, J. 1989; (*) UN statistics; Inflation in Rodriguez, J. 1989.

TABLE I.2.:

Argentinian and Spanish presidents.

YEAR	ARGENTINA	SPAIN
1935	(...) A.P.Justo * 1936:R.M.Ortiz	(...) Second Republic * 1936-39: Civil War
1940	* R.S.Castillo * 1944: E.J.Farrell	* 1939: Gral.F.Franco Falangista (=fascist) economic team
1945	* J.D.Peron	
1950		
1955	* E.Lonardi * 1958: Frondizi	Opus Dei economic team into government
1960	* 1962: J.M.Guido * 1963: A.Illia	
1965	* 1966: J.C.Ongania	
1970	* R.M.Levingston * 1971: A.A.Lanusse * 1973: J.D. Peron	
1975	* 1974: Isabel de Peron * 1976: J.R.Videla	* 1977: A.Suarez
1980	* 1981: R.Viola/L.Galtieri * 1982: R.B.Bignone * 1983: R.Alfonsin	* 1982: F.Gonzalez
1985	* 1989: C.S.Menem	

TABLE I.3.:

Argentina and Spain: real GDP per capita and its components, 1950-80, in 1975 U$S.

	ARGENTINA				SPAIN			
YEARS	RDGPpc	% C	% I	% GOV	RGPpc	% C	% I	% GOV
1950	1877	73	14	13	1163	76	15	9
1951	1981	70	20	12	1347	75	16	9
1952	1783	71	18	13	1403	77	14	9
1953	1829	68	18	12	1340	75	16	9
1954	1886	71	17	12	1506	74	17	9
1955	2000	72	18	11	1576	74	18	9
1956	1961	71	16	13	1680	74	19	9
1957	2025	72	17	11	1734	73	19	9
1958	2136	72	17	11	1795	73	20	8
1959	1975	71	23	12	1753	75	17	9
1960	2134	66	23	12	1737	72	18	9
1961	2275	68	22	11	1932	71	20	8
1962	2152	67	19	11	1098	70	22	8
1963	2043	69	21	11	2281	71	23	8
1964	2237	69	21	10	2382	71	23	8
1965	1392	69	21	9	2550	70	26	8
1966	2359	70	19	10	2730	69	27	7
1967	2391	69	20	10	2811	71	25	7
1968	2471	69	21	9	2916	70	25	7
1969	2655	67	23	9	3108	70	25	7
1970	2750	67	24	9	3231	69	25	8
1971	2901	62	27	11	3337	69	23	8
1972	2968	62	26	12	3587	69	25	7
1973	3045	63	24	12	3841	69	26	7
1974	3202	65	24	12	4031	68	27	7
1975	3159	66	23	12	4032	69	26	8
1976	3004	61	25	12	4111	70	25	8
1977	3071	57	28	11	4159	70	23	8
1978	2903	57	27	12	4187	70	22	8
1979	3148	58	28	12	4233	70	22	8
1980	3209	58	30	12	4264	70	22	9

RGDPpc - Real GDP per capita
% C - Percentage of RGDP into consumption
% I - Percentage of RGDP into investment
% GOV - Percentage of RGDP into government

SOURCE: Summers & Heston, 1985.

TABLE I.4.:

Argentina and Spain: indexes of industrialisation, 1950-80.

	ARGENTINA			SPAIN		
YEARS	I.I.P.	PG	I.L.pc.	I.I.P.	PG	I.L.pc.
1950	100	100	100	100	100	100
1951	102.6	102	100.6	104.5	100.9	103.5
1952	100.7	104.1	96.7	125.8	101.7	123.7
1953	100.1	106.2	94.2	126.1	102.6	122.9
1954	108.1	108.3	99.8	135.4	103.4	130.9
1955	121.3	110.3	109.9	145.9	104.2	140.1
1956	129.7	112.3	115.5	159.9	105.1	152.3
1957	139.9	114.3	122.4	174.9	105.9	165.1
1958	151.6	116.3	130.3	191.3	106.8	179.1
1959	135.9	118.2	114.9	193.9	107.7	180.1
1960	149.6	120.1	124.5	190.6	108.7	175.3
1961	164.5	122.1	134.8	226.1	109.7	206.1
1962	155.5	123.8	125.6	250.8	110.8	226.3
1963	149.2	125.6	118.8	262.8	112.1	234.6
1964	177.3	127.4	139.2	285.4	113.2	252.1
1965	201.8	129.2	156.2	335.3	114.5	292.8
1966	203.1	131.1	155.1	358.1	115.7	309.5
1967	206.2	132.8	155.2	379.7	117.1	342.2
1968	219.6	134.7	163.1	410.7	118.4	346.9
1969	243.4	136.5	178.3	476.7	119.8	397.9
1970	258.8	138.4	186.9	532.4	121.2	439.2
1971	274.7	140.2	195.9	542.2	122.5	442.6
1972	285.7	142.2	200.9	614.5	123.8	496.3
1973	297.1	144.1	206.2	653.3	125.1	522.2
1974	314.4	146.1	215.3	721.2	126.4	570.5
1975	306.4	147.9	207.1	706.8	127.7	553.4
1976	297.1	149.9	198.1	729.8	129.1	565.7
1977	320.3	151.8	211.1	725.7	130.3	556.9
1978	286.5	153.8	186.2	701.1	131.6	532.7
1979	315.7	155.8	202.6	740.1	132.8	557.3
1980	303.6	157.7	192.5	768.7	134.1	573.2

IIP - Index of Industrial Production (1950 = 100)
PG - Population Growth (1950 = 100)
ILpc - Industrialisation Level per capita (1950 =100)

SOURCE: Argentina in Feldman & Sommer, 1986, p.22
Spain in Carreras, 1989, p. 193.

TABLE II.1.:

Main Paradigms in development.

	MODERNISATION	STRUCTURALISM	DEPENDENCY
IDEOLOGICAL BACKGROUND	Liberalism	Nationalism	Marxism
POLICIES	Difusion of modern values in backward areas, technology and capital imports, integration into the world economy.	Promotion of national industry through protection (ISI); rural and fiscal reform, regional integration.	State interventionism, erradication of poverty, improvement of social conditions.
INSTITUTIONS and AUTHORS	Rostow, Lewis, Hirschman, Myrdal, IMF, most of WB.	UN ECLA(Prebisch, Furtado) Neo-structuralist (Foxley, Bianchi, some WB staff)	Cardoso, Amin Faletto, Frank Baran, Warren, UN Basic Needs approach.

TABLE II.2.:

Debt indicators for five large debtor countries: quantity debt + debt service/exports (percentage), 1972-81.

	1973		1975		1977		1979		1981	
COUNTRY	b$	d/X	b$	d/X	b$	d/X	b$	d/X	b$	d/X
BRAZIL	13,8	36,7	23,3	40,8	35,2	48,7	57,4	65,6	75,7	66,9
MEXICO	8,6	28,7	16,9	30,3	27,1	53,6	40,8	67,7	67,0	48,5
ARGENTINA	6,4	19,9	7,9	31,9	9,7	19,1	19,0	21,3	35,7	37,5
SPAIN	5,7	5,2	10,7	9,3	16,3	13,3	22,2	15,7	33,2	19,0
KOREA	4,6	11,5	7,3	12,5	11,2	10,2	20,5	13,9	31,2	18,8

SOURCE: Cline,M. 1983.

TABLE II.3.:

ARGENTINA: EXPORTS BY COUNTRY OF DESTINATION, IN U$S, 1976-80.

COUNTRY	NON-INDUSTRIAL	INDUSTRIAL	TOTAL	%
Netherlands	432,232	191,600	623,692	11.5
Italy	399,703	95,291	494,995	9.1
W.Germany	262,437	88,581	351,018	6.5
UK	90,389	90,319	180,708	3.3
France	147,743	28,726	176,470	3.2
Belgium	65,801	15,894	81,695	1.5
Greece	46,267	2,256	48,522	0.9
EC	1,447,572	512,528	1,960,100	36.0
Brazil	361,935	260,980	622,835	11.5
USSR	520,345	48,621	568,966	10.5
US	166,410	336,895	503,305	9.3
Japan	251,223	49,551	300,774	5.5
Spain	252,030	48,541	292,571	5.4
Chile	83,719	122,912	206,631	3.8
Uruguay	32,317	108,190	140,507	2.6
Paraguay	21,601	106,727	128,328	2.3
Venezuela	22,729	95,919	118,648	2.2
Bolivia	28,945	82,910	111,855	2.0
China	87,668	19,534	107,203	1.9
Mexico	33,073	62,569	95,642	1.7
Others	110,040	116,452	226,952	3.2

Source: IMF, 1985.

TABLE II.4.:

Spain: exports and imports by country of destination/origin, in percentages, 1973-86, selected years.

	EC	US	RestOECD	OPEC	CMEA	LatinAm	Rest
EXPORTS							
1973	48.5	13.9	7.8	6.2	3.0	7.0	13.6
1980	49.7	5.6	5.8	12.8	3.0	7.7	15.4
1986	60.1	9.2	7.7	5.6	2.9	2.9	11.1
IMPORTS							
1973	43.2	16.1	11.1	11.8	2.6	7.3	7.9
1980	30.9	13.1	7.5	29.7	2.2	8.2	8.4
1986	50.2	9.9	11.4	11.3	2.0	6.5	8.6

Source: Alonso,J. 1991.

TABLE II.5.:

Spain: composition of trade by areas and products, in percentages, 1985-86.

	EXPORTS				IMPORTS			
	EC	US	RestOECD	RestWORLD	EC	US	R.OECD	R.WORLD
ENERGY	7.8	12.8	4.1	7.5	4.8	11.0	4.2	64.4
FOOD	16.8	14.3	21.4	10.2	7.2	8.5	5.8	12.1
INTERME. GOODS	29.3	34.1	42.8	51.0	40.0	44.5	38.7	17.5
CONSUMM. GOODS	25.8	24.9	14.0	10.1	6.5	2.7	16.6	3.5
INVESTM. GOODS	19.7	12.1	16.5	20.7	34.5	32.5	34.2	2.3

Source: Alonso,J. 1991, based on data of Spanish General Customs.

TABLE II.6.

MERCOSUR PROTOCOLS.

PROTOCOL	A	B	C	D	E
I. Capital Goods	*				
II. Wheat	*				
III. Food Supplies	*				
IV. Trade Expansion	*				
V. Binational enterprises				*	
VI. Finances				*	
VII. Investment Funds				*	
VIII. Energy			*		
IX. Biotechnology		*			
X. Economic Studies				*	
XI. Information and mutual aid in case of nuclear accidents and other emergencies		*			
XII. Aeronautic Cooperation		*			
XIII. Metallurgy	*				
XIV. Land Transport			*		
XV. Sea Transport			*		
XVI. Communications			*		
XVII. Nuclear Cooperation		*			
XVIII. Cultural					*
XIX. Public Administration				*	
XX. Currency				*	
XXI. Vehicle Industry	*				
XXII. Food Industries	*				
XXIII. Regional Frontiers					*

Source: Ala-Rue, P. & Lavergne, N., 1991.

KEYS:

A. Trade related protocols, aimed at stimulating intra-MERCOSUR trade.
B. Scientific and technical protocols.
C. Infrastructural protocols.
D. Protocols governing structural and sectoral coordination, the creation of a single currency in the long run, etc.
E. Others.

TABLE II.7.:

ANNUAL WORLD MARKET PRICES OF MAIN PRIMARY COMMODITY EXPORTS OF LATIN AMERICA IN CURRENT VALUES, 1973-88.

YEAR	BEEF (US Cts./Kg)	MAIZE (US $/mt)
1973	201.1	97.8
1974	158.2	132.1
1975	132.7	119.6
1976	158.1	112.4
1977	150.8	95.3
1978	214.0	100.7
1979	286.0	115.5
1980	276.0	125.3
1981	247.4	130.8
1982	239.0	109.3
1983	244.0	136.0
1984	227.3	135.9
1985	215.4	112.2
1986	209.2	87.6
1987	238.6	75.7

Note: Cts./Kg = cents per kilogram. $/mt = dollars per metric ton.

Source: World Bank, International Market Division, International Economics Department, November 16, 1988.

TABLE III.1.:

ARGENTINIAN PUBLIC SECTOR FINANCING AS PERCENTAGE OF GNP, 1970-86, SELECTED YEARS.

	1970	1975	1980	1981	1982	1983	1984	1985	1986
Resources	23.3	15.8	27.8	25.5	23.4	23.6	22.8	27.9	28.1
* Tax	19.4	13.6	23.3	20.4	18.7	18.7	18.1	22.0	22.9
Others	3.9	2.2	4.5	5.1	5.0	5.0	4.7	5.9	5.2
Expenditure	25.1	31.2	35.3	38.9	38.5	40.4	35.6	33.8	31.7
Fiscal Deficit	1.8	15.4	7.5	13.4	15.1	16.8	12.8	5.9	3.6
Way of financing deficit:									
* Borrowing	0.9	1.8	3.4	8.3	6.4	-1.5	-1.1	0.6	2.9
* BCRA (*)	0.9	9.8	3.5	5.1	4.8	15.4	5.8	2.3	---
* Others	---	3.8	0.6	0.1	3.9	2.9	8.1	3.0	0.7

(*) Central Bank issuing paper money ("inflationary tax")

Source: Presupuesto General de la Administracion Nacional, 1987.

TABLE III.2.:

STATE TAX REVENUES IN PERCENTAGE OF GNP, 1970-88, SELECTED YEARS.

	1970	1975	1980	1983	1985	1988
TOTAL....................	16.67	12.48	18.89	15.91	18.61	16.27
INCOME TAX...............	1.38	0.30	1.25	1.28	1.04	1.96
Capital gains tax........	0.00	0.01	0.77	0.90	0.54	0.61
Net wealth tax...........	0.00	0.00	0.02	0.01	0.02	0.13
Bank debits..............	0.00	0.00	0.00	0.09	0.29	1.00
Others...................	1.38	0.29	0.46	0.28	0.19	0.22
TAX ON GOODS AND SERVICES	5.20	4.46	8.49	8.33	8.34	7.68
VAT......................	1.85	1.86	4.32	3.36	3.21	2.74
Petrol...................	1.08	1.26	1.25	2.37	2.78	1.01
Internal taxes...........	1.34	0.60	1.57	1.34	1.34	1.28
Others...................	0.93	0.71	1.35	0.96	1.01	2.65
SOCIAL SECURITY..........	4.74	4.85	6.14	2.44	5.12	4.10
TURNOVERS AND BENEFITS...	2.26	0.80	1.57	1.29	1.17	1.57
Benefits.................	2.12	0.75	1.47	1.01	0.96	1.25
Others...................	0.14	0.05	0.10	0.28	0.21	0.32
INTERNATIONAL TRADE......	1.98	1.77	2.09	2.46	3.27	1.76
Import duties............	1.16	0.55	1.31	0.83	0.78	0.97
Export duties............	0.58	0.70	0.04	1.48	1.99	0.22
Others...................	0.24	0.52	0.74	0.15	0.50	0.57

Source: Secretaria de Hacienda, en Carciofi, 1990.

TABLE III.3:

EVOLUTION OF ARGENTINIAN PUBLIC INVESTMENT: TOTAL AND ECONOMIC SECTORS, 1976-85, BASE 100 = MEAN 1971/75.

3.1. ECONOMIC SECTORS:

YEAR	TOTAL	ECONOMIC SECTORS						
		TOTAL	ENERGY	TRNSPT.	TELEC.	INDUST.	AGRIC.	OTHERS
1976	125.4	123.1	143.8	122.3	43.8	122.3	88.2	36.7
1977	141.2	133.8	155.8	120.6	125.1	111.6	117.6	41.3
1978	132.6	121.5	153.5	106.4	115.6	45.1	117.6	45.9
1979	120.2	108.6	126.5	102.2	146.9	45.1	117.6	36.7
1980	111.2	108.2	127.1	82.9	203.1	53.6	58.8	36.7
1981	101.2	95.5	120.8	71.2	184.4	6.4	58.8	32.1
1982	98.4	102.2	141.6	70.4	143.8	2.1	58.8	27.5
1983	91.5	93.7	127.1	62.8	143.8	2.1	29.4	50.5
1984	76.3	87.7	111.9	85.4	90.6	0.1	29.4	41.3
1985	68.4	78.4	111.5	54.4	71.9	0.0	88.2	41.3

3.2. SOCIAL AND OTHER SECTORS:

YEAR	SOCIAL SECTORS				OTHER SECTORS		
	TOTAL	HEALTH	EDUC.	SOC.SEC.	TOTAL	ADMINIST.	DEFENSE
1976	98.6	300.1	80.1	77.9	165.6	35.7	185.9
1977	109.3	250.1	100.1	116.9	223.5	95.2	243.5
1978	111.1	350.1	113.3	90.9	231.5	119.1	249.1
1979	77.1	250.1	113.3	19.5	242.8	142.9	258.4
1980	78.9	300.2	106.7	19.5	162.4	107.1	171.1
1981	53.8	250.1	106.7	13.0	184.9	95.2	198.9
1982	39.4	100.2	86.7	6.5	123.8	83.3	130.1
1983	48.8	150.1	106.7	13.1	114.1	107.1	115.2
1984	30.5	100.0	73.3	0.0	35.4	83.3	27.9
1985	37.6	100.0	93.3	6.5	24.1	47.6	20.4

Source: Informe sobre la Inversion Publica Nacional, 1986.
Contaduria General de la Nacion, en Carciofi, 1990.

TABLE III.4.:

Argentina: number of financial institutions, 1970-84.

	1970		1976		1978		1980		1982		1984 a/	
	H.O.	B.	H.O.	B.	H.O.	B.	H.O.	B.	H.O.	B.	H.O.	B.
TOTAL	864	2532	692	3171	721	3621	469	4119	413	4364	372	4779
Commercial Banks	115	2199	111	2906	150	3101	207	3714	197	3957	203	4393
Public National	1	418	1	553	1	566	1	570	2	553	2	554
Public Provincial	22	743	24	976	24	1025	24	1083	24	1122	24	1144
Public Municipal	4	31	4	51	5	56	5	62	5	67	5	69
Private National	69	756	64	1100	102	1250	151	1784	133	1869	140	2283
Private Foreign	19	251	18	228	18	204	26	215	33	346	32	343
Development Banks	—	—	2	33	2	33	2	33	2	33	2	33
Investment Banks	1	25	4	—	3	—	3	—	3	—	3	—
Housing Bank	1	50	1	51	1	52	1	52	1	53	1	53
Savings and Loan	3	33	1	40	1	39	1	40	1	50	1	53
Credit Unions	549	20	424	13	377	173	92	24	76	23	53	16
Financial Companies	81	57	80	40	138	147	135	216	111	214	92	193
Other b/	114	148	69	88	49	76	28	40	22	35	17	38

H.O.: Headquarters Officies; B.: Branches
Source: World Bank, 1985.

TABLE III.5.:

"THE CAPTAINS OF INDUSTRY"

"CAPTAIN"	INDUSTRY	ACTIVITY/IES
Gurmendi,Manuel	ACINDAR	Steel
Gamboa,Javier	ALPARGATAS Grupo ROBERTS	Textil
Pagani,Fulvio	ARCOR	Food
Braun Cantilo,Eduardo	ASTARSA	Ship Building, Cattle + Agriculture
Gruneisen,Ricardo	ASTRA	Petrol,petrochemics Transport
Nunez,Jaime	BAGLEY	Food
Bago,Sebastian	BAGO	Pharmaceutical
Hojman,Julio	BGH	Electronics
Bulgeroni,Alejandro	BRIDAS	Petrol, Banks Paper Industry
Roig,M./Rapanelli,N.	BUNGE & BORNE	Food, textil, banks chemics, agriculture pharmaceuticals, computers, fishing.
Cartellone,Gerardo	CARTELLONE	Construction
Kuhl,Guillermo	CELULOSA JUJUY SAAB SCANIA	Cellulose, Paper Lorries + trucks
Blanquier,Martin	LEDESMA	Sugar, agric+cattle
Fortabat,Amalia	LOMA NEGRA	Concrete, agricult cattle
Macri,F./Haiek,J.	Grupo MACRI (SEVEL,SIDECO, PHILCO, MANLIBA, PLUS-PETROL)	Motorcars, services construction
Madanes,Manuel	Grupo MADANES (FATE,ALUAR, KIKSA)	Aluminium, tyres

Massuh,Amin	MASSUH	Paper and Cellulose
Orsi,V./Vicente,O.	PEREZ-COMPANC	Petrol, banks, construction,computer chemics, nuclear, telecomunications
Pescarmona,Enrique	IMPSA/PESCARMONA	Steel
Masterllone,Pascual	LA SERENISIMA	Food
Tramutola,C./Rocca,R.	TECHINT	Steel, construction
Zorraquin,Federico	GAROVAGLIO Y ZORRAQUIN	Banks, petrochemics sugar, agric+cattle

Source: Ostiguy, P., 1990.

TABLE III.6.:

ARGENTINIAN UNIONS LINKED TO THE CGT AND WORKERS MEMBERSHIP IN 1986.

UNION	ACTIVITY	N.MEMBERS
Conf.Gral.Empleados Comercio	Commerce	408,000
Union Obrera Metalurgica UOM	Steel	267,000
Conf.O.Empleados Municipal.COEMA	Local Public W.	250,000
Conf.Tr.Educacion CTERA	Teaching	188,854
Union O.Construc.UOCRA	Building work	186,614
Fed.Asoc.Tr.Sanidad FATS	Health services	170,900
Asoc.Bancarios	Banking	156,070
Fed.Tr.Ind.Alimentacion	Food	148,703
Union Ferroviaria	Rails	143,304
Un.Pers.Civil de la Nacion	Civil Service	133,188
Asoc.Tr.del Estado ATE	State work	85,927
Un.Tr.Gastronomicos UTGRA	Restaurants	85,481
Asoc.Ob.Textil AOTRA	Textil	73,646
Un.Obr.Empl.Municipal	Local state work	73,000
Fed.Tr.Rurales FATRE	Agriculture	72,677
Fed.Tr.Luz Y Fuerza	Electricity	69,952
Un.Tranviarios Automotor	Transport	56,214
Sind.Mec.yAf.Transp.Aut.SMATA	Motorcars	53,976
Fed.Ob.Ind.del Vest.FONIVA	Textil	45,318
Fed.Obr.y Empl.Telef.FOETRA	Telecommunicat.	39,888
Fed.Nac.Tr.Com.Ob.Tran.Aut.Carga	Removals	38,961
Fed.Unica Viajeros FUVA	Travel	38,261
Fed.Gr.Pers.Ind.Carne	Meat	37,667
Fed.Ob.Tuc.Ind.Azucarera FOTIA	Sugar	35,273
Union Sind.Ind.Maderera USIMRA	Wood and Paper	33,080
Fed.Obr.Empl.Vitivinicolas FOEVA	Wine	30,260
Fed.Obr.Empl.Correos y Tele.FOECT	Postal services	28,370
Fed.Ag.Tra.de Farmacio FATFRA	Pharmaceutics	28,122

Source: Godio, J., 1991.

TABLE III.7:

ARGENTINIAN MONTHLY LABOUR CONFLICTS, 1985-90.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1985	52	24	48	42	28	26	24	12	19	31	16	22
1986	17	21	33	45	55	69	52	52	67	66	54	32
1987	13	12	13	11	28	39	42	48	51	56	50	35
1988	25	27	51	56	53	66	48	47	37	55	45	31
1989	21	31	38	32	71	52	58	50	51	48	68	60
1990	54	69	92	56	62	68	61	57	-	-	-	-

Source: Palomino, H., in "El Bimestre Politico y Economico", 1985-91. Buenos Aires, CISEA.

TABLE III.8.:

Unemployment, subemployment and industrial real wages, 1981-90.

	% UNEMPLOYMENT	% SUBEMPLOYMENT	R.WAGES 1983=100
1981	4,8	5,5	94,3
1982	5,3	6,6	82,6
1983	4,7	5,9	100,0
1984	4,6	5,7	122,9
1985	6,1	7,3	109,0
1986	5,6	7,6	116,4
1987	5,9	8,4	103,6
1988	6,3	8,5	95,5
1989	7,8	8,9	66,3
1990	8,6@	9,3@	67,8

@ Only first quarter of the year.
Source: UN data.

TABLE IV.1.:

Spain: evolution of the main macroeconomic aggregates, 1976-92.

YEAR	GNP 000 Mill. pesetas	GNP per capita	Δ GNP	FISCAL PRESSURE % GNP (*)	BUDGET DEFICIT % GNP	% PUBLIC DEBT/GNP	CENTRAL BANK RESERVE U$S millions	INTEREST RATE, 3 MONTHS
1976	6849	191,2	3,3	..	-0,0	0,00	4952	..
1977	8695	239,8	3,0	..	-2,1	16,18	6132	15,5
1978	10751	293,2	1,4	24,3	-1,5	14,97	10015	17,6
1979	12529	338,7	-0,1	25,4	-1,8	16,13	13117	15,5
1980	15209	408,1	1,2	26,7	-2,8	20,22	12358	16,4
1981	16989	450,0	-0,2	27,9	-3,0	22,46	15337	16,2
1982	19567	515,3	1,2	27,9	-5,4	25,97	11530	16,3
1983	22235	582,6	1,8	30,1	-5,2	29,60	11228	20,0
1984	25111	655,2	1,8	30,4	-5,5	34,79	15778	14,9
1985	28201	733,0	2,3	31,2	-6,5	38,89	13301	12,2
1986	32324	837,3	3,3	32,0	-5,2	39,02	16001	11,7
1987	36144	933,6	5,2	33,8	-4,4	42,55	30172	15,8
1988	40164	1034,9	5,0	33,5	-3,2	38,42	39875	11,6
1989	45025	1157,8	4,5	35,0	-2,5	37,56	44422	15,0
1990	50074	1285,3	3,7	33,9	-2,8	37,52	53104	15,1
1991	54775	1403,6	2,3	34,1	-2,9	37,79	66283	13,2
1992	58677	1501,2	1,0	33,3	-2,6	39,98	50484	13,3

Source: GNP: INE
Others: Banco de España.

(*) includes social security and taxes.

TABLE IV.2.:

SPAIN: INCOME DISTRIBUTION BY GINI AND DECILES, 1964-80, SELECTED YEARS.

YEAR	GINI	LOWER DECILE	UPPER DECILE
1964	0.421	1.43%	36.84%
1967	0.463	1.33%	41.32%
1970	0.457	1.44%	40.76%
1974	0.446	1.76%	39.57%
1980	0.294	2.41%	29.23%
1987	n.a.	2.64%	28.85%

Source: Alcaide, J., 1991.

TABLE IV.3.:

SPAIN: CONNECTIONS BETWEEN BANKS AND INDUSTRY: INDUSTRIAL DIRECTIVE POSTS OCUPPIED BY BANK DIRECTORS OR RELATIVES, 1970S.

Industrial Sector	Presidents	Other Directive Posts
Cars	29	205
Chemicals	95	509
Concrete	50	260
Building works	50	244
Electricity	46	382
Electrical supplies	47	220
Insurances	52	324
Machinery	125	619
Mining	58	295
Ship building	13	81
Shipping	25	134
State Agencies	96	367
State Banking	1	51
Steel	15	125
Textiles	57	284
Other sectors	531	2,641
TOTAL	1,290	6,741

Source: Tamames, R., 1979.

TABLE IV.4.:

Spain: evolution of labour indicators, 1976-92.

YEAR	TOTAL POPULATION (000)	WORKING AGE POP. (000)	ACTIVE POP. (000)	EMPLOYED POP. (000)	UNEMPLOYMENT RATE (%)	Δ ANNUAL WAGES	Δ PRODUCTIVITY
1976	35824	26724	13120	12544	4,39	19,3	..
1977	36256	26962	13172	12432	5,62	25,0	4,05
1978	36667	27284	13172	12180	7,53	20,6	4,78
1979	36995	27482	13101	11896	9,20	14,1	4,40
1980	37272	26737	12660	11404	9,92	15,3	7,31
1981	37751	27115	13045	11172	14,36	13,1	4,50
1982	37970	27483	13206	11061	16,24	12,0	6,31
1983	38162	27837	13353	10984	17,74	11,4	6,45
1984	38328	28203	13437	10668	20,61	7,8	8,37
1985	38474	28583	13542	10571	21,94	7,9	7,92
1986	38604	28907	13813	10880	21,23	8,2	7,62
1987	38716	29306	14306	11368	20,54	6,5	5,16
1988	38809	29763	14620	11772	19,48	6,4	5,79
1989	38888	30173	14819	12258	17,28	7,8	6,54
1990	38959	30429	15019	12578	16,25	8,3	7,73
1991	39025	30690	15073	12609	16,35	7,9	9,13
1992	39085	30953	15142	12439	17,85	7,2	9,36

Source: Total population: INE.
Wage increases: Ministerio de Trabajo.
Others: Encuesta Población Activa.

TABLE IV.5.:

Spain: external sector, 1976-92.

YEAR	IMPORT.	EXPORT.	COMPETITIVENESS INDEX	TRADE BALANCE/ GNP
	000 Mill. pesetas			
1976	1169,4	583,3		-8,56
1977	1350,5	775,2		-6,62
1978	1430,9	1001,5		-3,99
1979	1704,0	1221,2		-3,85
1980	2424,1	1462,2	100	-6,32
1981	2970,4	1888,4	105	-6,37
1982	3476,0	2233,9	106	-6,35
1983	4175,3	2833,2	117	-6,04
1984	4628,9	3730,7	113	-3,58
1985	5073,2	4104,1	112	-3,44
1986	4890,7	3800,2	103	-3,37
1987	6029,8	4195,6	106	-5,07
1988	7039,5	4686,3	99	-5,86
1989	8396,3	5134,5	95	-7,24
1990	8914,7	5642,7	89	-6,53
1991	9636,8	6064,7	89	-6,52
1992	9322,0	5974,2	88	-5,71

Source: Competitiveness index: Información Comercial Española.
Others: Banco de España.

TABLE IV.6.:

COMPANIES ASSOCIATED TO CEOE, 1977-87.

YEAR	N.COMPANIES	% EMPLOYMENT
1977	800,000	60
1978	1,000,000	70
1979-84	n.a.	
1985	1,100,000	75
1986	n.a.	
1987	1,350,000	95

Source: CEOE Reports.

TABLE IV.7.:

AFILIATION TO SPANISH TRADE UNIONS, 1982.

TRADE UNION		TRADE UNION	
CCOO	716,040	Nationalist T.U.	102,544
UGT	661,232	Other unions	139,692
USO	99,008	Independents	49,504

Source: EDIS, 1983, in Miguelez, 1991.

TABLES IV.8.:

SPANISH TRADE UNION ELECTIONS, 1980-87.

	1980	1982	1986	1987
ENTERPRISES	52,664	53,601	70,814	1,432
WORKERS VOTING	3,365,000	2,985,000	3,159,778	997,522
% participation with respect:				
-workers in enterprises	(n.a.)	79.2	79.8	71.6
-total active population	25.3	22.1	22.5	6.9
CCOO				
-total votes	50,817	47,016	56,065	3,165
-%	30.8	33.4	--	24.2
UGT				
-Total votes	48,194	51,672	66,411	3,016
-%	29.2	36.7	--	23.1
USO				
-total votes	14,296	6,527	n.a.	--
-%	8.7	4.6	--	--
Independents				
-total votes	43,553	17,024	10,833	1,874
-%	26.4	12.0	--	14.3
CSIF				
-total votes	--	--	--	3,260
-%	--	--	--	24.9

Source: Ministerio de Trabajo

TABLE IV.9.:

RESULTS OF SPANISH GENERAL ELECTIONS, IN PERCENTAGES OF VOTES AND PARLIAMENT SEATS, 1977-89.

	15/06/1977		1/03/1979		28/10/1982		15/06/1986		29/10/1989	
	Votes	Seats	Vot	Sea	Vot	Seats	Vot	Seats	Votes	Seats
UCD	34.6	47.7	34.9	48.8	7.1	3.4	--	--	--	--
CDS(*)	--	--	--	--	2.9	0.6	9.2	5.4	7.7	4.0
PSOE	29.3	33.7	30.5	34.6	48.4	57.7	44.1	52.6	40.2	50.0
PCE	9.4	5.7	10.6	6.5	4.1	1.1	4.6	2.0	8.9	5.1
AP/PP	8.8	4.6	5.9	2.6	26.2	30.3	26.0	29.1	25.6	30.6
CIU	3.7	3.7	2.7	2.3	3.7	3.4	5.0	5.1	5.2	5.1
PNV	1.7	2.3	1.5	2.0	1.9	2.3	1.5	1.7	1.3	1.4
Others	12.5	2.6	13.9	4.0	5.7	1.2	9.6	4.1	11.1	3.8

(*) UCD finished integrating into the center coalition party CDS
Source: Maravall, J.M., 1991.

TABLE IV.10.:

SPANISH BANKS IN CRISIS, 1978-83.

YEAR	NUMBER BANKS	CAPITAL (*)	BRANCHES	WORKERS
1978	4	67.9	185	1,977
1979	2	46.3	201	1,026
1980	9	295.0	775	6,553
1981	4	144.8	362	2,143
1982	11	750.2	726	10,761
1983	21	1,145.3	1,193	13,204
TOTAL	51	2,449.9	2,622	35,664

(*) Including deposits, bonds and credits, in million pesetas.

Source: Olarra, R., 1989.

TABLE IV.11.:

SPANISH TAXES IN PERCENTAGE OF GNP, 1978-89.

	1978	1979	1980	1981	1982	1983	
Direct Tax	5.5	6.0	7.0	7.2	6.8	7.9	
-IRPF	3.3	3.8	4.7	5.0	4.5	5.4	
-IS	1.3	1.3	1.2	1.2	1.3	1.5	
Indir.Tax	6.2	6.3	6.6	7.3	7.8	8.5	
-VAT	-	-	-	-	-	-	
S.C.	12.6	13.1	13.1	13.4	13.3	13.7	
Fiscal Press.	24.3	25.4	26.7	27.9	27.9	30.1	
	1984	1985	1986	1987	1988	1989	OECD(*)
Direct Tax	8.3	8.5	8.3	10.5	10.6	12.1	17.3
-IRPF	5.9	5.8	5.5	7.1	7.2	8.0	12.1
-IS	1.4	1.6	1.8	2.3	2.2	3.1	3.0
Indirect T.	9.0	9.6	10.7	10.4	10.2	10.1	11.5
-VAT	-	-	4,4	5,2	5,1	5,4	-
S.C.	13.1	13.1	13.0	12.9	12.7	12.8	9.3
Fiscal Press.	30.4	31.2	32.0	33.8	33.5	35.0	38.1

IRPF: Tax on personal income; IS: tax on companies; SC: Tax on wages for social security

(*) OECD data correspond to 1986.

Source: Bank of Spain

TABLE IV.12.:

FISCAL PRESSURE IN EC COUNTRIES, IN PERCENTAGE OF GNP, 1977-89, SELECTED YEARS.

	1977	1982	1986	1989
BELGIUM	43.4	46.7	46.3	45.2
DENMARK	48.3	52.0	59.4	60.7
FRANCE	42.8	47.6	48.8	48.7
GERMANY	45.7	46.1	45.4	45.4
GREECE	29.6	32.0	35.5	35.5
HOLLAND	50.6	54.2	53.6	52.6
IRELAND	35.5	40.3	42.1	40.5
ITALY	30.0	36.1	39.3	40.9
LUXEMBURG	55.3	55.4	54.8	54.3
PORTUGAL	n.a.	35.4	37.5	35.1
SPAIN	26.8	31.9	35.6	37.4
UNITED KINGDOM	38.6	42.3	40.7	38.9

Source: EC, 1989.

TABLE IV.13.:

EVOLUTION OF SOCIAL EXPENDITURE IN SPAIN, 1975-89, SELECTED YEARS.

	1975	1982	1989
General Social expenditures			
-as % GNP	9.9	14.6	17.8
-New beneficiaries (millions)	.....5.9......		8.2
Pension system,			
-as % GNP	3.5	6.3	8.7
-Increase number pensionists(mil.)	.....1.4......		1.2
Health system,			
-as % GNP	--	4.0	5.0
-Increase n.benef (millions)	.....3.7......		6.3
Education,			
-as % GNP	--	2.5	4.4
-Increase in postcompulsatory ed, %	...45.1......		30.4

Source: Maravall, J.M. 1991.

TABLE IV.14.:

Spain: sectoral evolution of inflation and sectoral contribution to GNP, 1976-92.

	INFLATION	DEFLATORS				% BY ECONOMIC SECTORS				RATIO I+A/C+S (*)
		AGRICUL.	INDUSTRY	CONSTR.	SERVICES	AGRICUL.	INDUSTRY	CONSTR.	SERVICES	
1976	17,6					9,3	30,6	8,3	51,7	
1977	24,5	21,4	19,3	14,6	21,6	9,1	30,1	8,1	52,7	0,96
1978	19,7	15,0	16,3	16,6	17,1	8,9	29,3	7,8	54,0	0,94
1979	15,7	8,3	16,1	15,9	16,1	7,9	28,8	7,9	55,4	0,90
1980	15,6	7,3	15,5	17,6	14,2	11,2	30,2	8,4	56,7	0,91
1981	14,4	14,1	15,9	16,8	15,6	6,1	30,5	7,8	58,2	0,99
1982	14,4	15,7	12,4	11,6	16,1	6,3	30,1	7,8	58,4	0,83
1983	12,2	8,9	14,0	12,3	13,3	6,2	30,3	6,0	58,8	0,99
1984	11,3	10,1	12,2	10,5	11,0	6,5	30,5	6,5	60,4	1,08
1985	8,8	3,8	8,0	8,8	9,3	5,9	30,6	6,7	54,8	0,79
1986	8,7	8,8	0,9	4,8	11,3	5,6	29,2	6,5	53,2	0,21
1987	5,3	-2,8	0,8	4,1	7,7	5,4	28,4	6,9	52,9	0,03
1988	4,8	3,3	3,0	5,5	7,7	5,3	27,5	7,5	53,1	0,41
1989	6,9	7,5	4,2	8,3	9,0	4,8	26,7	8,4	53,4	0,53
1990	7,4	0,7	2,2	8,3	9,2	4,5	25,3	9,2	54,7	0,22
1991	6,9	3,6	4,7	8,2	11,3	4,0	24,4	9,4	56,1	0,42
1992	6,2	0,5	1,5	1,9	6,0	4,0	24,6	9,3	55,9	0,25

Source: Inflation: Banco de España.
Deflators: Ministerio de Economía y Hacienda.
GNP: Contabilidad Nacional (INE).

(*) It is a weighted index which relates the contributions of the different sectors to GNP and their respective deflators. Values menor to 1 indicate more inflationnary pressure coming from construction and services, while values major to 1 would correspond to agriculture and industry.

TABLE V.1.:

SPAIN: IMPORTS AND EXPORTS BY INDUSTRIAL SECTORS, IN PERCENTAGES, 1975-89, SELECTED YEARS.

SECTOR	IMPORTS			EXPORTS		
	1975	1985	1989	1975	1985	1989
ENERGY	30.6	39.0	13.1	3.6	8.7	5.8
MINING	4.0	2.5	3.0	1.6	1.2	1.3
STEEL	10.4	7.9	7.4	14.5	17.2	10.4
CONSTRUCT.MATS.	1.1	0.4	1.4	4.3	2.8	3.8
CHEMICALS	15.3	14.0	13.3	13.2	15.5	13.7
MACHINERY	23.0	12.2	16.6	14.4	9.8	9.5
ELECTRON.+COMP.	1.4	8.5	14.7	1.4	3.8	7.7
TRANSPORT MAT.	5.7	8.5	15.1	20.2	27.1	24.2
of which cars	0.3	1.4	11.6	3.5	9.9	20.4
FOOD+BEBERAGES	4.9	2.0	3.5	7.6	6.2	6.9
TEXTIL	1.6	1.4	2.1	5.7	4.4	2.4
SHOE+LEATHER	0.5	0.9	2.8	9.9	5.7	6.2

Source: MINER

TABLE V.2.:

SPAIN: EVOLUTION OF INDUSTRIAL SECTORS: CHANGES IN EMPLOYMENT, NUMBER OF ENTERPRISES AND PERCENTAGE OF ACCUMULATED ANNUAL GROWTH, 1975-89.

SECTORS	EMPLOYMENT % CHANGE 1981-88	% CHANGE N.BUSINESS 1981-88	% ANNUAL GROWTH 1975-85	1986-89
ENERGY	-5.2	-27.1	4.7	2.4
WATER	10.8	0.5	--	--
MINING (METAL)	-45.3	-59.0	1.9	--
STEEL	-34.3	-31.7	2.1	-0.5
MINING (NON-METAL).	-14.0	-18.9	0.6	4.6
NON-METAL.INDUSTRY	-26.4	-18.2	-1.0	6.4
CHEMICAL INDUSTRY	-9.8	-16.6	3.1	6.8
METAL PRODUCTS	-15.4	-11.2	0.6	7.2
MACHINERY	-20.0	-12.1	-0.6	4.2
ELECTRIC MATERIAL	-20.2	-6.4	1.8	13.4
TRANSPORT MATERIAL	-16.2	-32.4	-17.4	29.2
of which cars			5.4	10.6
FOOD, BEBERAGES, TABACO	-4.6	-10.5	4.4	--
TEXTIL	-18.8	-17.7	0.2	5.5
SHOE + LEATHER	-32.5	-14.1	-3.0	-3.7
WOOD + FORNITURE	-18.4	-13.3	-0.3	9.4
PAPER + ARTS	-4.3	4.4	3.6	4.6
RUBBER + PLASTICS	-2.8	7.1	4.0	--
OTHERS (toys, optics...)	-28.8	14.2	1.6	--
TOTAL	-17.0	-14.6	1.81	5.2

Source: Encuesta Industrial INE, MINER.

TABLE V.3.:

SPAIN: EVOLUTION OF INDUSTRIAL SECTORS: PERCENTAGES OF ENTERPRISES DEBT, OF USE OF PRODUCTIVE CAPACITY AND OF INFORMALITY, 1982-88.

SECTORS	% DEBT 1982	1988	% USE P.C. 1986	% INFORMAL. 1986
ENERGY	179	66	86.5	8.3
WATER	--	--	--	
MINING (METAL)	--	--	92.1	6.2
STEEL	428	142	78.7	5.3
MINING (NON-METAL).	251	102	67.1	--
NON-METAL.INDUSTRY	41	20	82.1	--
CHEMICAL INDUSTRY	118	76	79.7	--
METAL PRODUCTS	74	78	79.4	--
MACHINERY	147	76	82.6	--
ELECTRIC MATERIAL	125	130	81.3	--
TRANSPORT MATERIAL	426	164	87.6	--
of which cars	--	--	--	--
FOOD, BEBERAGES, TABACO	69	47	72.3	17.6
TEXTIL	110	121	82.3	33.1
SHOE + LEATHER	101	67	85.4	34.9
WOOD + FORNITURE	220	27	79.1	2.3
PAPER + ARTS	124	48	83.0	16.9
RUBBER + PLASTICS	100	60	87.0	--
OTHERS (toys, optics...)	30	21	78.7	17.9
TOTAL	162.0	77.8	81.0	20.0

Source: MINER, Ministerio de Economia.

TABLE V.4.:

SPAIN: SHARE OF TOTAL FOREIGN INVESTMENT BY SECTOR AND PERCENTAGES OF FOREIGN INVESTMENT/TOTAL INVESTMENT, 1987-88.

SECTORS	%FI/TInvest 1977	%FI/TInvest 1988	%FDI 87-88
ENERGY	6.5	4.4	0.9
MINING (METALS)	19.6	33.3	0.4
STEEL	8.7	2.4	0.5
NON-METAL (MINING+INDUS)	4.9	31.8	3.5
CHEMICAL INDUSTRY	35.9	64.7	32.3
METAL PRODUCTS	26.1	8.5	2.2
MACHINERY	8.5	63.6	5.2
ELECTRIC MATERIAL	27.1	73.2	3.8
TRANSPORT MATERIAL	20.0	28.1	1.7
of which cars	59.4	39.3	6.5
FOOD, BEBERAGES, TABACO	12.2	49.4	15.6
TEXTIL			
SHOE + LEATHER	7.4	9.6	0.6
WOOD + FORNITURE	--	0.9	0.1
PAPER + ARTS	--	161.9	14.9
RUBBER + PLASTICS	31.8	11.2	1.4
OTHERS (toys, optics..)	--	9.4	0.4
AVERAGE	8.3	34.5	5.6

Source: MINER, Ministerio de Economia, Buesa & Molero, 1988, INE.

TABLE V.5.:

INDUSTRIAL POLICY IN SPAIN, 1975-82.

I. RESTRUCTURING PLANS

* Textil (D.693/1975, D.694/1975, RD.1243/1976) Extensions R.31.1.1977, RD.1675/1977, RD. 3448/1977, R.21.4.1978, R.31.7.1980.

* Baking industry (RD.97/1977, RD.1675/1977).

II. COORDINATED ACTIONS

* Mining (Coal) (D.2485/1974, extension RD.2286/1980)

* Non-integral steel and iron industries (D.669/1974, aditional credits O.22.5.1980)

* Electronics (D.175/1975)

* Leather (O.22.8.1964, extension O.23.12.1976)

III. PREFERENTIAL INDUSTRIAL SUBSECTORS

* Integral steel and iron industries (D.774/1969, D.669/1976)

* Mining (zinc) (RD.3006/1980)

* Motorcars (final and parts) (D.3757/1972, D.677/1974, extensions RD 198/1977, RD.1679/1979)

* National Defense (RD.2135/1976)

* Chemicals (D.3374/1971, D.732/1973, RD.2002/1976, RD.3150/1977, RD.1665/1980, RD.2948/1982)

* Nuclear Energy (D.924/1972) and gas (D.1350/1976)

* Electronics (D.2593/1974, extension RD.1860/1981)

* Commecial Shipyards (RD.1286/1976, extension RD.144/1978, RD.2173/1979, RD.871/1981).

IV. EXTRAORDINARY CREDITS TO COMPANIES IN CRISIS (Ley 13/1971)

* Special Steel industries (N.E: 3; PUD in 1985: 56%)

* Common Steel (NE: 2, PUD: 10%)

* Household Electrical Appliances (NE:2, PUD: 100%)

* "Heavy forging" (NE:1; PUD:56%)

* Metals (NE:6; PUD:58%)

* Shipbuilding (NE:3, PUD:70%)

* Integral Iron and Steel (NE:3; PUD: 2%)

* Others (NE:8; PUD:68%)

V. ABSORPTION OF ENTERPRISES BY PUBLIC SECTOR:

Main companies: Textil Tarazona (1977), Altos Hornos M (1978), Imepiel (1978), CSB (1979), Babcock Wilcox (1980), Minas de Figaredo (1980), Intelhorce (1980), Hilaturas Gossypium (1980), San Carlos (1980), Marsans (1980), Ateuinsa (1980), SEAT (1981), Transanlantica (1981), Hytasa (1982).

NE: Number of entreprises
PUD: Percentage of Unpaid Debt
D: Decree
RD: Royal Decree
O: Order

Source: Navarro, M., 1990.

TABLE V.6.:

SPAIN: BALANCE OF TRADE (WORLD AND EC), IN MILLION PESETAS, 1985 AND 1989.

SECTORS	WORLD TRADE BALANCE 1985	WORLD TRADE BALANCE 1989	EC TRADE BALANCE 1985	EC TRADE BALANCE 1989
ENERGY	-1,423.7	-736.6	99.8	20.8
MINING (METALS)	-35.8	-6.7	-85.6	-59.4
STEEL	308.8	-74.0	11.6	-103.3
NON-METAL (MINING+INDUS)	56.8	38.3	10.8	10.9
CHEMICAL INDUSTRY	-112.1	-443.4	-166.2	-400.0
METAL PRODUCTS	84.2	-14.1	7.0	-49.6
MACHINERY	-132.9	-587.6	-163.5	-490.2
ELECTRIC MATERIAL	-214.1	-776.5	-96.3	-340.3
TRANSPORT MATERIAL	359.4	-61.7	248.7	44.2
of which cars	310.5	32.7	256.8	44.1
FOOD, BEBERAGES, TABACO	180.7	12.2	67.9	-31.3
TEXTIL				
SHOE + LEATHER	270.6	8	133.1	8.3
WOOD + FORNITURE	15.5	-67.9	30.9	-11.5
PAPER + ARTS	28.0	-66.9	16.3	-19.0
RUBBER + PLASTICS	54.5	43.6	18.7	3.9
OTHERS (toys, optics...)	19.9	-30.7	7.7	-3.6
TOTAL	-787.1	-3,115.5	93.2	-1,521.2

Source: MINER.

TABLE V.7.:

SPAIN: WORKERS IN THE FPE PROGRAMME, 1986-89

SECTORES	1986 TOTAL	REMAIN	1989 TOTAL	REMAIN
Cons.Naval	137,598	12,347	17,730	10,982
Electr.LB	2,330	2,123	3,652	2,236
Aceros	4,046	3,092	7,174	5,280
Siderurgia	2,629	1,438	6,867	5,545
TOTAL	22,763	19,027	35,432	24,043

Source: MINER, 1990.

TABLE V.8.:

THE ZUR IN SPAIN, 1985-90.

AREA	PROJECTS	INVESTMENT m.ptas	EMPLOYMENT	FPE	SUBSIDIES m.ptas.
ASTURIAS	101	21,722	1,619	348	4,046
BARCELONA	275	126,031	8,054	4,229	14,802
CADIZ	39	31,183	1,406	666	3,423
GALICIA	128	25,661	2,043	1,137	5,393
MADRID	72	81,593	4,241	1,442	12,661
BILBAO	104	53,575	2,901	1,089	8,974
TOTAL	721	339,765	20,336	8,911	49,303

Source: MINER, 1990.

TABLE V.9.:
SPAIN: PUBLIC SPENDING ON INDUSTRIAL POLICY, IN MILLION PESETAS, 1978-90.

ABRIL-MARTORELL 1978-80	
ICO Credits	23,639
Steel (integral)	42,040
Construccion naval	79,959
IMPI (SMIs 1979-89)	3,427
Technology (CDTI)	1,687
BAYON 1980-82	
MINER subsidies	20.000
INI credits to steel	88,857
ICO credits	80,570
Construccion naval(premium)	80,300
Unemployment	30,321
SOLCHAGA 1983-86	
MINER subsidies (1982-88)	217,326
INI(increase capital 1982-88)	589,403
INI credits (to shipbuilding + fertilisers)	337,638
Construccion Naval (premium)	108,200
FPE	220,000
ZUR subsidies (until 89)	49,303
GA (83-85)	12,116
ZYPPLI (83-85)	5,803
CROISSIER 1986-89	
Steel subsidies	283,322
Construccion naval(premium)	88,000
FPE	275,000
ITT	3,800
GA (1985-89)	42,168
ZYPPLI (85-89)	8,097
ZPE (1988-89)	41,490
ZID (until 1990)	26,554
R&D (1988-89)	32,746
PEIN II (1988-89)	8,132
Q&D (1988-89)	3,699
R&D EC II FRAME PROGRAMME (1987-91)	11,903
Other R&D programmes	2,508
EC Structural Funds -RDP (Z1)(1989-93)	2,306
-RRP (Z2)(1989-93)	243
TOTAL (Spanish public funds)	2,803,604
TOTAL (Including EC financing)	2,820,564

Source: PAE, 1988, 1989, MINER, 1990, Navarro, M. 1990.

TABLE V.10.:

SPAIN: REGIONAL DISTRIBUTION OF INDUSTRIAL SUBSIDIES IN MILLION PESETAS (1983-90), SHARE OF NNP (1983) AND PERCENTAGE GROWTH OF GDP (1983).

	NNP %	GDP GROWTH	ZUR 85-90	GA 83-9	ZYPPLI 83-9	ZID 88-	ZPE 88-	TOTAL
ANDALUCIA	12.4	-0.3	3,423	10,467	-	-	10,792	24,682
ARAGON	3.4	-1.0	-	-	1,258	-	9,023	3,120
ASTURIAS	2.9	1.2	4,046	-	223	1,862	1,270	6,131
BALEARES	2.4	4.3	-	-	-	-	-	-
CANARIAS	3.4	2.4	-	-	1,331	-	2,152	3,483
CANTABRIA	1.3	1.7	-	-	-	1,211	1,159	2,370
CASTILLA-LA MANCHA	3.2	0.3	-	5,285	-	-	5,139	10,422
CASTILLA-LEON	6.1	1.7	-	13,997	-	-	10,595	24,592
CATALUNA	19.7	1.1	-	14,802	-	-	-	14,802
CEUTA-MELILLA	n.a.	-	-	-	-	-	-	-
EXTREMADURA	1.6	-0.1	-	1,263	-	3,666	1,350	6,279
GALICIA	5.9	1.9	5,393	4,637	-	15,068	3,799	28,897
MADRID	16.3	1.4	12,661	-	-	-	-	12,661
MURCIA	2.0	1.1	-	-	496	-	2,679	3,175
NAVARRA	1.5	2.8	-	-	-	-	-	-
PAIS VASCO	6.5	1.8	8,979	-	-	4,744	-	13,723
LA RIOJA	0.7	3.3	-	-	-	-	-	-
VALENCIA	10.0	2.2	-	-	739	-	-	739
NOT SPECIFIED					3,550			
TOTAL			49,304	35,647	7,597	26,551	47,958	167,057

Source: Table V.5; Martin, M., 1991; MINER, 1987 & 1990; Ancochea et al., 1988.

TABLE V.11.:

DISTRIBUTION OF SPANISH SUBSIDIES BY SECTORS, IN MILLION PESETAS, PROGRAMMES ZUR, ZID, ZPE, ZYPPLI & GAEI, 1985-90.

SECTOR	N.PROJECTS	SUBSIDY	%	SUB/PROJECT
ENERGY	25	800.3	0.5	32.0
METALS (mining+industry)	79	4,862.8	3.3	61.5
NON-METAL (")	596	25,432.0	17.4	42.6
CHEMICAL	251	15,417.1	10.5	25.8
METAL PRODUCTS	586	14,708.0	10.0	25.0
MACHINERY	262	6,978.5	4.7	26.6
ELECTRONICS+COMPUTERS	68	16,604.9	11.3	244.1
TRANSPORT	179	14,760.6	10.1	82.4
FOOD INDUSTRY	359	11,908.6	8.1	33.1
TEXTIL,LEATHER,SHOES	565	7,418.0	5.0	13.1
WOOD+FORNITURE	565	10,380.0	7.1	18.3
PAPER+PRINTING	234	4,501.8	3.0	19.2
RUBBER+PLASTICS	46	2,468.3	1.6	53.6
OTHER MANUFACTURES	323	9,879.8	6.7	30.5
TOTAL	4,138	146,120.7	100.0	35.3

Source: MINER 1987, 1989.

TABLE V.12.:

SPAIN: PERCENTAGE OF FUNDING FOR R&D BY ACTIVITY, IN MILLION PESETAS, 1987-89.

SECTOR/ACTIVITY	SUBSIDY	PERCENTAGE	PROGRAMME
AGRO+CATTLE+ FISHERIES	2,329	8.5	PNICDT EC FISHERIES (88-92)
BIOTECHNOLOGY	1,949	7.1	PNICDT EC ECLAIR (88-92)
ENERGY	1,574	5.7	EC EP (89)
ENVIRONMENT	108,000	-	PNICDT (1990-94), EC THERMIE, FEDER
HEALTH	558	2.0	PNICDT, EC M&H (1987-91), EC AIM (88-90),
IT	8,482	30.9	PNICDT, PEIN II, EC ESPRIT (88-92)
ELECTRONICS (incl.micro)	5,314	19.4	PEIN II, EC ESPRIT, EC Radioprotection (90-91)
IND.MATERIALS	2,054	7.5	PNICDT,EC BRITE-EURAM (89-92)
MINING (coal)	500	1.8	EC CECA 89
PHARMACEUTICALS	582	2.1	PNICDT
PHYSICS	494	1.8	EC CERN (86-89)
ROBOTICS	1,440	5.2	PEIN II, EC EUROTRA (87-90)
SOCIAL SCIENCES	334	1.2	EC DELTA (88-90), EC SCIENCE (88-92). EC DOSES (89-92), EC SPES (89-92).
SPACE	1,217	4.4	PNICDT + EC ESA, EC BRITE (89-90)
STEEL	332	1.2	EC CECA (89)
TECH.TRANSFERS	213	0.7	PEIN II, EC SPRINT 89
TOTAL R&D	27,372		

Note: Environment has not been accounted in the total given the programmes are planned to start after 1990.

Source: MINER, 1990.

TABLE V.13.:

SPAIN: PUBLIC EXPENDING AS A PERCENTAGE OF GNP, 1980-87.

	1980	1984	1987
TOTAL PUBLIC EXPENDING	33.0	39.5	42.0
DEFENSE	1.9	2.3	2.1
SERVICES	3.2	3.6	4.0
PENSIONS	12.6	14.5	14.5
EDUCATION	3.6	3.3	3.6
HEALTH	4.5	4.0	4.3
HOUSING	1.1	1.7	2.0
ECONOMIC TRANSFERS	5.5	7.9	7.7
PUBLIC DEBT	0.7	2.0	3.7

Source: Fundacion FIES, based on INE.

TABLE V.14.:

ARGENTINA: INDUSTRIAL PROMOTION BY SECTOR, 1974-87.

SECTOR	N.PROJECTS (A)	%	TOTAL INVESTMENT (B) Thousand U$S	%	B/A
FOOD+BEBERAGES	130	18.8	603,238	8.3	4,640
TEXTIL+LEATHER	168	24.2	853,358	11.7	5,079
WOOD+FORNITURE	55	7.9	368,714	5.1	6,703
PAPER+GRAPHICS	23	3.3	1,103,687	15.1	47,986
CHEMICALS+PETR.	104	15.0	2,232,539	30.6	21,466
NON-METAL MINE.	73	10.5	1,205,402	16,5	16,512
METAL INDUSTRY	21	3.0	515,728	7.1	24,558
MACHINERY	115	16.6	401,100	5.5	3,487
OTHERS	5	0.7	4,137	0.1	827
TOTAL	693	100.0	7,287,903	100.0	10,516

Source: UN ECLA.

TABLE V.15.:

ARGENTINA: INDUSTRIAL PROMOTION BY PROVINCE, 1974-87.

PROVINCE	N.PROJECTS (A)	%	TOTAL INVESTMENT (B) Thousand U$S	%	B/A
Buenos Aires, Cordoba and Santa Fe............	115	16.6	2,227,810	30.6	19,372
LA RIOJA, SAN LUIS SAN JUAN and CATAMARCA...	49	7.1	475,161	6.5	9,697
Formosa, Misiones.......	103	14.9	1,388,674	19.0	13,482
Chubut, La Pampa, Rio Negro, Santa Cruz and TIERRA DEL FUEGO........	237	34.2	1,957,301	26.9	8,258
Jujuy, Salta, Santiago del Estero and Tucuman..	109	15.7	845,826	11.6	7,759
Mendoza y Entre Rios.....	80	11.5	393,131	5.4	4,914
TOTAL..................	693	100.0	7,287,903	100.0	10,516

Source: UN ECLA.
Note: Provinces in capital blocks were in a regime of regional promotion.

TABLE V.16.:

ARGENTINA: SHARE OF THE PRODUCTION, EXPORTS AND FDI BY INDUSTRIAL SECTORS, IN PERCENTAGES, 1973 AND 1984.

SECTOR	% PRODUCTION 1973	% PRODUCTION 1984	% EXPORTS 1973	% EXPORTS 1984	% FDI 1973	% FDI 1984
FOOD+BEBERAGES	26.9	24.1	41.6	49.3	21.2	19.4
TEXTIL+LEATHER	13.1	12.5	5.7	15.6	14.3	13.4
WOOD+FURNITURE	2.1	1.8	0.1	0.1	2.8	2.0
PAPER+PRINTING	3.9	4.7	4.0	1.0	20.2	11.6
CHEMICALS+PETR.	18.8	26.2	10.4	16.8	42.2	33.1
NON-METAL MIN.	3.1	3.1	0.8	0.4	26.4	21.1
METAL PRODUCTS	8.3	6.1	9.3	7.1	30.1	35.8
MACHINERY	23.3	21.3	28.1	9.7	45.5	38.9
OTHERS	0.4	0.4	-	-	5.3	18.4
TOTAL	100.0	100.0	100.0	100.0	30.3	26.8

Source: UN ECLA, World Bank.

TABLE V.17.:

ARGENTINA: NUMBER OF ENTERPRISES, EMPLOYEES AND PRODUCTIVITY BY INDUSTRIAL SECTOR, 1973 and 1984.

SECTOR	N.ENTERPRISES		EMPLOYEES		PRODUCTIVITY	
	1973	1984	1973	1984	1973	1984
FOOD+BEBERAGES	24,623	26,558	290,392	352,306	123.1	93.8
TEXTIL+LEATHER	14,795	11,609	202,063	206,669	85.8	82.9
WOOD+FORNITURE	16,033	14,564	70,471	78,800	40.3	30.7
PAPER+GRAPHICS	4,813	4,972	66,346	74,311	78.2	87.7
CHEMICALS+PETR.	5,359	6,193	135,550	148,238	183.6	242,7
NON-METAL MINE.	10,265	9,461	84,520	86,199	49.2	50.1
METAL INDUSTRY	1,339	514	70,664	48,995	156.7	170.2
MACHINERY	26,029	26,065	394,768	367,941	78.4	79.6
OTHERS	2,387	1,558	12,363	9,682	41.5	42.0
TOTAL	105,642	101,474	1,327,137	1,373,163	100.0	100.0

Source: UN ECLA, 1990.

TABLE V.18.:

ARGENTINA: OVERPRICING BY MANUFACTURING SUBSECTORS, 1984.

PRICE DIFERENTIAL	QUANTITY OF SUBSECTORS	% EXPORTS
0 %	7	4.2
0-25 %	8	7.7
26-50 %	6	26.5
51-75 %	9	7.2
76-100 %	3	10.9
101-125 %	2	41.5
126-150 %	2	2.2
151-200 %	1	0.0

Source: UN ECLA, 1990.

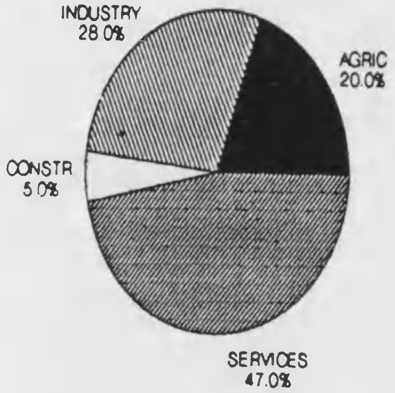
TABLE V.19.:

Estimation of the Spanish and Argentinian informal sector.

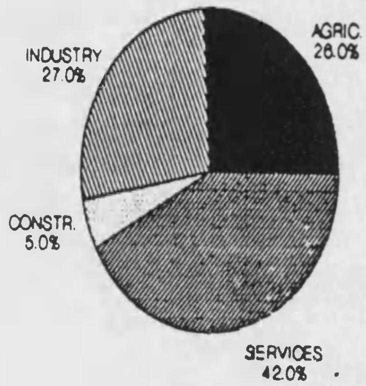
COUNTRY	METHOD AND YEAR	INFORMAL SECTOR
ARGENTINA	NOT MENIONED (PORTES, A., 1990)	1950 - 22.8% OF ACTIVE POPULATION 1980 - 25.7% OF ACTIVE POPULATION
	VALUE OF INDUSTRIAL PRODUCTION - 1984 INDUSTRIAL CENSUS (KANTIS, H. & YOGUEL, M., 1991)	1% OF INDUSTRIAL SECTOR
	1980 POPULATION CENSUS (BECCARIA, L. & ORSATTI, A., 1987)	42% OF ACTIVE POPULATION
	1980 POPULATION CENSUS (LIMDENBOIN, J., 1988)	32.6% OF ACTIVE POPULATION
SPAIN	1985 DIRECT SURVEY (MINISTERIO DE ECONOMIA, 1988)	27.1% OF OCCUPIED POPULATION
	1979 NOT MENIONED (TERCEIRO, J.B., 1982)	33% OF GDP
	1979 MONEY DEMAND (TANZI) (LAFUENTE, A., 1980)	22.9% OF NATIONAL INCOME
	1981 MONEY DEMAND (GUTMANN) (MOLTO, M.A., 1981)	2.3% OF GDP
	1980 FISCAL METHODS (BANCO DE ESPAÑA, 1981)	13.2% OF GDP
	1978 CAUSAL METHOD (FREY, B. & WECH, H., 1983)	6.5% OF GNP
	1980 LABOR MARKET (INDIRECT SURVEY) (RUESGA, S., 1982)	9.6-11.3% OF ACTIVE POPULATION

FIGURES I.1-6.:

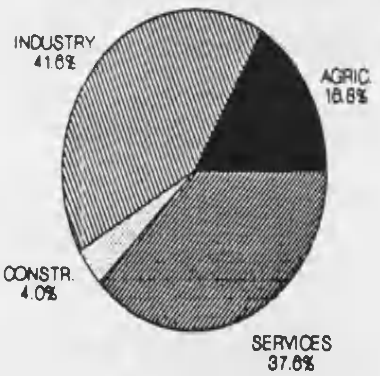
Argentina and Spain: sectoral distribution of economic activity.



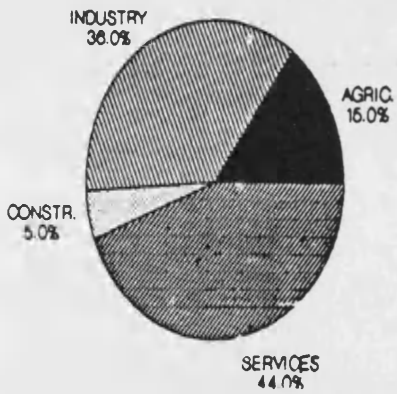
ARGENTINA 1953; source: UN



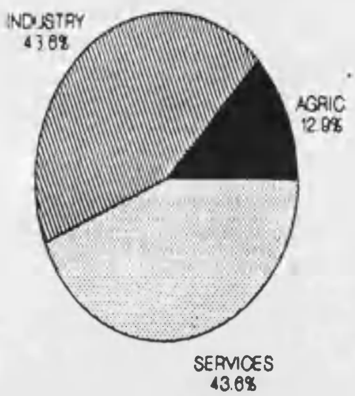
SPAIN 1954; Source: UN



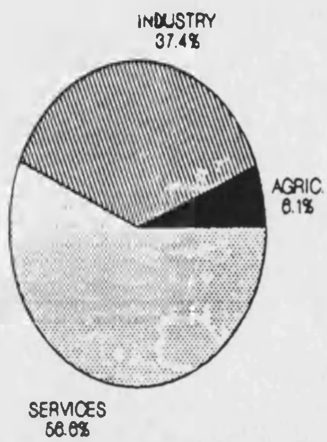
ARGENTINA 1965, Source WB



SPAIN 1965; Source: WB.



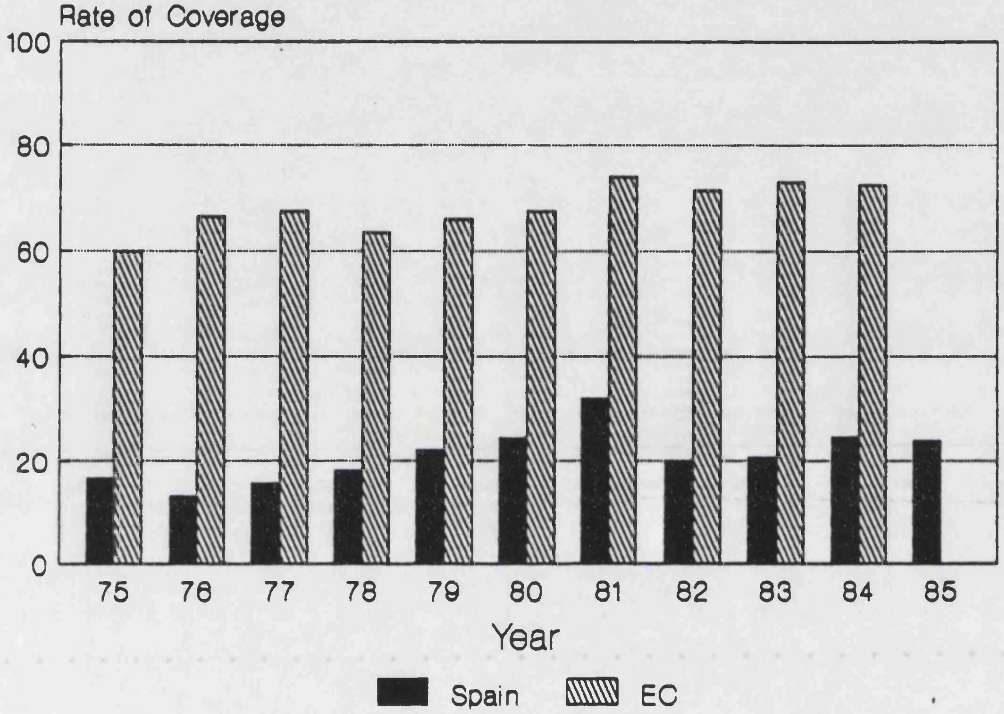
ARGENTINA 1986; Source WB



SPAIN 1986; Source: WB.

FIGURE II.1.:

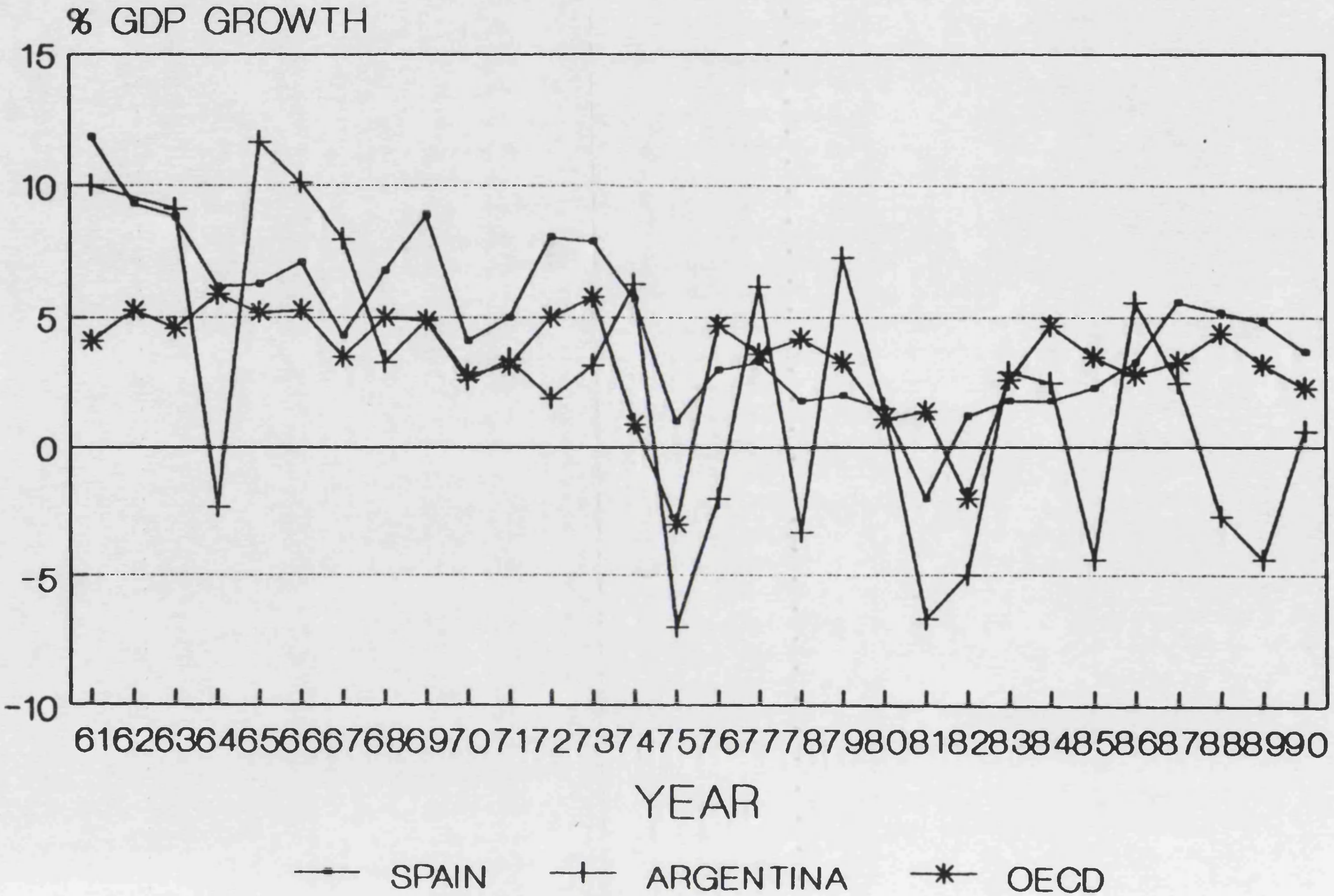
Technological coverage in Spain (Revenues/ Payments*100), 1975-85.



Source: Martin,C & Romero,L. 1991

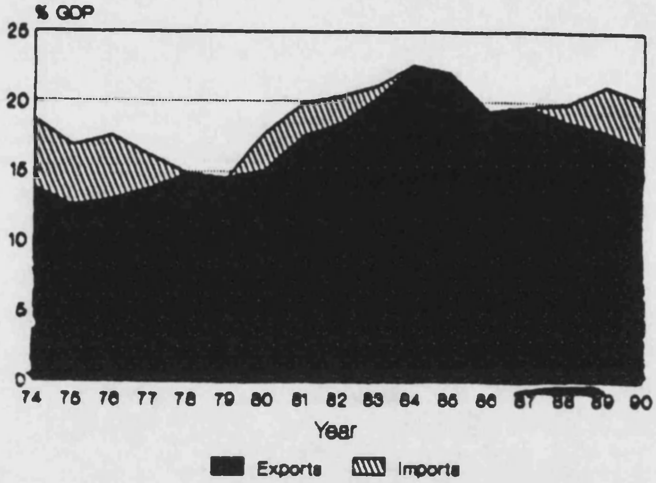
FIGURE II.2.:

Argentina and Spain: GDP growth at constant prices, 1960-90.



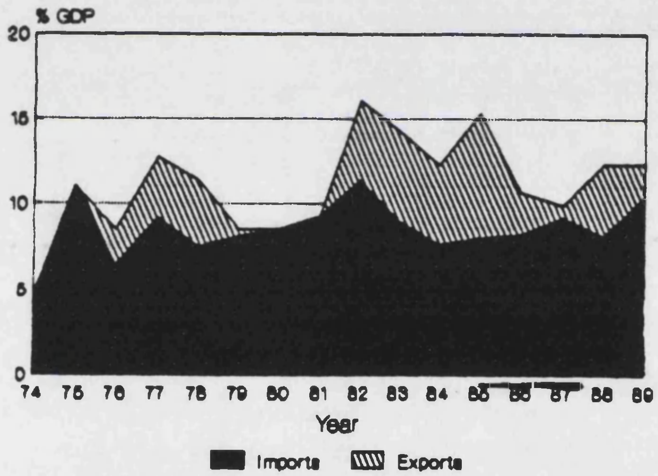
Source: IMF Statistics, 1991.

TABLE II.3: BALANCE OF TRADE, SPAIN
as percentage of GDP



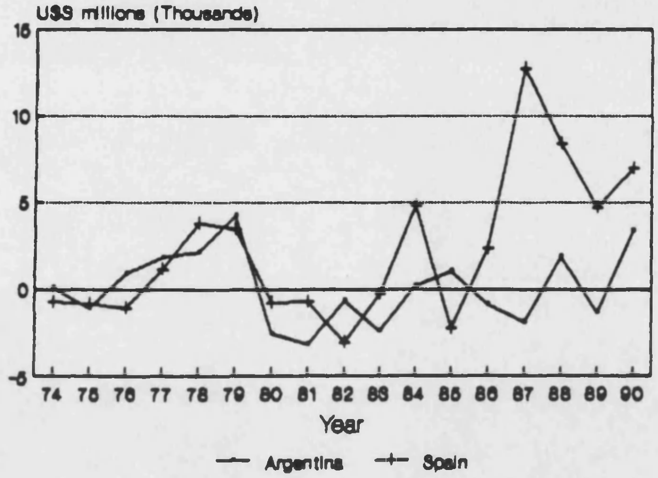
Source: IMF Statistics, 1991

TABLE II.4. BALANCE OF TRADE, ARGENTINA
as percentage of GDP



Source: IMF Statistics, 1991

TABLE II.5: BALANCE OF PAYMENTS, 1974-90
ARGENTINA AND SPAIN, in US$ millions



Source: IMF Statistics, 1991

FIGURE II.6.

International interest rates, percentage LIBOR 180 days, 1970-84.

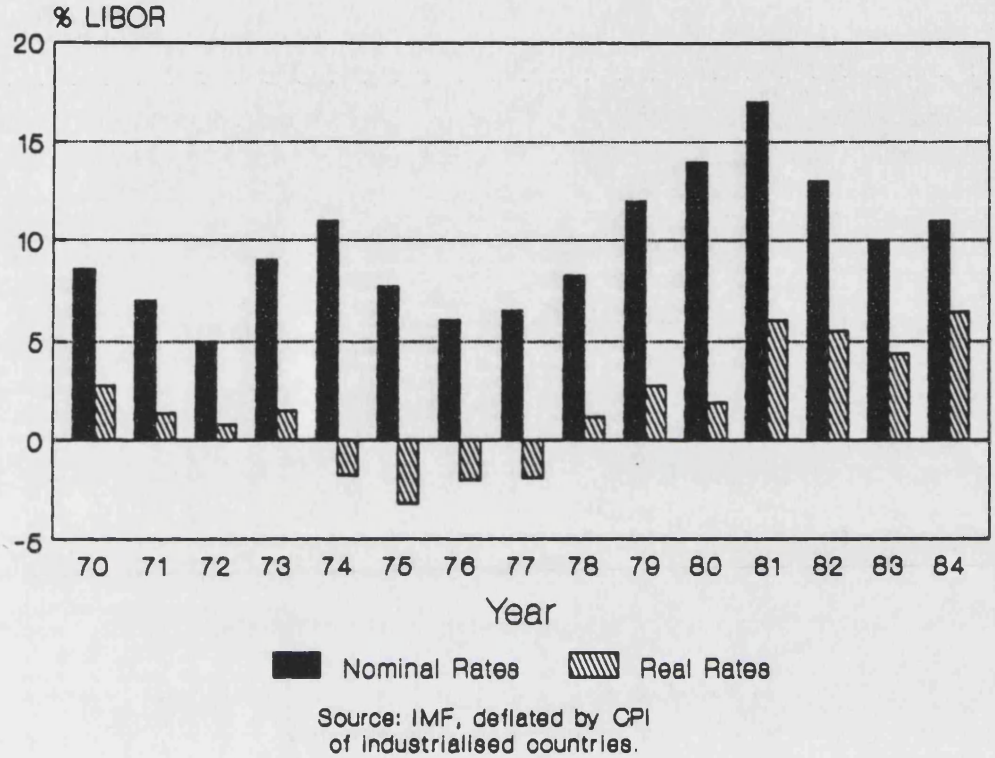
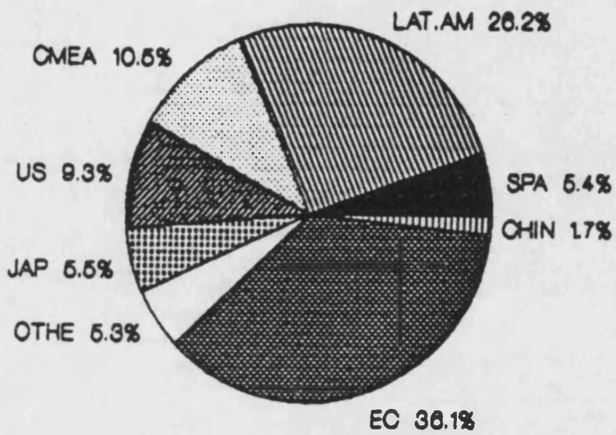


FIGURE II.7.1.:

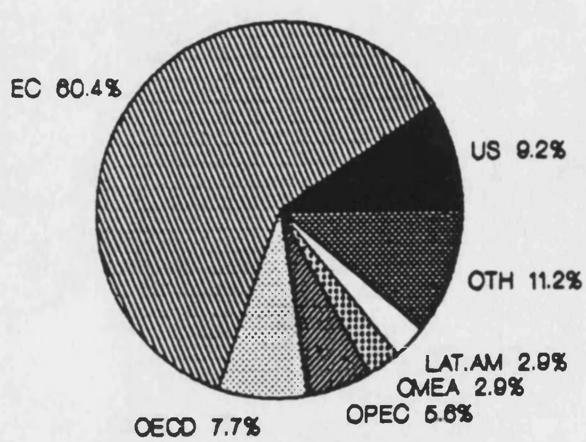
Argentinian markets, 1976-80.



Source: Table II.3

FIGURE II.7.2.:

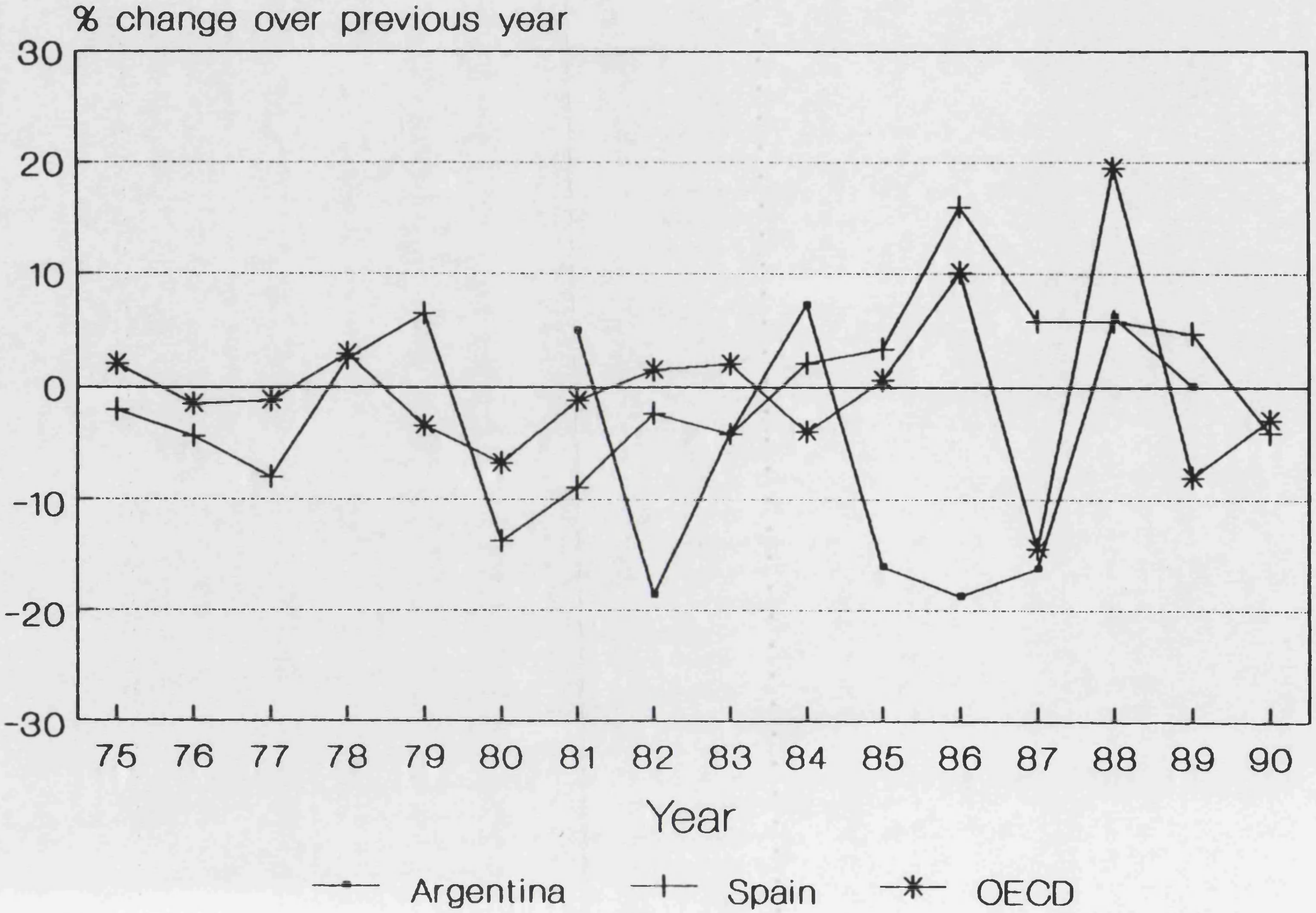
Spanish markets, 1986.



Source: Table II.4

FIGURE II.8.:

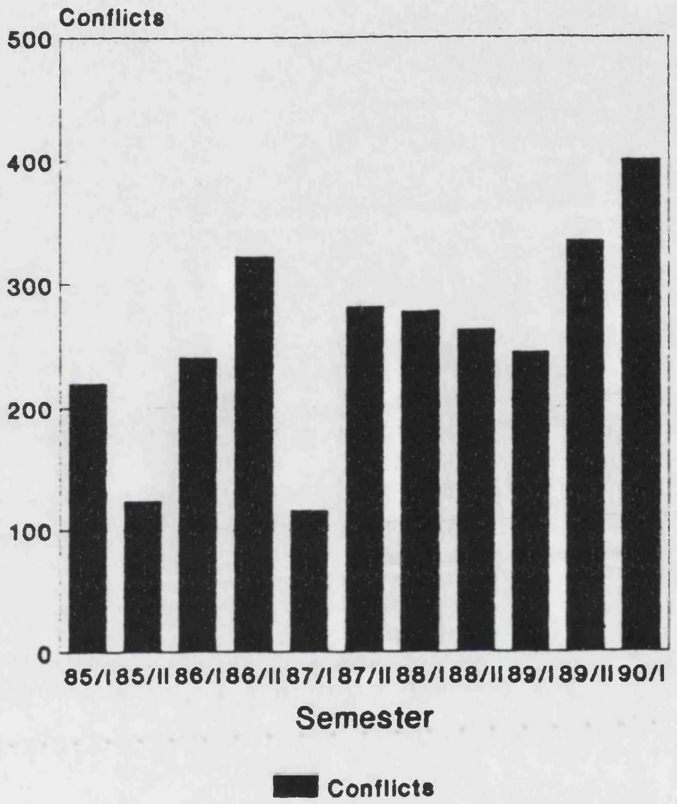
Argentina, Spain and OECD: Terms of Trade, 1975-90.



Source: IMF Statistics 1991, UN ECLA1991

FIGURE III.1.:

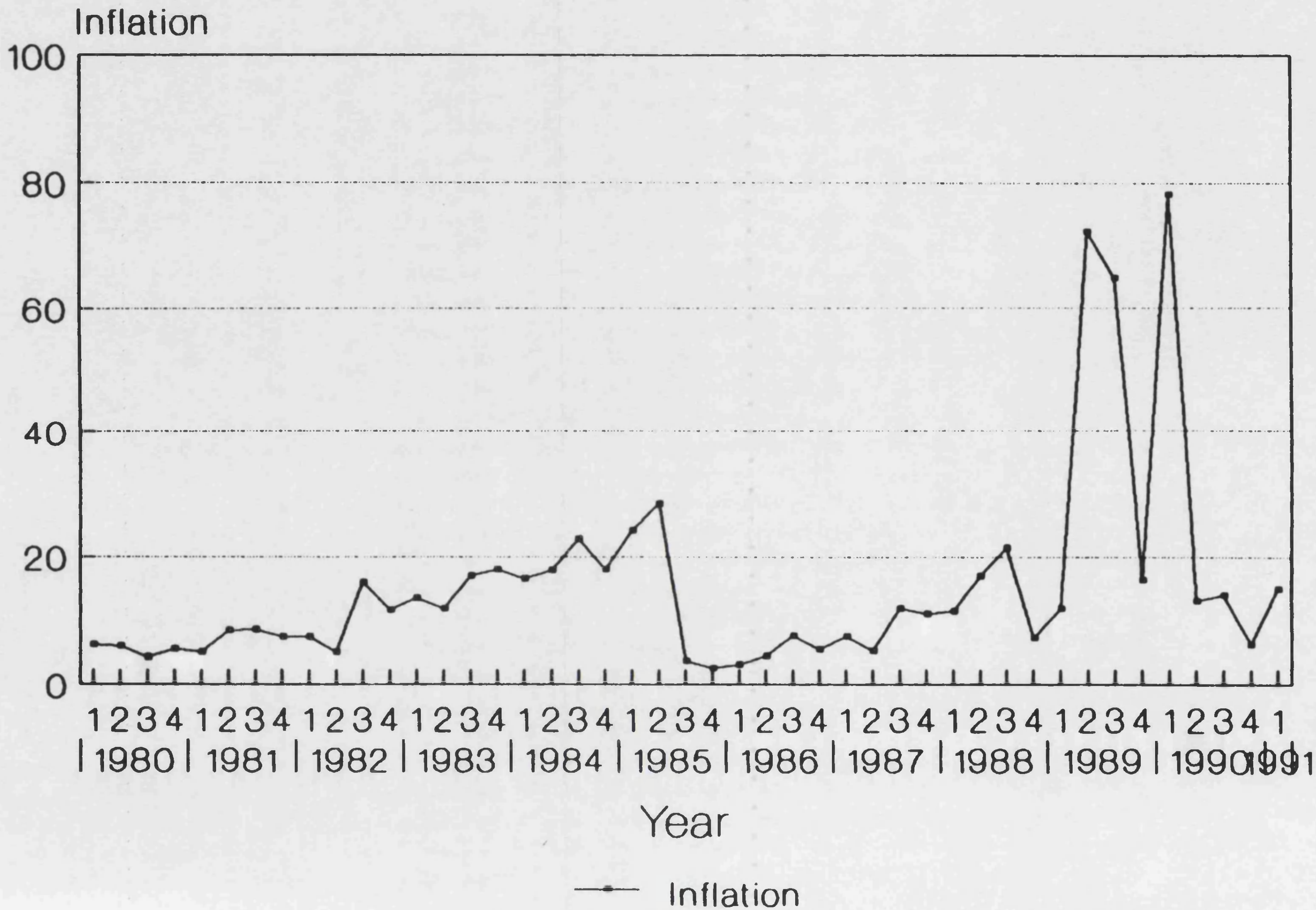
Agrentinian labour conflicts, 1985-90, by semester.



Source: Palomino,H. 1985-91

FIGURE III.2.:

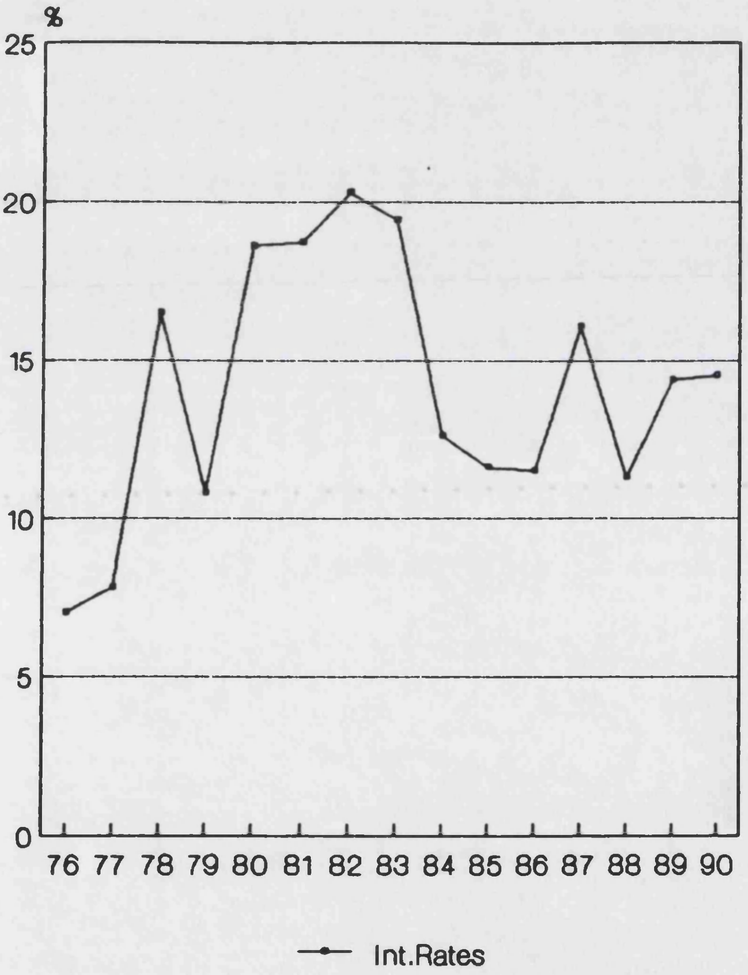
Argentinian monthly inflation rates, 1980-91, by quarter year.



Source: UN data.

FIGURE IV.1.:

Spanish interest rates: Money Market Rate, 1976-90.



Source: IMF Statistics.

FIGURE IV.2.:
EC interest rates, 1985 and 1990.

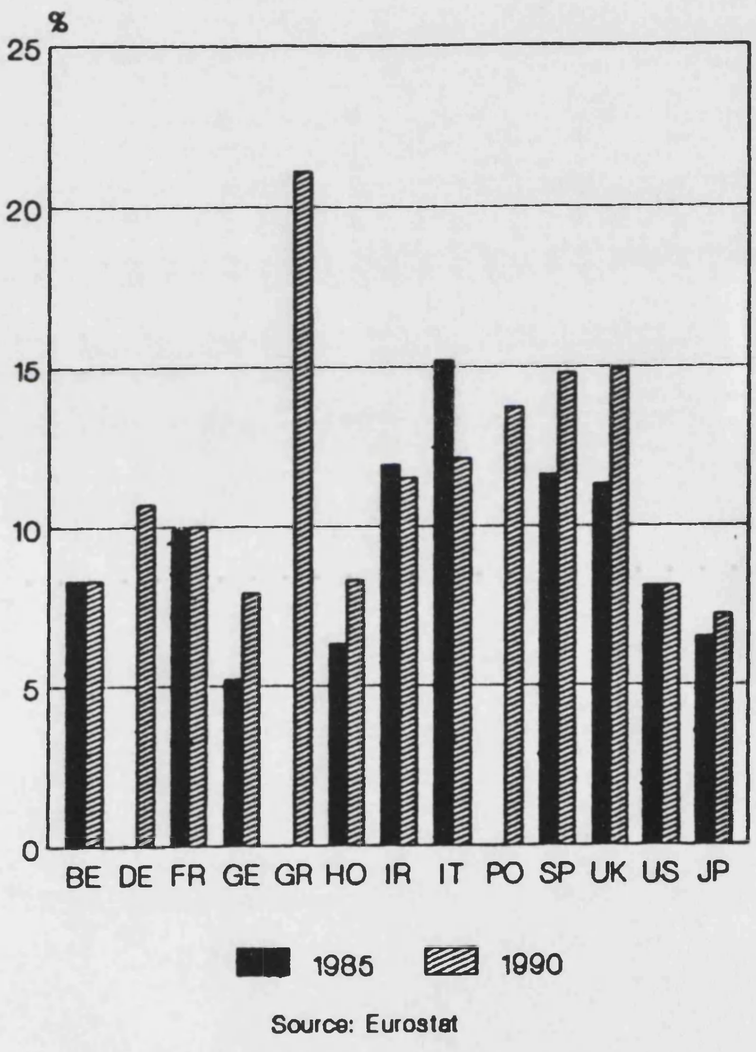
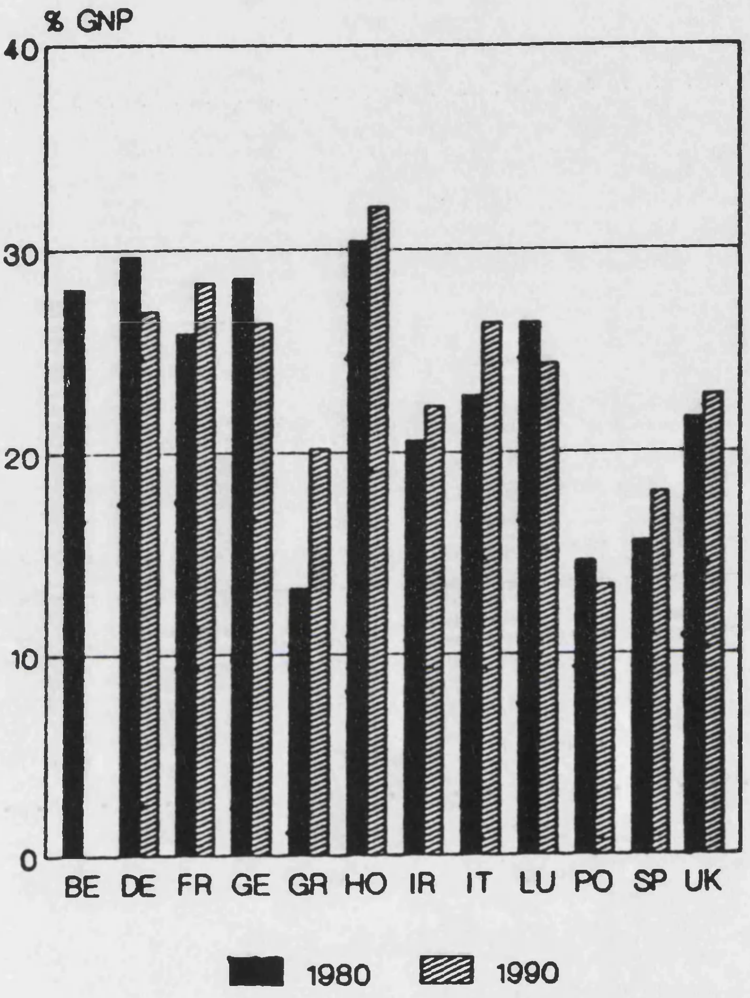


FIGURE IV.3.:

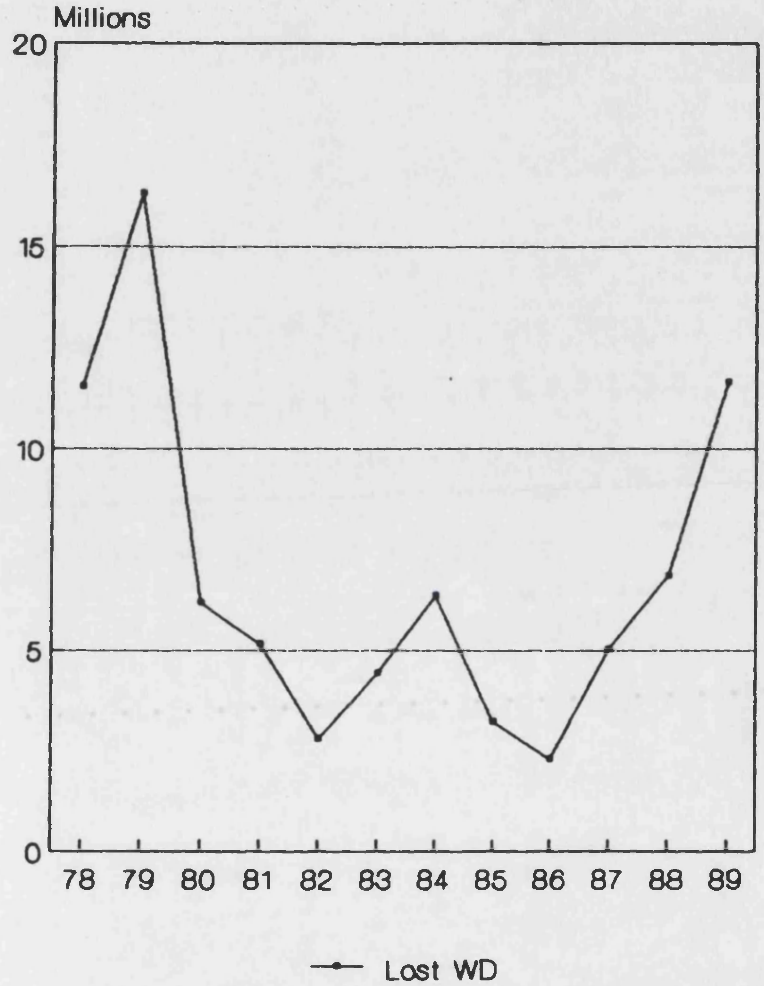
Social expenditures in the EC, in percentage of GNP.



Source: Commission EC.

FIGURE IV.4.:

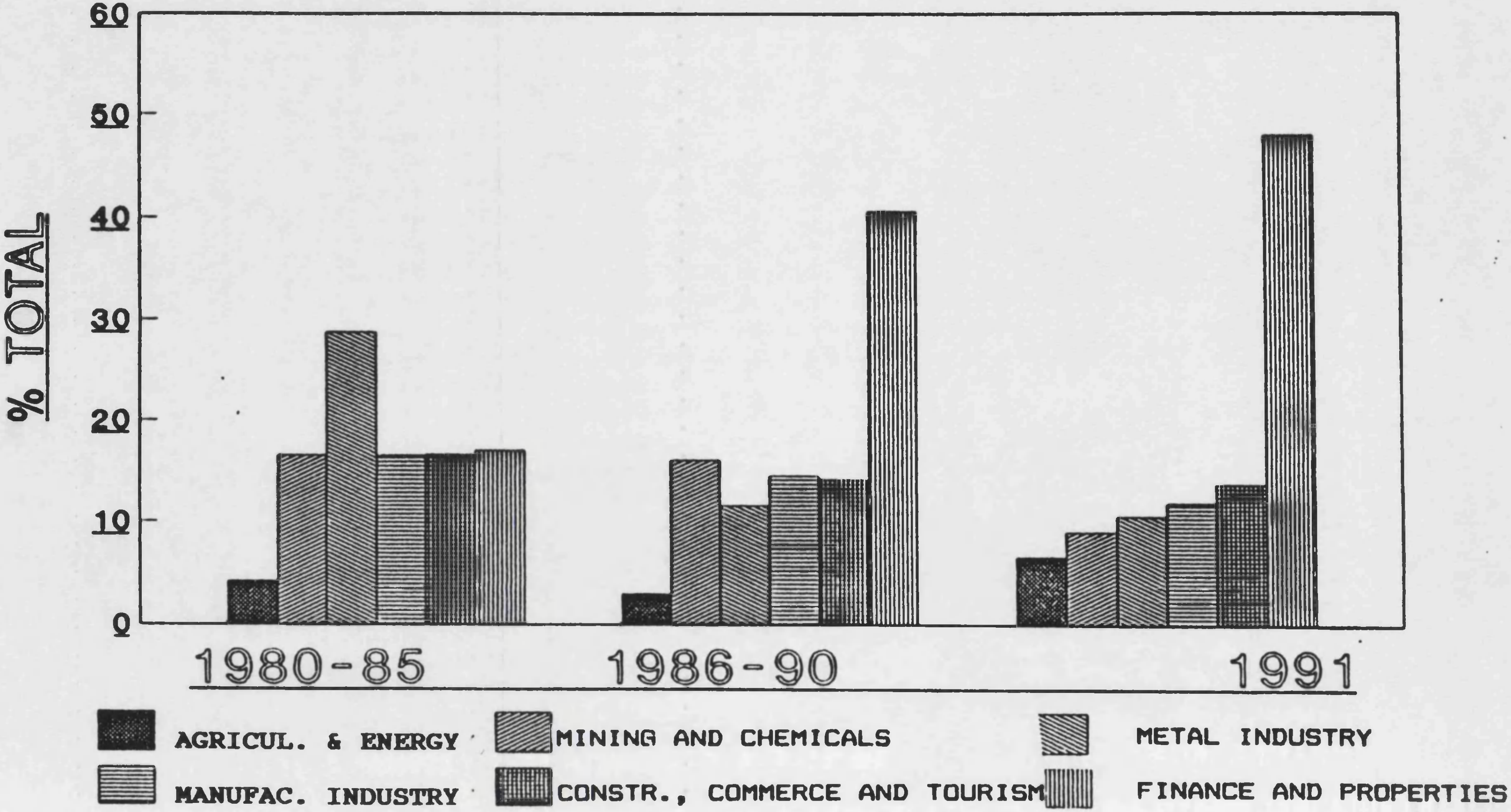
Spain: labour conflicts, in lost working days, 1978-89.



Source: Espina,A. 1991

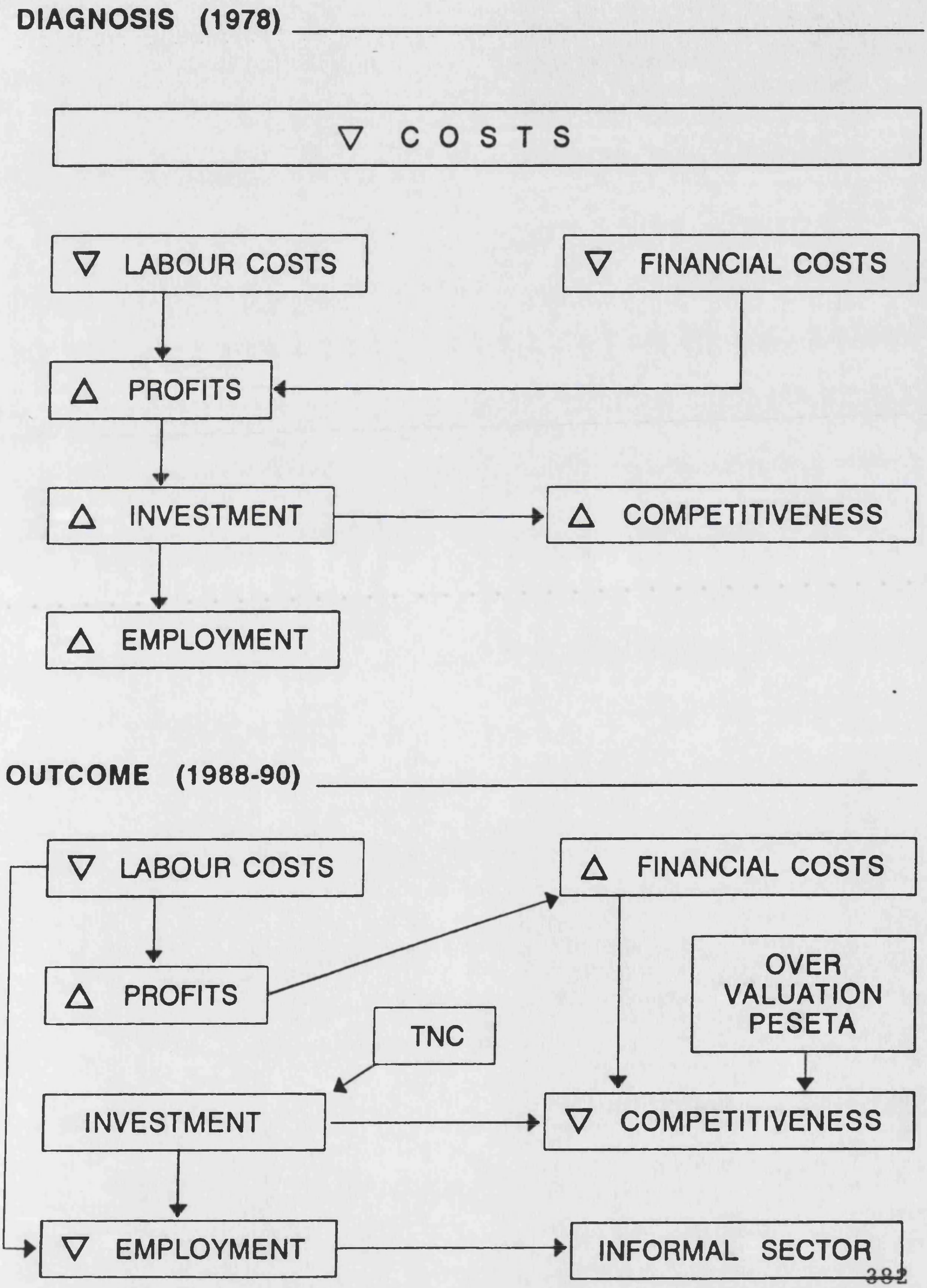
FIGURE IV.5.:

Sectoral distribution (%) of foreign direct investment in Spain, 1980-91.

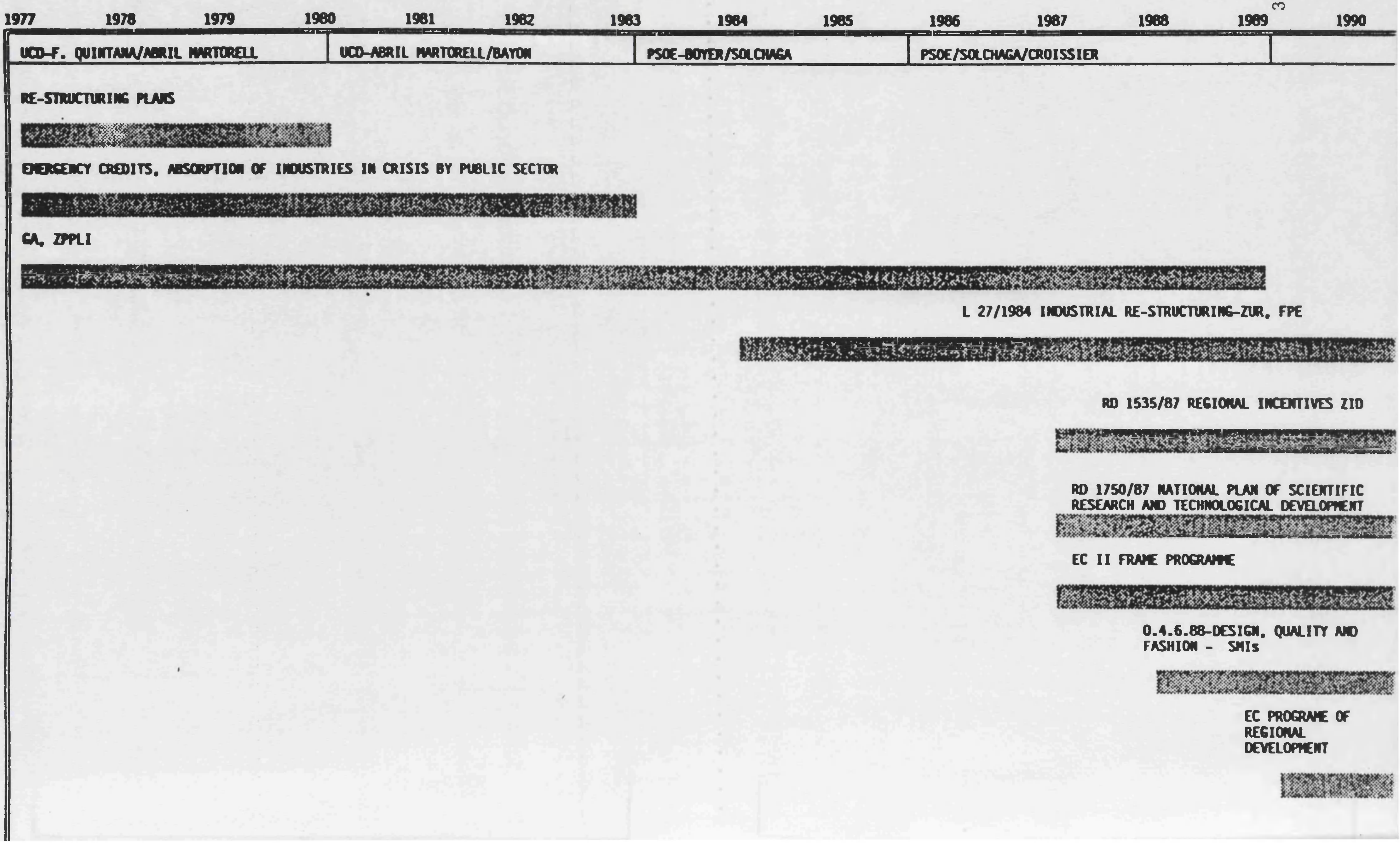


Source: Secretaria de Estado de Comercio.

Figure V.1. : DIAGNOSIS AND OUTCOME OF SPANISH INDUSTRIAL POLICY. 1977-1990



Industrial policy in Spain, 1977-90.



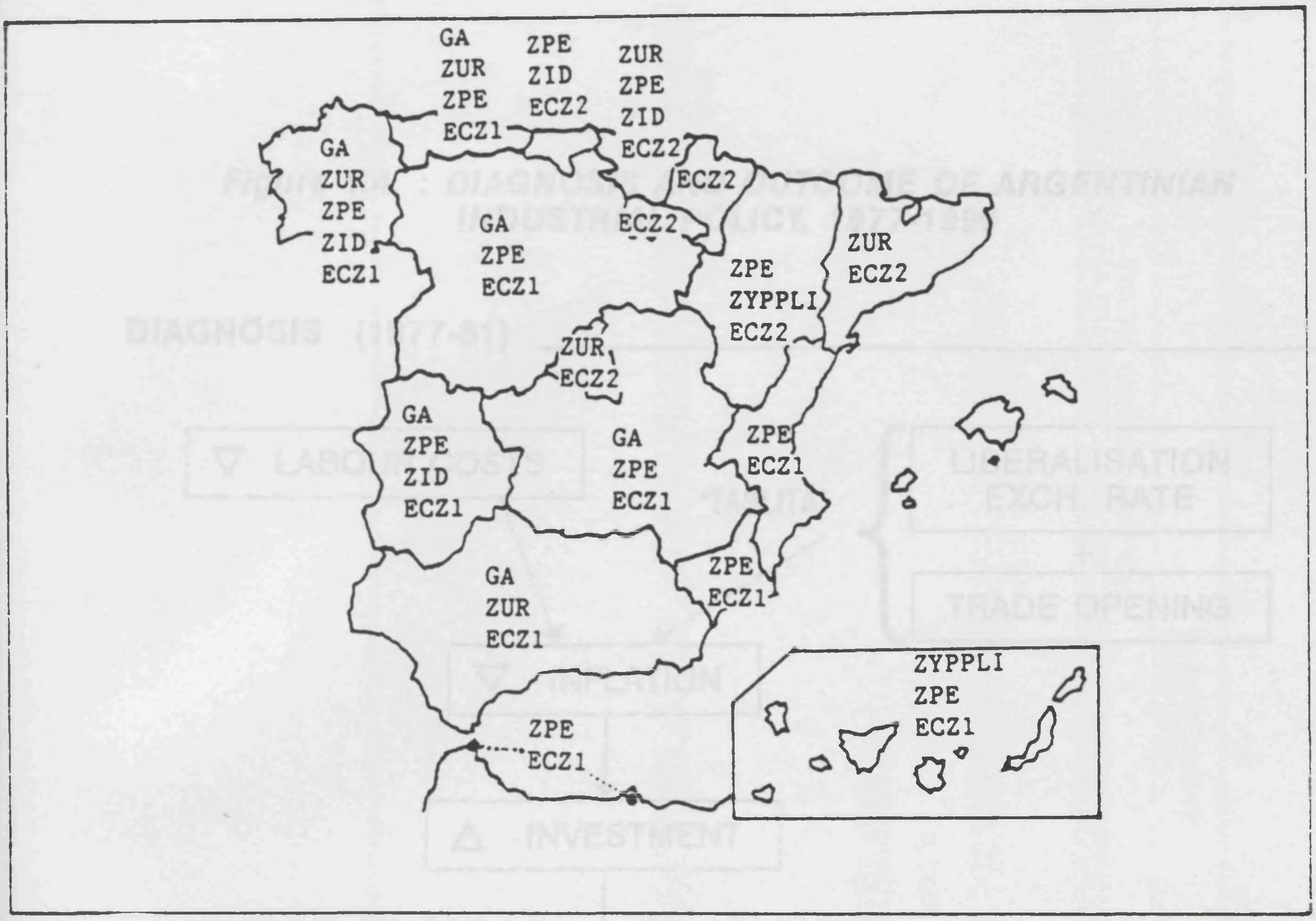


FIGURE V.3.:

Argentina and Spain: regional distribution of industrial incentives, 1977-90.

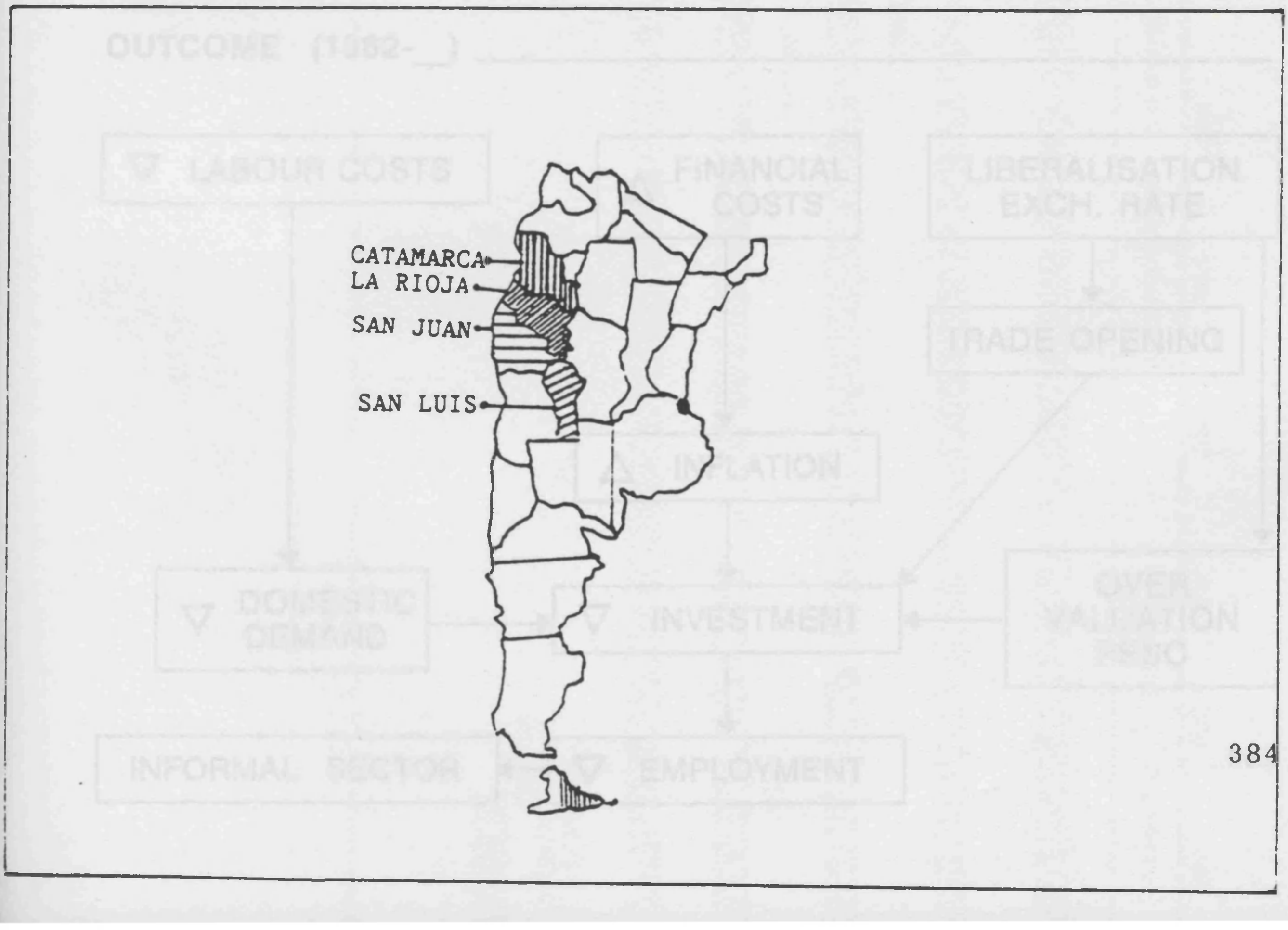
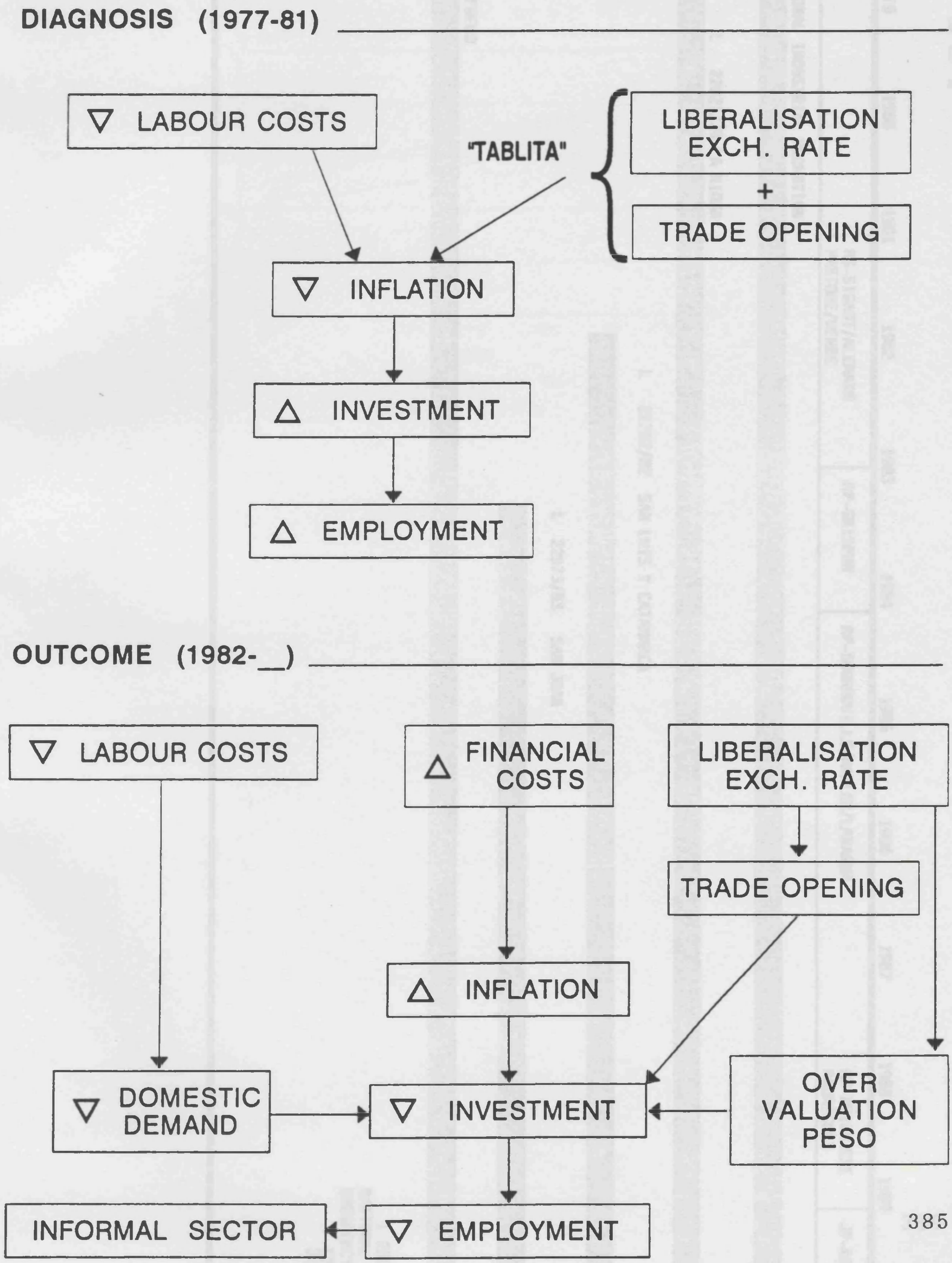


Figure V.4. : DIAGNOSIS AND OUTCOME OF ARGENTINIAN INDUSTRIAL POLICY. 1977-1990



Industrial policy in Argentina, 1977-90.

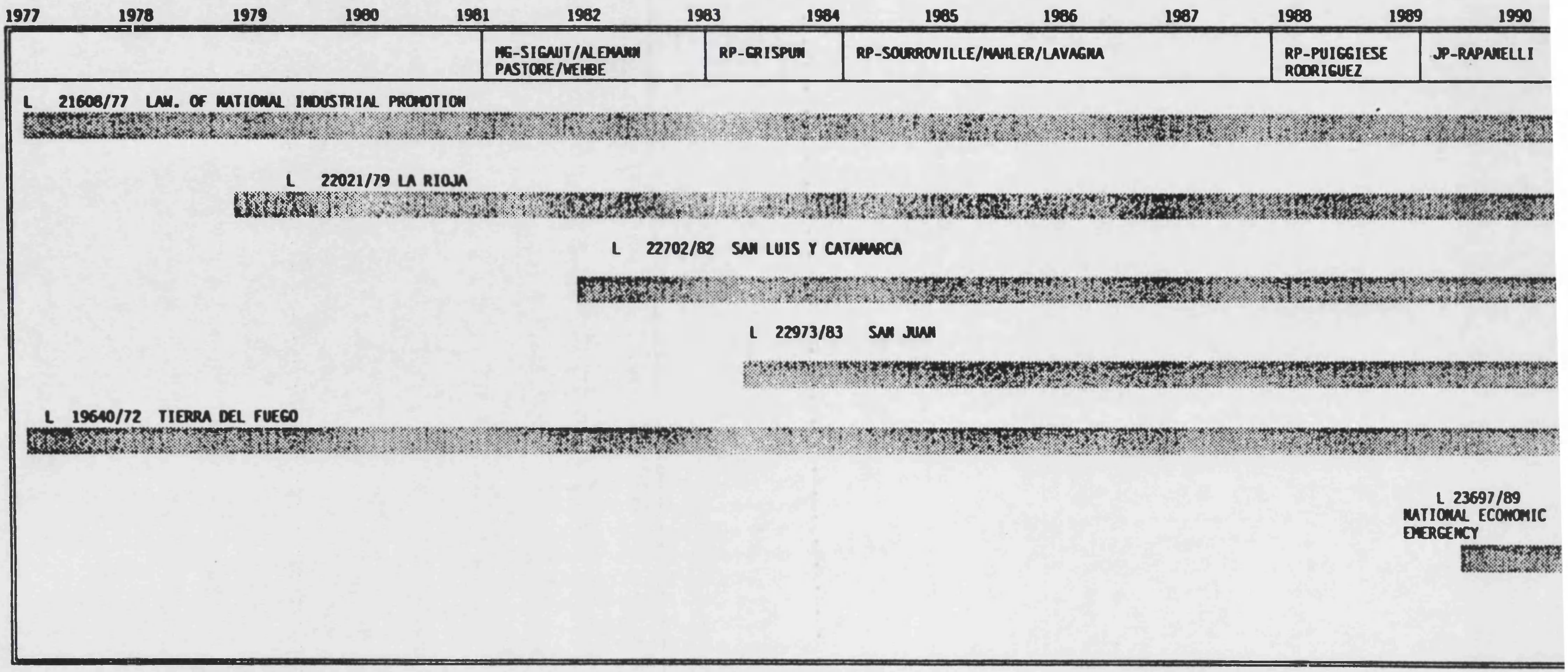
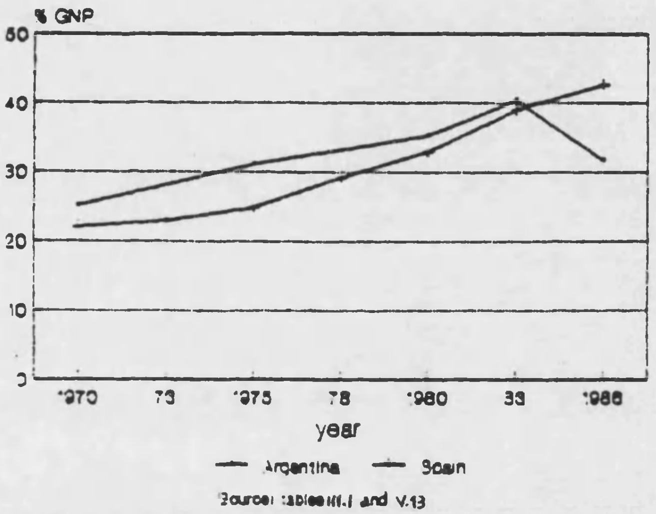


FIGURE V.6.:

Argentinian and spanish public sector expanding in percentage of GNP.



LIST OF ACRONYMS

A:	Austral (Unit of Argentinian currency, subsituted the peso [$] after the Austral heterodox anti-inflationary programme, 1985).
ADEBA:	Asociación de Empresas Bancarias Argentinas (Banking Association, Argentina).
ADIMRA:	Asociación de Industriales Metalúrgicos Argentinos (Argentinian Metalwork Enterpreneurs Association).
ADITA:	Asociación de la Industria Textil Argentina (Textil Enterpreneurs Association, Argentina).
AES:	Acuerdo Económico y Social (Social and Economic Agreement, 1985-86, Spain)
AI:	Acuerdo Interconferencial (Interconferential Agreement, 1983, Spain)
AMI:	Acuerdo Marco Interconferencial (Interconferential Framework Agreement, 1981-82, Spain).
ANE:	Acuerdo Nacional sobre el Empleo (National Agreement on Employment, 1982, Spain).
AP:	Alianza Popular (Popular Alliance, Spanish conservative party, later to become PP).
ATE:	Asociación de Trabajadores del Estado (State Workers Association, Argentina).
BCI:	Banco de Crédito Interior (Internal Credit bank, Spain)
BCRA:	Banco Central de la República Argentina (Argentinian Central Bank).
BOP:	Balance of Payments.
CAC:	Confederación Argentina de Comerciantes (Commerce Association, Argentina).
CACON:	Confederación Argentina de Construcciones y Obras Nacionales (Building Works Association, Argentina).
CAP:	Common Agricultural Policy.
CAUCE:	Argentinian-Uruguayan Agreement on Economic Cooperation
CCOO:	Comisiones Obreras (Workers Commission, Spain).
CDS:	Centro Democratico y Social (Social-Democratic Center Party, Spain, previosly UCD).
CDTI:	Centre for Technological and Industrial Development, Spain.

CEDES: Center for the Study of the State and Society, Argentina.

CES: Consejo Económico y Social (Social and Economic Council, Spanish State Social Bargaining Organisation)

CES: Conferencia Económica y Social (Social Pact 1985, Argentina).

CIEEP: Center of Research and Studies on the Enterprise, Buenos Aires, Argentina.

CGT: Confederación General de Trabajadores (General Union of Workers, Argentina).

CREAs: Consorcios Rurales de Experimentación Agrícola (Rural Councils for Agricultural Research, Argentina)

EC: European Community.

ECLA: Economic Commission for Latin America (United Nations)

ECSC: Euroepan Coal and Steel Community.

EFTA: European Free Trade Area.

EMS: European Monetary System.

FDI: Foreign Direct Investment.

FGD: Fondo de Garantía de Depósitos (Deposit Guarantee Fund, known as the banks' hospital, Spain)

FM: Factorías Militares (Holding of Military Enterprises, Argentina).

FONAVI: Fondo Nacional para la Vivienda (National Housing Fund, Argentina).

FONIT: Fondo Nacional para la Infraestructura del Transporte (National Fund for Transport Infrastructure, Argent.)

FPEs: Funds for the Promotion of Employment (Spain).

GA: Grandes Areas (Large Areas for re-industrialisation, Spain).

GATT: General Agreement on Tariffs and Trade

G-5: Group of five (US, France, UK, W.Germany and Japan).

IDB: Interamerican Development Bank

IDES: Instituto de Desarrollo Económico y Social, Argentina (Institute for Social and Economic Development).

IMF:	International Monetary Fund.
IMPI:	Instituto de la Pequeña y Mediana Industria (Institute for Small and Medium Sized Industrial Business, Spain)
INEM:	Instituto Nacional del Empleo (National Institute of Empoyment, Spain).
INI:	Instituto Nacional de la Industria (National Industrial Institute, Spanish version of the Italian IRI).
INTA:	Instituto Nacional de Tecnología Agropecuaria (National Institute of Agrofood Technology, Argentina).
ISI:	Import Substitution Industrialisation.
L.:	Law (Prefix to Argentinian and Spanish Laws).
LAFTA:	Latin American Free Trade Association.
LAIA:	Latin American Integration Association.
LDCs:	Less Developed Countries
LIBOR:	London Interbank Offer Rate.
ME:	Ministry of Economy.
MERCOSUR:	South American Common Market.
MFA:	Multifibre Agreement.
MINER:	Ministerio de Industria y Energía (Ministry of Industry, Spain).
NAFTA:	North American Free Trade Association.
NTBs:	Non-Tariff Barriers.
O.:	Order (prefix to Spanish laws)
OIT:	Iberoamerican Labour Organisation.
PC:	Partido Comunista (Spanish Communist Party).
PP:	Partido Popular (Popular Party, Spain, previously AP).
PSOE:	Partido Socialista Obrero Espanol (Spanish Workers' Socialist Party).
Pta:	Peseta (Unit of Spanish currency).
RD:	Royal Decree (prefix to Spanish laws).
SF:	Santa Fe Documents (SFI dated 1980, SFII dated 1988) (US Republican Foreign Policy manifests towards Latin

America)

SICE: Secretaria de Industria y Comercio Exterior (Ministry of Industry and External Trade, Argentina)

SMEs: Small and Medium Enterprises.

SRA: Sociedad Rural Argentina (Association of Rural Enterpreneurs, Argentina).

TNCs: Transnational Corporations.

UCD: Union de Centro Democratico (Democratic Centre Coalition, Spain, later to become CDS).

UGT: Union General de Trabajadores (Gneral Union of Workers, Spain).

UIA: Unión Industrial Argentina (Association of Argentinian Industrialists).

UN: United Nations.

UOM: Unidad de Obreros Metalúrgicos (Metal Workers Union, Argentina).

WB: World Bank.

ZID: Zonas Industriales en Declive (Declining Industrial Zones, Spain).

ZPE: Zonas de Promoción Económica (Economic Promotion Zones, Spain).

ZYPPLI: Zonas y Polígonos Industriales Preferentes (Preferential Zones and Industrial Complexes, Spain).

ZUR: Zonas de Urgente Industrialización (Urgent Reindustrialisation Zones, Spain).

INTERVIEWS[1]

ALCANTARA,M.	Senior Lecturer Faculty of Politics Universidad Complutense de Madrid and Research Felow University of North Carolina (US) [several meetings 7/90 to 8/93]
AMASANTI,A.	Manager of SEVEL (Fiat/Peugeot Argentina) [5/91]
AZPIAZU,D.	Economist Industrial Development Area, United Nations ECLA Delegation, Argentina [6-7/91].
BASUALDO,E.	Economist, Researcher at ATE (State Workers Association, Argentina) and at FLACSO (Facultad Latino Americana de Ciencias Sociales) Buenos Aires [5/91]
BATALLER,F.	Principal Administrator, Directorate-General External Relations DG I, Commission of the European Communities, Brussels [several meetings 10/92-3/93]
BISANG,R.	Economist Industrial Development Area, United Nations ECLA Delegation, Argentina [several meetings 3-7/91]
BOGO,J.	Chamber of Commerce of Argentinian Agrobusiness [5/91]
BUESA,M.	Director department Industrial Economics at Universidad Complutense de Madrid [11/91]
CALCAGNO,E.	Director OIT (Iberoamerican Labour Organisation) Buenos Aires [6/91]
CANITROT,A.	Economist, Instituto Guido di Tella Buenos Aires [5/91].
CAVAROZZI,M.	Politologist, Lecturer at the Massachussets Institute of Technology (US). [Madrid, 11/90]
COLOMBO,E.	Director of ADITA (Textil Enterpreneurs Association) and Member of Parlament, Buenos Aires [several meetings 5-6/91]
CUEVAS,J.M.	President of the CEOE (Spanish Enterpreneurs Association) [11/90]
D'ALESSIO,N.	Senior Lecturer Sociology Deptament University of Göttingen (Germany) [several meetings in Buenos Aires 5-6/91]
DASSO,I.	Director of ADEFA (Argentinian motorcar industry association) [5/91]

[1] Month and year of the meeting are in braquets []

DE JONG,M. Secretaire Commerciel of the Argentinian Trade Department Delegation in Brussels [3/93]

DE RIZ,L. Senior Researcher at the Politics Unit at CEDES, Buenos Aires [4/91]

DIAZ-PEÑA,M. President of the Consejo Económico y Social of Madrid (Social and Economic Council, State Social Bargaining Center). [8/92]

FANELLI,J.M. Economics Unit of CEDES, Buenos Aires [several meetings 3-7/91; also in London 3/92]

FERRER,A. Economist at CEC and IDES (Instituto de Desarrollo Económico y Social, Argentina) [4/91]

FRENKEL,R. Director of the Economics Unit of CEDES, Buenos Aires [several meetings 3-7/91]

FUENTES-QUINTANA,E. Ex-Minister of Economy of Spain (1977-79), Director of the FIES Foundation [11/91]

GOLBERT,L. Politologist, senior researcher at CIEEP, Buenos Aires [several meetings 3-7/91]

GRANDI,D. Sub-director IRELA (Instituto de Relaciones Europa-América Latina, Spain) [12/90]

GUTIERREZ-COBOS,D. Manager INI (National Institute of Industry) [11/90]

ITURRIETA,A. Director of Síntesis (Spanish Journal of Latin American Studies) [several meetings 12/90 and 11-12/91]

KENTIS,H. Coordinator of the steel department at the Secretary of Industry SICE, Buenos Aires [5/91]

KONIECKI,D. Director of the Ebert Foundation Spain, [several meetings 7/90, 12/90, 11-12/91]

KOSACOFF,B. Director Industrial Development Area of United Nations Argentinian Delegation [several meetings 3-7/1991 in Buenos Aires, 9/92 Los Angeles (US) and 8/93 in Madrid].

LAGO-CARBALLO,A. Diplomatic School of Madrid, previous vice-Minister of Education (1980-82) and Senior Lecturer in Latin American Political Regimes at Universidad Complutense of Madrid (1963-80) [several meetings 11/90 to 8/93]

LANDABASO,M. Principal Administrator Directorate-General for Regional Policies DG XVI, Commission of the European Communities, Brussels [2/93]

MALO-MOLINA,J. Studies ans Prospectives Department, the Central Bank of Spain [12/90]

MARTINEZ-QUIJANO,A. Director FPT (Fundación Fomento y Trabajo), Buenos Aires [6/91]

MOLERO,J. Lecturer Department Industrial Economics at Universidad Complutense de Madrid [several meetings 11/91 to 8/93]

PALOMINO,H. Researcher at CISEA, Buenos Aires [several meetings 3-7/91]

ROJO,H. Trade Unionist UOM (Unión Obrera Metalúrgica, Argentina) [6/91, meeting of the non-governmental base unions in the ACINDAR factory of Villa Constitución]

ROZENWURCEL,G. Economics Unit of CEDES, Buenos Aires [several meetings 3-7/91]

RUIZ-GIMENEZ,G. Spanish MP at the European Parliament Strassbourg [meetings in Madrid 12/90 and 11/91, Strassbourg 1/93]

RUSSELL,R. Politologist, Lecturer and Researcher at FLACSO, Buenos Aires [several meetings 3-5/91]

SALERNO,H. Coordinator of the motorcar industry department at the Secretary of Industry of the Argentine SICE [5/91]

SCHWARTZER,J. Director of Research at CISEA, Buenos Aires [6/91]

STORIANI,F. Member of Parliament Radical Party, Argentina [several meetings Madrid 7/90, Buenos Aires 5/91 and London 3/92]

TRAMUTOLA,I. Member of the directive board of SIDERCA (Argentinian Steel Company) [5/91]

TUSSIE,D. Economist, Lecturer and Researcher at FLACSO, Buenos Aires [4/91]

Van CLAVEREN,A. Senior researcher at AIETI (Agencia Internacional de Estudios sobre Iberoamérica) and functionary of the Chilean Foreign Office [several meetings, Madrid 7/90 and 12/90]

VELARDE,J. Economist, professor Economic Structure Department at Universidad Complutense de Madrid [12/90]

YAGÜE,M.J. Economist, Studies Service MINER (Spanish Ministry of Industry) [4/92]

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