

**Globalisation and State Power: Political and Economic Reform in  
Argentina, 1989-1995**

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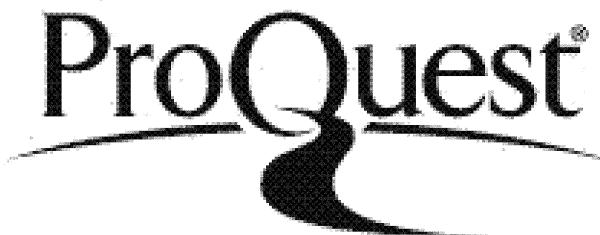


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## Abstract

The thesis examines the process by which sustained reform became possible in Argentina between 1989 and 1995 after some fifty years of cyclical crisis and ungovernability. It argues that the first administration of Carlos Menem broke the earlier ‘logic’ of Argentine politics, characterised by the suffocation of economic policy coherence by organised political interests. What needs to be explained, in this light, is not why reform happened in Argentina (- this is explained readily with reference to the crisis of 1989), but rather how it was *sustained*. The central contention is that the consolidation of reform can be explained convincingly with reference to international influences from around 1991/2 onwards. These influences are identified as (a) globalisation, (b) conditionality, and (c) regionalisation. In this way, the theoretical agenda of the thesis feeds into the study of International Political Economy and the prevalent debates in the study of globalisation.

The international influences on change at the domestic level worked in two ways. First, they acted to ‘rescue’ the Argentine state from its conditions of crisis in the late 1980s by providing the political and economic space for a radical reform of both the economy and society. Second, the consolidation of this restructuring process was achieved from 1991/2 onwards through the ‘internationalisation’ of the state, which led to significant changes in the nature of state power. The impact of the three dimensions of international influence generated a ‘paradox of state power’, in which the state became simultaneously more and less ‘powerful’: while its autonomy diminished in the international context in terms of the available policy options, there was a marked increase in its autonomy in the internal arena vis-à-vis domestic political and economic actors. The result was an opportunity for the *consolidation* of the government’s political and economic reform agenda in Argentina.

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## **List of Acronyms and Abbreviations**

ABEIP	Argentine-Brazilian Economic Integration Programme
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BCRA	Central Bank of the Republic of Argentina Banco Central de la República Argentina
CET	Common External Tariff
CGE	General Economic Confederation Confederación General Económica
CGT	General Labour Confederation Confederación General de Trabajo
CCM	Mercosur Trade Commission Comisión de Comercio del Mercosur
CMC	Common Market Council Consejo del Mercado Común
CNCE	National Commission for External Trade Comisión Nacional de Comercio Exterior
COSENA	National Security Council Consejo de Seguridad Nacional
CPC	Joint Parliamentary Commission (of the Mercosur) Comisión Parlamentaria Conjunta (del Mercosur)
CPE	Comparative Political Economy
CTA	Congress of Argentine Workers Congreso de Trabajadores Argentinos
DEE	Economic Deregulation Decree Decreto de Deregulación Económica
DINIE	National Directorate of State Industry Dirección Nacional de la Industria Estatal
DJNI	Sworn Declaration of the Need to Import Declaración Jurada de la Necesidad de Importar
EBRD	European Bank for Reconstruction and Development

EC	European Community
ECLAC	Economic Commission for Latin America and the Caribbean
EFF	Extended Fund Facility
ENTel	National Telecommunications Company
	Empresa Nacional de Telecomunicaciones
ESW	Economic and sector work
EU	European Union
FCES	Economic and Social Consultative Forum
	Foro Consultativo Económico y Social
FDI	Foreign direct investment
FREPASO	Frente del País Solidario
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GMC	Common Market Group
	Grupo Mercado Común
IAPI	Argentine Trade Promotion Institute
	Instituto Argentino de la Promoción Industrial
IDB	Inter-American Development Bank
IFI	International financial institution
IMF	International Monetary Fund
INTA	National Institute of Agrarian Technology
	Instituto Nacional de la Tecnología Agraria
IPE	International Political Economy
IR	International Relations
ISI	Import-substituting industrialisation
LEE	Emergency Economic Law
	Ley de Emergencia Económica
MDB	Multilateral development bank
MERCOSUR	Southern Cone Common Market
	Mercado Común del Sur
NAFTA	North American Free Trade Area
NGO	Non-governmental organisation

NTB	Non-tariff barrier
PAN	National Food Programme
	Programa Alimenticio Nacional
PJ	Justicialist (Peronist) Party
	Partido Justicialista
QR	Quantitative restriction
RDB	Regional development bank
SAM	Administrative Secretariat
	Secretaría Administrativa
SDR	Special Drawing Rights
SOE	State-owned enterprise
SRA	Argentine Rural Society
	Sociedad Rural Argentina
TNC	Transnational corporation
TPL	Trade policy loan
UCR	Civic Radical Union (Radical Party)
	Unión Cívica Radical
UIA	Argentine Industrial Union
	Unión Industrial Argentina
UN	United Nations
WTO	World Trade Organisation
YPF	Yacimientos Petrolíferos Fiscales

## Chapter 1

### Introduction

Along with governments in many other Latin American countries, the first Menem administration in Argentina is associated with the successful implantation of economic neoliberalism in a situation of political democracy. Between 1989 and 1995, the government implemented a programme of structural reform that achieved the unilateral liberalisation of the economy and its full insertion into the international economic system. As a result, the Menem administration was the first in the post-war period to have eliminated the persistent inflationary spiral and the recurrent fiscal crises that had characterised the Argentine political economy.

At the same time, the government implemented a restructuring of the political arena, which involved the dismantling of the corporatist system of interest representation constructed over the preceding forty years. The result was a fundamental reorganisation of political interests and a significant centralisation of political power. As such, the process of political reform in Argentina changed the nature of political power as well as its distribution and created a concentration of state power at the expense of those societal interests that formerly had exercised a significant veto power over the political process.

The situation of economic and political crisis of the late 1980s explains why such reform processes were implemented from 1989 and also how the Menem government was able to implement these measures in a political system which had long been characterised by economic crisis, entrenched social interests and ungovernability. The hyperinflationary crisis opened the space in Argentina for the government to “craft new relationships between state and economy and to redefine relationships of power and accountability with society”.<sup>1</sup> Crisis, in this sense, has the effect of discrediting the policy orientations of the previous administration and orients public support towards the incoming government and its attempts to resolve the situation.<sup>2</sup>

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<sup>1</sup> Merilee S. Grindle: *Challenging the State: Crisis and Innovation in Latin America and Africa* (1996), pg 4.

<sup>2</sup> John T.S. Keeler: “Opening the Window for Reform: Mandates, Crisis and Extraordinary Policymaking”, *Comparative Political Studies* 25, 4, January 1993.

Moreover, in the specific context of Argentine and Latin American development history, the economic crisis represented the exhaustion of the alternative development models that had dominated the post-war period. The crisis constituted and, more importantly, was *seen* to constitute the complete delegitimisation of the inward-looking and heterodox economic strategies described in Chapter 2.<sup>3</sup> Although there was no definitive formulation in society of preferences for alternatives, by the start of the Menem government there was an awareness of the need for change that pushed the door at least half-open for the incoming administration. Because of the general perception that any alternative was an improvement on the status quo, the discrediting of the existing economic order provided Menem with a room for manoeuvre that had not been available to the outgoing Alfonsín administration.<sup>4</sup> As such, therefore, the crisis created the conditions in which a recognition of the exhaustion of previous policy models and the need for drastic action generated widespread willingness to tolerate the costs of structural reform.

The most crucial element in the early popularity of the Menem government related to the elimination of hyperinflation.<sup>5</sup> In short, if Menem was able to promise stability at a time when it was needed more than anything else, then the acquiescence of the electorate and the popularity of the Menem government in the early 1990s becomes easier to understand. The effect of hyperinflation in significantly diminishing expectations in society muted the dangers of immediate reaction against the negative costs of adjustment. Together with the perception of

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<sup>3</sup> For an overview of the adoption of heterodox strategies in the 1980s and their position relative to other development alternatives, see Miles Kahler: "Orthodoxy and its Alternatives: Explaining Approaches to Stabilization and Adjustment" in Joan M. Nelson (ed.): *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (1990).

<sup>4</sup> Pablo Gerchunoff & Juan Carlos Torre: "La Política de Liberalización Económica en la Administración de Menem", *Desarrollo Económico* 36, 143, Oct-Dec 1996 (pp. 737-8).

<sup>5</sup> See George Philip: "New Economic Liberalism and Democracy in Spanish America", *Government and Opposition* 29, 3, 1994 (pg 364); Pamela K. Starr: "Government Coalitions and the Viability of Currency Boards: Argentina under the Cavallo Plan", paper presented to the 37th Annual Convention of the International Studies Association, San Diego, 16-20 April 1996. For more detailed discussions of support for market reforms, see Fabián Echegaray: "Understanding Support for Free-Market Policies in Argentina", *International Journal of Public Opinion Research* 5, 4, 1993; Mario F. Navarro: "Democracia y Reformas Estructurales: Explicaciones de la Tolerancia Popular al Ajuste Económico", *Desarrollo Económico* 35, 139, Oct-Dec 1995; and Carlos H. Acuña & William C. Smith: "The Political Economy of Structural Adjustment: The Logic of Support and Opposition to Neoliberal Reform" in William C. Smith, Carlos H. Acuña & Eduardo A Gamarra (eds.): *Latin American Political Economy in the Age of Neoliberal Reform: Theoretical and Comparative Perspectives for the 1990s* (1994).

the exhaustion of traditional economic models and the recognition of the need for change, then, this lowering of expectations opened the way for radical and innovative reform strategies on the part of the state.

However, the limitations of any explanation based purely on crisis are immediately apparent. The logic of Argentine politics, as well as the implications of an analysis based on the politics of crisis, suggest that with the elimination of hyperinflation and the recovery of the economy from 1991 onwards we would have expected to see the resurgence of political pressures on the system with the same results as previously. Rather, the reverse appears to have happened. In 1989-90, unions, business and the military mounted quite stiff opposition in various ways, and on various occasions throughout the first Menem administration, relations between the government and these sectors (including business) were marked by tension and conflict. Similarly, between 1989 and 1991 inflation persisted and economic performance had started to dwindle. The hyperinflationary episode of 1990, furthermore, was significant enough to call into question the political survival of the President. The subsequent consolidation of reform therefore highlights the shortcomings of crisis as the basis for an explanation of reform in Argentina.

Prior to 1991, Argentina had consistently abandoned market-oriented reform after two or three years, as Chapter 2 demonstrates. The political and economic events of the 1989-1991 period, in addition, demonstrate many of the hallmarks that might be associated with a reproduction of this pattern. Therefore, the achievement of the Menem government is *not*, as most of the literature would suggest, the implementation of reform, but rather its consolidation. There was a very strong impression in 1989 that this would be another in a chain of post-war reform attempts that collapsed after a couple of years. Chapter 2 demonstrates that these disintegrated largely as a result of the resurgence of political pressures which led to the consistent relegation of coherent economic policy in favour of a political logic which stemmed from the nature of interests and state-society linkages in this period. As such, Menem disrupted in an apparently quite permanent way the 'logic' of Argentine political economy. What is fundamentally new about the Menem period, furthermore, is the phenomenon of 'increasing returns to power' in which

there is a progressive accretion of political capital. This is the first instance in which market-oriented reform has impacted positively, *and progressively*, on the popularity of a President or government.

The question that needs to be answered, then, is how *sustained and consistent* political and economic reform became possible in Argentina. In other words, what needs to be explained is not why reform happened, but rather why it lasted. It is the intention of the thesis to demonstrate that the answer lies in the nature of international influences and the linkages between the external and domestic settings. The contention is that these influences - identified as (a) globalisation, (b) conditionality, and (c) regionalisation - created the space for a fundamental transformation of the nature of the state and political power in Argentina and, more fundamentally, the *consolidation* of the new economic and political model. The principal mechanism by which this was achieved relates to the 'internationalisation of the state', particularly from 1991 onwards, and to the types of constraints and spaces created by the identified processes of international change.

More specifically, it is the intention to demonstrate that the identified international influences created fundamental changes in the nature of state power in Argentina, giving rise to what may be termed the 'paradox of state power'. On the one hand, the policy-making autonomy of the state is reduced in the international context as a result of the changing structure of rewards and punishments in the globalised international economy. As such, the feasible policy options available to national governments are highly constrained as a result of globalisation and the related dimensions of conditionality and regionalisation. This is then reinforced by precisely those policy measures which are 'demanded' by the imperatives of conformity with the neoliberal policy agenda associated with these types of international change.

On the other hand, this same process has served to strengthen the state and to consolidate state power vis-à-vis societal interests at the domestic level. This has contributed to the development of a highly statist political model that in the early-to mid-1990s allowed very little space for genuine societal participation in the political process. The result, more broadly, was the establishment of a centralised

and ‘exclusionary’ model of state-society relations and the marginalisation of participatory democracy. Clearly the use of the term ‘exclusionary’ here is not intended to suggest parallels between Menem and the exclusionary characteristics of the Pinochet regime in Chile, for example, but rather to indicate the level of insulation of the Argentine state from formerly dominant societal groups, particularly organised interests such as labour. The result was the creation of possibilities for durable and consistent economic reform that did not struggle with the sorts of political pressures that had ensured the failure of previous reform efforts.

### **The Shortcomings of the Literature and the Contribution of the Thesis**

The thesis, therefore, has both an empirical and a theoretical agenda. Observation of the empirical case of Argentina in the 1989-95 period raises interesting and important theoretical questions rooted in the field of International Political Economy (IPE) concerning domestic-international linkages and the impact of globalisation on processes of domestic change. As such, the thesis contributes both to the empirical literature on Argentina and also to the central debates in the field of IPE, but, more importantly, seeks to locate the empirical study of Argentina in the broader theoretical framework offered by several areas of IPE. The contention is that the more subtle questions regarding reform processes during the first Menem administration cannot be understood nor answered without reference to both international influences and theoretical insights from the field of IPE.

Analyses of these reform efforts, as suggested above, consistently fail to address the question of why reform lasted in Argentina. Virtually without exception the literature on Argentina in the 1990s locates the analysis of reform within the parameters of the politics of crisis, which fails to provide a coherent analysis of the political economy of the Menem administration. More generally, however, literature on the Menem administration in Argentina is surprisingly scarce. In the English language there are no books which deal specifically with Argentine political economy in the 1990s. The most sustained and serious Spanish language account of this period can be found in Vicente Palermo and Marcos

Novaro's recent book *Política y Poder en el Gobierno de Menem*, which systematically traces the nature of political and economic change within a broader framework of the links between Menemism and Peronism. There have been some articles on such subjects, as well as a couple of edited volumes, again mainly in the Spanish language, but these have been relatively limited to empirical and descriptive discussions of the nature of changes in the early part of the 1990s.<sup>6</sup> As a result, sources on the most recent years of the Menem administration, particularly, are remarkably hard to find.

Most significantly, there is no example of a sustained analysis of the international influences on domestic change in Argentina, apart from scattered references to the Menem government's need to court the international financial community (as in the Palermo and Novaro volume) and much of the work of Diana Tussie.<sup>7</sup> Foreign policy has received relatively more attention, but this does not serve the purposes of analysing the impact of international influences on the domestic processes of change in Argentina under Menem. This neglect in the study of Argentina, and in the more general literature on reform, is surprising given that the study of the relationship between the international and the domestic has become commonplace in the field of IPE. It has become accepted that "we can no longer understand politics within countries ... without comprehending the nature of the linkages between national economies and the world economy, and changes in such linkages".<sup>8</sup> Given this context and the orientation of the Argentine government's policy agenda, the hole in the literature is glaring.

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<sup>6</sup> See, for example, William C. Smith: "State, Market and Neoliberalism in Post-Transition Argentina: The Menem Experiment", *Journal of Inter-American Studies and World Affairs* 33, 4, Winter 1991; Roberto Bouzas: "¿Más Allá de la Estabilización y la Reforma? Un Ensayo sobre la Economía Argentina a Comienzos de los '90", *Desarrollo Económico* 33, 129, April-June 1993; IRELA: "Argentina en los '90: Avances y Perspectivas durante el Gobierno de Menem" (Dossier 54, 1995) and "La Argentina de Carlos Menem: ¿Del Gobierno de la Crisis a la Crisis del Gobierno? (Dossier 33, July 1991); Atilio Borón et al: *El Menemato: Radiografía de Dos Años de Gobierno de Carlos Menem* (1991); Carlos H. Acuña (ed.): *La Nueva Matriz Política Argentina* (1995).

<sup>7</sup> Particularly "Globalisation and Conditionality: Struggling to Make a Room of One's Own", mimeo, Buenos Aires, March 1997; "Argentina's Big Bang Reform: The Interplay of MDBs and Domestic Actors", mimeo, Buenos Aires, October 1997; "In the Whirlwind of Globalisation and Multilateralism: The Case of Emerging Regionalism in Latin America" in William D. Coleman & Geoffrey R.D. Underhill (eds.): *Regionalism and Global Economic Integration: Europe, Asia and the Americas* (1998)

<sup>8</sup> Helen V. Milner & Robert O. Keohane: "Internationalization and Domestic Politics: An Introduction" in Keohane & Milner (eds.): *Internationalization and Domestic Politics* (1996), pg 3.

The general literature on reform processes in the 1990s is mired either in the analysis of the 1980s debt crisis or alternatively ignores the international dimensions of reform altogether. In early accounts of the politics of adjustment around the turn of the decade, for example, external influences on the reform processes in a variety of developing countries are classed solely as the influences of international financial institutions in promoting structural adjustment and managing the debt crisis.<sup>9</sup> The emphasis, therefore, is on policy dialogue with officials in international institutions rather than on the dynamic processes of change at the international level. Clearly this is a function of the time and context in which these accounts were produced, but given that they constitute the bulk of recent work on reform, this hole is also clearly apparent.

One of the first notable attempts to introduce an element of international influence into studies of reform in developing countries is found in Haggard & Kaufman's edited collection *The Politics of Economic Adjustment*. Barbara Stallings' chapter, for example, identifies three dimensions of international influence: the operation and impact of international markets; the 'ideological' linkages between domestic and external actors; and the question of leverage in power relations between international actors and governments in the 'Third World'.<sup>10</sup> The first concerns the availability of economic resources (principally in the form of finance) and levels of vulnerability to international shocks. The second concerns the linkages between domestic actors such as technocratic groups, business sectors, the military and the middle classes with their counterparts abroad. This is a means of identifying the 'outward orientation' of significant societal and governmental actors, which in turn affects the orientation and nature of policy preferences. The third, predictably, concerns relations between national governments and international financial institutions in the context of structural adjustment and debt management.<sup>11</sup> This chapter is followed by Miles Kahler's

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<sup>9</sup> See, for example, Nelson (ed.): *Economic Crisis and Policy Choice and Fragile Coalitions: The Politics of Economic Adjustment* (1989).

<sup>10</sup> "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform" in Stephan Haggard & Robert R. Kaufman (eds.): *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (1992), pp. 48-9.

<sup>11</sup> *ibid.*, pp. 49-58.

analysis of the external influences of international financial institutions and conditionality in the context of the 1980s.<sup>12</sup>

These two chapters in the Haggard & Kaufman volume raise a number of important issues, but are only limited in their applicability to reform in the 1990s as opposed to the 1980s. For example, Stallings' analysis of the international economy, apart from being outdated, does not take into account the dynamic processes of change such as globalisation and regionalisation which have become dominant. Rather, the analysis is a static assessment of the availability of foreign funds in the context of the debt crisis, and a limited evaluation of indicators of vulnerability. The account of the international linkages of key actors does not consider the ways in which these are converted into concrete policy outcomes nor their engagement with the key policy-making institutions of the state. The analysis of structural adjustment and international institutions, furthermore, is simply outdated for the purposes of analysing conditionality and reform in the later part of the 1990s.

Some more recent studies of neoliberalism or neopopulism in Latin America do emphasise that the possibilities for successful radical reform, contrary to the expectations of institutionalists such as Douglass North<sup>13</sup>, can be explained in part with reference to global factors that now matter far more than historical-structural ones, especially in terms of the limitations on policy choice as a result of globalisation.<sup>14</sup> Other analyses focus on the reinforcing qualities of global change for the establishment of liberal democracy, or the establishment of global capitalist and liberal democratic models.<sup>15</sup> Some of these mention trends in the international political economy such as regionalism: Vacs, for example, has drawn some preliminary attention to what he sees to be the dangerous implications of regionalism for both global capitalism and the maintenance of democratic

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<sup>12</sup> "External Influence, Conditionality, and the Politics of Adjustment" in Haggard & Kaufman (eds.).

<sup>13</sup> *Institutions, Institutional Change and Economic Performance* (1990).

<sup>14</sup> George Philip: "The New Populism in Spanish South America", *Government and Opposition* 33, 1, Winter 1998 (pp. 89-90).

<sup>15</sup> For example, Laurence Whitehead: *The International Dimensions of Democratization: Europe and the Americas* (1996) and Aldo C. Vacs: "Convergence and Dissension: Democracy, Markets and Structural Reform in World Perspective" in Smith et al (eds.): *Latin American Political Economy*.

accountability at the domestic level.<sup>16</sup> Although the thesis (and specifically the analysis in Chapter 6) challenges both of these conclusions, this sort of consideration is a welcome exception in the literature.

One other apparently promising edited volume entitled *Más Allá de la Estabilidad: Argentina en la Época de la Globalización y la Regionalización* (After Stability: Argentina in the Era of Globalisation and Regionalisation)<sup>17</sup> starts with an assessment of these two international currents, with the clear intention of locating the discussion of Argentina within this framework. What follows, however, is largely a discussion of economic policy in the 1990s, which in most cases makes little reference to the trends outlined in the Introduction. What the volume does offer is a useful analysis of the changing economic strategies of various groups (such as business and industry) and the development of indicators (such as unemployment) in response to new economic imperative under the Menem government. However, the connection between neoliberal reform and globalisation / regionalisation is never adequately made, although the chapter on Mercosur clearly looks at the impact of the new imperatives for the policies or strategies of various groups. There is certainly no sustained analysis of the interaction of domestic and international processes, nor reference to a coherent theoretical framework as the title suggests. This volume could just as easily be entitled “After Stability: Argentina’s New Economic Model” without losing too much descriptive accuracy.

Other accounts recognise simply that “changes in the international context strongly condition the development options in Latin America”.<sup>18</sup> The particular paper from which this quotation is taken is a prime example of an analysis of reform that sees the study of international influences to be inadequate for explaining the *variety* of responses to a common international environment, and as a result privileges domestic level analysis. Reform is acknowledged to be at least in part a response to changing international circumstances, but this is treated

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<sup>16</sup> Vacs: op.cit., pp. 90-91.

<sup>17</sup> Pablo Bustos (ed.), 1995.

<sup>18</sup> Juan Carlos Torre: “Las Dimensiones Políticas e Institucionales de las Reformas Estructurales en América Latina”, mimeo, Buenos Aires, 1996 (pg 2).

perfunctorily as a contextual backdrop which, as mentioned above, is a common shortcoming in analyses of reform processes.

Nevertheless, although this thesis is concerned principally with the dynamics of external influence of reform processes in Argentina, it accepts the argument that domestic-level analysis remains indispensable and recognises throughout the importance of domestic institutions in mediating and conditioning international influences. It envisions the external influences as shaping and reinforcing processes of change that are fundamentally endogenous in their origins. Therefore, the thesis uses international influence as the principal explanatory variable, but departs from the assumptions (a) that these influences interact in a dynamic way with domestic processes and circumstances, and (b) that these influences are mediated and conditioned through domestic institutional structures. This in turn accounts for the differential impact of globalisation across countries and regions. Although the processes identified in the thesis produce these dynamics throughout the world, the results clearly vary widely. However, the thesis maintains that the impact of international processes of change has been both under-estimated empirically and under-theorised in the literature on policy reform in Latin America and elsewhere. As such, the dimensions of international influence that are outlined in detail below are crucial to an understanding of contemporary processes of domestic change in a more fundamental way than just as contextual backdrops for the empirical observation of the Argentine case.

An improvement on this neglect, and a theoretical springboard for the thesis, is found in the IPE literature, which treats the relationship between the domestic and the international as one of its central problematics. Contemporary literature builds on the traditional debate in international relations theory on the appropriate levels for analysis - the dilemma, for example, between accounts which privilege structure over domestic or 'reductionist' explanations of outcomes - in attempts to examine the *linkages* between domestic and the international politics. Recent work attempts to build on the connections made in the interdependence literature between the international environment and the resulting constraints on countries in order to offer a more sustained analysis of the impact of the

international on domestic *politics*.<sup>19</sup> The thesis, clearly, is located in what might be called the ‘second-image reversed’ approach advocated by Peter Gourevitch which seeks to identify the role of international factors in determining domestic politics.<sup>20</sup>

However, there are a number of holes in the existing IPE literature. The first is that most of the literature on international-domestic linkages focuses on the industrialised countries. The second is that analyses of domestic policy outputs conditioned by the international environment is usually limited to a discussion of economic policy.<sup>21</sup> Most significantly this involves a discussion of tendencies to liberalise national economies in the face of pressures from the international economy. Some recent accounts focus on the construction of coalitions mediated by national institutional structures, but the set of outcomes under analysis remains economic policies, and specifically those internationally-oriented policies such as trade liberalisation.<sup>22</sup>

Third, the IPE literature suffers from a general failure to make the nature of the linkages between the domestic and the international specific. This failure usually stems from an over-rigid classification of dependent and independent variables: the literature rooted in the ‘second image reversed’ perspective treats the international environment as the independent variable<sup>23</sup>, and therefore often falls into the same trap as the comparative political economy (CPE) and reform literature in that it assumes the international environment to be the contextual backdrop, or alternatively a set of constraints within which national policy-makers act. This approach ignores important elements of the *dynamic* interaction of the national and international. To highlight solely the impact of the national on the international, or vice versa, misses important elements of the ways in which this is a process of mutual influence. As we will see, for example, the changes effected at the domestic level by globalisation feed back into the ‘loop’ to create and maintain

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<sup>19</sup> Keohane & Milner (eds.): *op.cit.*

<sup>20</sup> Peter Gourevitch: “The Second Image Reversed: The International Sources of Domestic Politics”, *International Organization* 32, 4, Autumn 1978.

<sup>21</sup> For examples of both of these points, see Helen Milner: *Resisting Protectionism: Global Industries and the Politics of International Trade* (1988); Peter Gourevitch: *Politics in Hard Times: Comparative Responses to International Economic Crises* (1986); Peter Katzenstein (ed.): *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial Countries* (1978) and *Small States in World Markets: Industrial Policy in Europe* (1985).

<sup>22</sup> Jeffry A. Frieden & Ronald Rogowski: “The Impact of the International Economy on National Policies: An Analytical Overview” in Keohane & Milner (eds.).

<sup>23</sup> For example, Frieden & Rogowski: *op.cit.*

the process of globalisation itself. Moreover, this shortcoming stems from a failure to give empirical substance to dominant theories.<sup>24</sup> It is clearly the case that the impact of the international environment will vary between countries, according to a variety of factors which include international institutions. A greater attention to applying relevant theories to specific national contexts will both contribute to a greater specificity when elaborating the nature of international and national linkages, and also to a better *theoretical* understanding of the relationship.

The fourth failing of existing IPE literature, then, is related to the third and stems, it seems, from precisely the same inattention to empirical application. In effect, it is assumed in theoretical analysis that the impact of the international environment on domestic coalition formation is linear and predictable: it is assumed that changes in domestic (economic) preferences shaped by changes at the international level will be “quickly and faithfully” translated into changes in policies and institutional structures. It is assumed that “if one understands which economic interests have gained economic strength, one knows which have gained political power, and in turn how policy is likely to change”.<sup>25</sup> Although, as the thesis shows throughout, there is a certain argument to be made that certain groups in society are favoured by trends in the international economy (such as a privileging of business over labour) and that the relative importance of such groups is often reflected in political arrangements, such an approach ignores important mediating variables at the national level. Apart from some valiant theoretical attempts to model the mediation of institutions between the preferences of domestic actors and internationally-induced change<sup>26</sup>, the hole cannot be filled adequately in the absence of sustained empirical analysis. This observation is not intended to be an advocacy of empiricism over theory. Rather, it is intended to suggest that, at this stage of the theoretical debate, a greater attention to the empirical validity of the central propositions in turn contributes to a fuller theoretical understanding of both domestic-international linkages and the study of IPE more generally.

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<sup>24</sup> A significant exception is the Keohane & Milner volume, but this in turn suffers from an over-emphasis on industrialised countries at the expense of the developing world.

<sup>25</sup> Geoffrey Garrett & Peter Lange: “Internationalization, Institutions and Political Change” in Keohane & Milner (eds.), pg 49.

<sup>26</sup> Garrett & Lange: op.cit.

The first contribution of the thesis, then, is its sustained analysis of the Menem administration and, more importantly, its response to the neglect of the international dimensions of developments in this period. There is no other English language text which performs either of these functions. It supplements the Palermo and Novaro volume and the literature outlined above on reform in Argentina (most of which still exists only in mimeographic form) by its promotion of international influences as the key variables, and also its reformulation of the central question. It constitutes an attempt to explain the consolidation of reform rather than its implementation, given the expectations generated by historical patterns of development and crisis. In addition, the literature on Argentina and reform suffers from a lack of theoretically-grounded analysis, particularly of an IPE orientation. The theoretical agenda of the thesis is precisely to address this shortcoming.

The contribution of the thesis to IPE, then, is four-fold. First, it aims to give empirical substance to the central debates in IPE on the relationship and interaction between the domestic and the international, and in particular on 'globalisation'. In the light of the economic and technological changes described in the next section, and as a result of the end of the Cold War, the idea of 'globalisation' as a paradigm in IPE has generated significant interest. However, the paradigm at present suffers from a lack of empirical depth. In this sense, the thesis aims to apply and test some of the central currents in the study of IPE / globalisation studies to the case of Argentina, and by extension to the Latin American region, which in any case have generally been neglected in the International Relations and IPE literatures. The thesis aims to contribute a specific conception of the *nature* of the linkages between international and domestic factors in the present climate of globalisation, in this case through the application of these ideas to Argentina.

Second, it aims to analyse the *dynamic* interaction between the international environment and the domestic setting. As noted earlier, it is concerned to show both how the international environment conditions political and economic reform at the national level and how these changes then feed back into the loop, especially in the current context of globalisation, to sustain the international environment itself. It also aims to show how international influences such as conditionality and regionalisation act as intermediaries between the domestic and the international,

and thereby to provide an analysis which challenges the rigid classification of variables into ‘external’, ‘internal’, ‘independent’ or ‘dependent’.

Third, it aims to address the gap in IPE literature that focuses almost entirely on economic policy outputs. With the exception of some of the literature on globalisation, as Chapter 4 shows, the connections between international change and the state is underdeveloped, especially when this relates to questions of political development or (in some cases) democratic consolidation. Apart from the relatively straightforward relationship between economic policy and the financial orthodoxy imposed by globalisation and the conditionality attached to loans and funds from international banks or international financial institutions, trends in the external environment have important effects on the nature of state power and state-society relations.

Fourth, the conceptualisation of the three dimensions of international influence identified in the thesis aim to contribute to the IPE literature by expanding the often narrow focus on the ‘international economy’. It aims, first, to give more definition to precisely what it is that we are studying: here, this falls under the general heading of ‘globalisation’ as a process of international economic change. Second, it aims to demonstrate how these influences are *transmitted*. It is insufficient simply to assume that the nature of the processes of international change, and their implications, are either perceived correctly by domestic actors or alternatively merely taken as given. In sum, the thesis is concerned with what is at the ‘sharp edge’ of globalisation, and this is where the importance of the three dimensions becomes apparent. The analysis aims to disaggregate the concept of ‘the international’ that pervades the IPE literature on such topics and to give greater substance to the nature of the variables under analysis and the mechanisms by which these are (a) *transmitted* into the national policy-making arena, and (b) *translated* into concrete political and policy outcomes.

## **The Concept of Globalisation**

‘Globalisation’ is one of the most contested concepts in IPE. The most highly developed stream of criticism contends that the extent of ‘globalisation’ is

exaggerated and the trends associated with it are in any case not new.<sup>27</sup> Sceptics argue that there is very little difference between globalisation and the earlier processes of international evolution identified variously as transnationalisation, interdependence, internationalisation, and globalism. According to this conception, the international economy is very far from truly 'globalised': economic exchange is still dominated by nation-states, and the patterns of international organisation are principally regional rather than national.<sup>28</sup>

The response to these criticisms has been to offer various approaches to the study of globalisation which highlights the ways in which the process may be seen as distinguishable from what has gone before. One possibility in the search for such a conceptualisation was offered recently by Philip Cerny in the form of an "additive definition", in which the term 'globalisation' is seen to refer to "the sum total of a wide range of political, economic and social processes of internationalisation and transnationalisation".<sup>29</sup> No doubt the immediate reaction to this from the sceptics would be that this is merely an easy way out of a tight spot: to say that globalisation is everything at once contributes very little to the debate. On the other hand, if 'globalisation' is seen to be part of a historical process of evolution in the international economy, and furthermore to be continually developing and expanding, then it makes some (limited) sense to see it as the culmination of 'progress so far'. A more convincing alternative argues that despite the uneven impact of globalisation and the persistence of political inclinations towards protectionism, the main difference with past situations of internationalisation and interdependence lies in the *intensity* of contemporary

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<sup>27</sup> The 'sceptical' view is found most forcefully in Paul Hirst & Grahame Thompson: *Globalization in Question: The International Economy and the Possibilities of Governance* (1996), and also in Robert Boyer & Daniel Drache (eds.): *States Against Markets: The Limits of Globalization* (1996) and Linda Weiss: *The Myth of the Powerless State: Governing the Economy in a Global Era* (1998). A more general discussion of international structures which runs along the lines of 'there is nothing new under the sun' is found in Stephen Krasner: "International Political Economy: Abiding Discord", *Review of International Political Economy* 1, 1, Spring 1994, criticised by Susan Strange in "Wake up, Krasner! The world has changed", *Review of International Political Economy*, 1, 2, Summer 1994.

<sup>28</sup> See particularly Hirst & Thompson: op.cit.; John Zysman: "The Myth of a 'Global' Economy: Enduring National Foundations and Emerging Regional Realities", *New Political Economy* 1, 2, 1996.

<sup>29</sup> Philip G. Cerny: keynote lecture to Warwick University ESRC Centre for the Study of Globalisation and Regionalisation conference on "Globalisation vs. Regionalisation: New Trends in World Politics", December 10th-11th 1997.

linkages, which can be described as far more “organic” than previously.<sup>30</sup> The extent of these ‘organic’ linkages is seen to stem from the effects of technological progress, the ‘end of geography’ (particularly in financial terms), and the increases in intra-industry trade.<sup>31</sup>

For the purposes of the thesis it makes most sense to focus on some of the specific manifestations of globalisation while not losing sight of its historical roots. The process is usually seen to manifest itself in three broad trends which define the present condition of the international political economy. The first is a very significant growth in international capital flows, which has outstripped the growth of world trade in recent years. The value of trade is far exceeded by the value of the foreign production of firms, particularly that financed by foreign direct investment (FDI)<sup>32</sup>, although the growth of world trade in turn has been far in excess of the growth in world output.<sup>33</sup> In addition, international financial markets currently and increasingly operate apparently autonomously of external regulation and independently of the constraints imposed by territorial borders. The emergence of truly global financial markets is signalled further by increase in the issue of private bonds and equities and by the fact that interest rates are now determined globally rather than nationally.<sup>34</sup> In this way, the idea of economic globalisation usually refers primarily to financial globalisation, which is seen to be the most important and most salient manifestation of change in the international economy.

Second, there has been a huge growth in all types of transnational activity, particularly in relation to the operations of transnational corporations (TNCs). The United Nations World Investment Reports have consistently argued in recent years

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<sup>30</sup> Richard Higgott: “Globalisation and Governance: Accommodating Regionalisation and Localisation”, mimeo, University of Warwick, February 1997.

<sup>31</sup> Richard Higgott & Simon Reich: “Intellectual Order for the Global Order: Understanding Non-State Actors and Authority in the Global System”, paper presented to the conference on ‘Non-State Actors and Authority in the Global System’, Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, October 31st-November 1st 1997.

<sup>32</sup> John H. Dunning: “Globalisation: The Challenge for National Economic Regimes”, 24th Geary Lecture, The Economic and Social Research Institute, Dublin, 1993 (pg 4).

<sup>33</sup> This has been described as the “decoupling” of world output and trade activities in the early 1990s. For example, in 1994 the volume of world merchandise trade increased by an estimated 9.2%, while world GDP grew by 2.8%. In addition, growth in world export volume increased from 4.4% in 1993 to 9.2% in 1994. See Shigeru Otsubo: “Globalisation: A New Role for Developing Countries in an Integrating World”, World Bank, July 1996 (pg 7).

<sup>34</sup> Jonathan Perraton et al: “The Globalisation of Economic Activity”, *New Political Economy* 2, 2, 1997 -pp. 265-271.

that the competition between states will be increasingly determined by the activities of TNCs rather than by firms operating solely in the domestic arena. This can be extended to include those firms in Latin America and other parts of the developing world that are becoming increasingly transnational in their operations, as well as those foreign-owned firms that are active in these countries. The growth of TNCs has also been accompanied by the emergence of 'stateless' firms, which are characterised by the percentage of shares held abroad, rather than the value of sales or assets held outside the home country.<sup>35</sup> Nevertheless, TNCs should be seen as the principal motor of economic activity, but not necessarily as the original impetus of change. It was the globalisation of the marketplace that necessitated the transnationalisation of economic activity, and therefore, in the terms used by Susan Strange, the shift of authority from state to market<sup>36</sup> that made political actors out of TNCs.

The third principal manifestation of economic globalisation is the increasing number of countries that are active in the international economy and in the financial infrastructure. This can be seen in a number of trends. First, North-South and South-South economic transactions in the last decade or so have expanded particularly rapidly.<sup>37</sup> Second, the increasing importance of developing countries in the international economy can be seen particularly in the share of foreign investment that these countries consume. At present, around 45% of total FDI flows go to developing countries, and this has been seen to account for the above-average growth rates of Latin American and East Asian countries.<sup>38</sup> Third, the widespread move towards market-oriented policies in all parts of the world, but particularly in developing countries, can be seen in the membership figures of multilateral institutions such as the GATT: there are four times as many signatory countries now as in 1950.<sup>39</sup> The globalisation of economic activity has as much to do with participants and international economic relations as with specific types of economic interaction and growth generation.

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<sup>35</sup> See Wyn Grant: "Economic Globalisation. Stateless Firms and International Governance", Department of Politics and International Studies, University of Warwick, April 1992 (pp. 6-11).

<sup>36</sup> *The Retreat of the State: The Diffusion of World Power in the World Economy* (1996), pp. 44-5.

<sup>37</sup> Tussie: "In the Whirlwind", pg 83.

<sup>38</sup> Tussie: "Globalisation and Conditionality", pp. 3-4.

<sup>39</sup> Tussie: "In the Whirlwind", pg 88.

These, then, are the principal economic manifestations of globalisation. The other way in which globalisation may be conceptualised is in terms of a shift in perceptions, on the part of individuals, societies and 'states' (without assuming these to be unitary actors). There is a clearly an increasing perception of the need for national policies consistent with the perceived realities of the international economy, as well as a heightened awareness of cultural globalisation, the possibility of a 'global civil society', and the necessity for efficient forms of international governance. It is clear also that technological advances have served to heighten the perception that the world is shrinking in size, that the 'global' is now truly accessible from most parts of the world, and that there is an increasing need for a re-orientation of our conceptions of nationality and territory as a result. These can perhaps be seen as the 'political' dimensions of globalisation, the existence and salience of which may well distinguish 'globalisation' from previous stages in the evolution of the world economy.

Following from this last point, conceptions of globalisation that emphasise the elimination of territorial barriers to trade and finance, or the spread of transborder transactions more generally, can be supplemented by a conception that sees globalisation as "a discourse of political knowledge offering one view of how to make the post-modern world manageable".<sup>40</sup> In this way, globalisation has been described as "a normalising rationality of government, acting to limit what is possible and thinkable".<sup>41</sup> The arguments of the thesis draw on both of these approaches to globalisation - that which attempts to describe the roots and manifestations of global economic change and that which focuses on changing assumptions regarding international order and the nature of political organisation.

### **The Three Dimensions of International Influence**

Drawing on this working conception, then, the three dimensions of international influence are identified in the thesis as globalisation, conditionality and regionalisation, and are addressed in three consecutive chapters (4, 5, and 6). The above conception of globalisation serves as the 'umbrella' for the three

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<sup>40</sup> Higgott: "Globalisation and Governance".

<sup>41</sup> *ibid.*

dimensions. All three are conceived as trends that have defined the recent evolution of the international political economy, although none is a novel development. Rather, it is claimed that each has assumed new dimensions and significance in the 1990s. As we have seen, globalisation is undoubtedly part of an ongoing process of internationalisation and transnationalisation in the international arena, but has achieved a momentum and scope in recent years that has led to the perception of a qualitatively new phase in the evolution of the international structure. Relations with international financial institutions are clearly not new for any country in the world, much less Latin American and other developing countries, and conditionality was a crucial part of these relations throughout the 'structural adjustment' decade of the debt-ridden 1980s. However, the nature of conditionality and the operations of the international financial institutions has changed radically in recent years, and the thesis aims to reflect these developments. Similarly, regionalisation is not a new phenomenon, particularly in Europe, but is one which, along with globalisation, has come to be identified as the principal trend in the contemporary international political economy. Furthermore, although there have been several attempts at regionalism in Latin America through the post-war period, the Mercosur is located within the most recent phase which is qualitatively different from its predecessors.

There are two other ways in which the classification and treatment of international influence in the thesis is novel. First, the analysis aims to use the three dimensions as inherently inter-related and interlinked trends and processes, and therefore to highlight the connections and relationships between them. The contention of the thesis is that conditionality and regionalisation are the two principal mechanisms by which the influence of globalisation is *transmitted* and by which countries *respond* to the constraints and opportunities created by it. As such, it is argued that conditionality and regionalisation, apart from being dimensions of international influence, stand at the interface of the global / international and national, and act as the mediating influences between them. The imperatives generated by globalisation are channelled to national arenas through conditionality and the activities of international financial institutions and are reflected in the operation of regional blocs. Furthermore, countries have actively sought closer

links with these institutions and constructed regional integration arrangements as a means of responding to the challenges of globalisation.

Second, the treatment of these interconnected dimensions of international influence departs from the literature in that it aims to offer an amplified conception of what constitutes ‘international influence’. It incorporates processes and trends that are not usually considered in analyses that focus narrowly on the ‘international economy’ or alternatively the ‘globalisation of economic activity’. By highlighting the absence of analyses that examine the *transmission mechanisms* by which ‘international influence’ becomes incorporated into national policy-making agendas, the thesis creates space for a more comprehensive treatment of ‘international influence’ and makes the consideration of other dimensions of the international environment necessary and instructive.<sup>42</sup> The existing holes, then, are reflected in the narrow conceptions of ‘international influence’, the neglect of the relationship between globalisation and conditionality, and the severe shortage of analyses that consider regionalism as a policy *input* as well as output. The thesis aims to address these problems.

Finally, apart from offering this amplified analysis, the thesis aims to contribute to the study of each of the three dimensions individually. Studies of globalisation, first, suffer from a lack of application to different domestic contexts, and as such lacks in regional and national specificity. As stated above, this is particularly the case with regard to the Latin American region and developing countries more generally. Furthermore, the literature on the relationship between globalisation and the national state is growing, but remains rather patchy, as outlined in Chapter 4. The thesis, therefore, seeks to add empirical specificity to the study of globalisation and to contribute to the burgeoning debate on the relationship between globalisation and the state.

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<sup>42</sup> The dual international / national nature of the policy agenda, however, is reflected in the ‘two-level games’ approach to international negotiations. See Robert D. Putnam: “Diplomacy and Domestic Politics: The Logic of Two-Level Games”, *International Organization* 42, Summer 1988, and Peter B. Evans et al (eds.): *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (1993). For a recent extension of this to a ‘three-level games’ framework, see Lee Ann Patterson: “Agricultural Policy Reform in the European Community: A Three-Level Game Analysis”, *International Organization* 51, 1, Winter 1997.

Studies of conditionality remain, with rare exceptions<sup>43</sup>, rooted in the analysis of the debt crisis and structural adjustment efforts of the 1980s, and furthermore have neglected its relationship with globalisation. The thesis aims to counter both of these shortcomings: by moving the analysis forward from its timewarp of the 1980s and also by locating the study of conditionality and international financial institutions in the broader context of globalisation and international change. In addition, it aims to fill a gap by redressing the neglect of the *political* impact of conditionality, and particularly its implications for state-society relations.

Regionalism or regionalisation, finally, is usually identified as the ‘twin’ to globalisation as a dominant trend in the international political economy, but is usually approached as a policy output, normally as a (positive or negative) response to globalisation. Furthermore, with the exception of analyses which show how regional (and international) constraints and imperatives are incorporated into the domestic policy agenda, its impact on the domestic economic and political alternatives remains under-theorised and underdeveloped. The thesis, in response, presents regionalism as a policy input as well as a policy output, that has significant implications for the evolution of the national state and state-society relations, as well as the economic policy agenda.

## **The Study of the State and Conceptions of State Power**

Having defined the first of the key concepts in the title, then, the final task of this Introduction is to clarify the conception of state power used and developed in the thesis, and to show how its arguments fit into the theoretical and empirical study of the state. The state is normally understood in three different ways in political science, which are often conflated: as a set of institutions; as a particular type of regime; and as the group of government officials that occupy the principal executive positions.<sup>44</sup> The latter two categories can be understood as influencing state strength by mediating relations between the state and the various components

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<sup>43</sup> For example, Tussie: “Globalisation and Conditionality” and “Argentina’s Big Bang Reform”.

<sup>44</sup> Evelyn Huber: “Assessments of State Strength” in Peter H. Smith (ed.): *Latin America in Comparative Perspective: New Approaches to Methods and Analysis* (1995), pg 165.

of civil society, and therefore the ability of the state to govern, or exercise power over the economy and over political society.<sup>45</sup> This thesis understands the state principally in terms of the first and last of these: both as a set of institutions and as inherently linked to the offices of government. Especially given the concentration of policy-making authority in the executive branch of government, as Chapter 4 highlights, the third dimension of the state is particularly useful in the study of the Argentine political system and its Latin American counterparts. By understanding the state in terms of the offices of government, furthermore, many of the problems associated with concepts such as state autonomy, rational actions and state preferences are eased. Such an approach also allows for the recognition of the importance of agency in understandings of the state: in this case the agency-centred perspective emphasises the centrality of policy elites.<sup>46</sup>

With respect to state power, the thesis is not concerned with more conventional definitions that refer to the maintenance of territorial security and other dimensions of strength associated with the exercise of foreign policy. Rather, the thesis works with a conception of state power that operates on three levels. First, state power is formulated principally in terms of *the capacity of national governments to implement their policy preferences*. In this way, state power is conceptualised from the perspective of *implementation*: it concerns the state's ability to implement its stated goals and preferences. This conception, however, does not make any *a priori* assumptions concerning the origins or nature of those preferences. As such, it does not subscribe to the notion that the state has its own discrete set of interests or preferences which is fundamental to the 'state autonomy' approach favoured in 1980s political science.<sup>47</sup> The conceptualisation of state power in terms of implementation, therefore, relates directly to assessments of the

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<sup>45</sup> Huber, pg 165.

<sup>46</sup> For an example of an analysis that focuses on elites and policy choices, see Merilee S. Grindle & John W. Thomas: *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries* (1991).

<sup>47</sup> See, for example, Peter Evans, Dietrich Rueschemeyer & Theda Skocpol (eds.): *Bringing the State Back In* (1985); Stephen D. Krasner: "Approaches to the State: Alternative Conceptions and Historical Dynamics", *Comparative Politics* 16, 1984 and *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (1978); Eric A. Nordlinger: *On the Autonomy of the Democratic State* (1981).

effectiveness of the state in implementing its policy preferences, which is quite different from the concept of autonomy.<sup>48</sup>

On the second level, state power is conceptualised in terms of the degree of *centralisation of political power*. In other words, state power is understood to refer to the extent of the state's *insulation* from societal groups or interests. In practical terms, in the Argentine and many other cases, this is directly linked to the first conception of power concerning the state's capacity for policy implementation. A corollary of this conception is that state power is inherently *relative*, in that a high level of centralisation or insulation necessarily involves a reduction in the capacity of societal interests to significantly influence the political process.

The assumption that the preferences of a democratic government will inevitably "significantly reflect the demands and interests of civil society"<sup>49</sup> is not empirically useful in the study of contemporary Latin America. The analysis of political reform in Chapter 4 demonstrates that in the processes of structural reform implemented in Argentina and a variety of Latin American countries, the policy orientation and goals have been accepted by societal groups, but that this acceptance was achieved subsequent to the implementation of the reform strategies. As such, these are processes of reform 'from above', in which government elites are principally responsible for the formulation and execution of reform strategies. In the specific context of Argentina and Latin American countries, then, the implementation perspective refers to the government's power to promote domestic adjustment.

The disarticulation of civil society that resulted from the situation of political and economic crisis at the end of the 1980s undoubtedly gave the government a free hand in the formulation of policies and strategies, as argued above. Nevertheless, this argument does not assume a static picture of relations between state and society in Argentina or elsewhere. On the contrary, as the following chapters demonstrate, the initial centralisation of political power which allowed for the relatively autonomous policy-making environment lasted only a short time, giving way to the construction of new forms of state-society relations according to evolving sets of circumstances. On a theoretical level, therefore, the

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<sup>48</sup> Weiss, pg 29.

<sup>49</sup> Huber, pg 166.

conception of state power as referring to the government's capacity to implement its preferences works only when no assumptions are made concerning the origins or nature of these preferences. As such, the conception here is used in a relatively loose way as a skeleton analytical tool. The flesh, or substance, is provided by empirical analysis of individual countries or cases.

The contention of the thesis, as outlined earlier, is that an important neglected dimension of the study of state power concerns the impact of international change, or the international environment, on both domestic policy choices and the political alignments that are created in order to maintain the new orientation. Paradoxically, although the policy autonomy of the state is reduced in terms of the available feasible options, the strength or power of the state, according to the two understandings outlined above, is enhanced as a result of engagement with processes of international change and its specific manifestations. As a result of the imperatives established by a globalised international economy and the related dimensions of conditionality and regionalisation, the *implementation* functions of the government are strengthened and the space is created for a significant *centralisation* of political power, leading to an increased *insulation* of the state from societal interests.

Nevertheless, the emphasis on insulation and centralisation is not intended to stand in opposition to the ideas of 'embedded autonomy' developed by Peter Evans, which suggest that "transformative capacity requires a combination of internal coherence and external connectedness".<sup>50</sup> It does, however, challenge Evans' assumption that there is a necessary contradiction between this and ideas of insulation. As the analysis in Chapter 4 and the Conclusions in Chapter 8 demonstrate, the high degree of centralisation in Argentina during the Menem administration should not be taken to mean that the government dispensed with all ideas of political support bases or alliances with certain societal interests. The situation in Argentina is one, essentially, of 'centralising populism' in which Menem maintained the traditional Peronist support structures and established alliances with certain business sectors at the same time as neutralising the veto

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<sup>50</sup> Peter Evans: "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change" in Haggard & Kaufman (eds.), pg 176.

powers of labour and the military.<sup>51</sup> The process of political reform did not involve the suspension of elections, furthermore, but rather the relegation of those political institutions (such as the legislature and the judicial branch) that are supposed to be independent representations of the public interest. The most intriguing element of the picture is the fact that this type of reform was accomplished with increasing returns to power, reflected in the *growth* of Menem's political popularity and his re-election in 1995. The 'embedded' nature of the autonomy of the Argentine state is also demonstrated by the extent of its international linkages, covered in Chapters 5, 6 and 7.

The study of the state more generally is dominated by what has been called the "phenomenon of 'state denial'".<sup>52</sup> As Chapter 5 demonstrates, the state is generally assumed to have withered or else taken a secondary role as a result of the processes of internationalisation, globalisation and interdependence. The thesis, however, contends that a statist approach to reform in Latin America, as well as to politics more generally in the region, is neither outdated nor anachronistic. Although the study of the state has changed significantly in recent years along with the nature of states in the region, it is asserted that the state has recovered itself from the conditions of crisis in the 1980s, and has become the locus of an even higher degree of centralisation of power. Furthermore, the hypothesis of the thesis is that this situation was created in important ways by the nature of international influences in the 1990s and the results of the dynamic interaction of these with domestic circumstances and institutional structures. As such, it appears that 'state denial' is indeed a "fundamentally Anglo-American institution" which, moreover, has been over-generalised in globalisation theory.<sup>53</sup> The thesis contends that although unfashionable, the study of the state in Latin America remains fundamental to an understanding of contemporary political economy, *and especially to the processes of economic restructuring and political reform.*

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<sup>51</sup> For interesting recent analyses of Menem's retention of Peronist support bases, see Edward L. Gibson & Ernesto Calvo: "Electoral Coalitions and Market Reforms: Evidence from Argentina", Working Paper no. 35, Universidad Torcuato Di Tella, Buenos Aires, April 1997.

<sup>52</sup> Weiss, pg 2.

<sup>53</sup> Weiss, pgs 3 & 194.

Paradoxically perhaps, the state is pivotal in masterminding an economic and political model that involves a fundamental redefinition of its own role.<sup>54</sup>

In addition, the study of globalisation in the thesis is based on the hypothesis that the relegation of the state in the study of IPE ignores important ways in which the national state is undergoing a process of transformation and redefinition, and that the ‘retreat of the state’<sup>55</sup> is overplayed in current IPE and globalisation studies. The contention of the thesis is that states remain fundamental to the cause of constructing and maintaining the process of globalisation in the international economy, as well as in formulating national responses to it. Therefore, the state remains pivotal when viewed both from the angle of domestic political structures and economic strategies, and from the perspective of global change. Each of the three chapters on international influence give empirical and theoretical substance to this contention.

## **The Organisation of the Thesis**

The first three chapters, then, are concerned with the empirical questions outlined at the start of this Introduction. Chapter 2 demonstrates the ‘logic’ of Argentine political economy in the post-war period which would have led us to expect a different outcome for the reform effort launched by the Menem government. Chapters 3 and 4 respectively outline the dimensions of the economic and political reform agenda pursued by the Menem government, and pay special attention to the implementation-consolidation trajectory. These chapters demonstrate the progressive strengthening of the model contrary to the predicted increase in political pressure and the erosion of the economic consistency as a result.

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<sup>54</sup> In the 1980s, a version of this observation was formulated as the ‘orthodox paradox’ which saw a tension between international financial institutions’ perception of the state as the main obstacle to development and their use of the state as the primary vehicle for promoting reform. See, for example, Thomas M. Callaghy: “Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment” in Nelson (ed.): *Fragile Coalitions*, pp. 116-7, and Kahler: “Stabilization and its Alternatives”.

<sup>55</sup> See, for example, Strange: *The Retreat of the State* and David Held: *Democracy and the Global Order* (1995).

Chapters 5, 6, and 7 are concerned with the three dimensions of international influence outlined above. Chapter 5 analyses the effects of globalisation on the nature of the state and state power, and demonstrates the ways in which the possibilities for consolidation of economic and political reform in Argentina were strengthened by the constraints and opportunities created by these processes of international change. The main strands of the argument concern the 'paradox of state power' and the 'internationalisation of the state' which have been outlined briefly above. Chapter 6 is concerned with impact of the conditionality provisions attached to loans from the international financial institutions. It draws on similar arguments to Chapter 5 relating to the 'internationalisation of the state', and the ways in which the 'locking in' of economic policies contributes to a particular kind of political development. Chapter 7 examines the regional dimensions of reform with reference to the role of the 'regionalisation of the state' in the consolidation of reform at the domestic level. Each of these three chapters demonstrates the pivotal importance of international influences in explaining the trajectory and outcome of reform under Menem.

## Chapter 2

### Cycles of Crisis and Reform in Argentina

The administration of Carlos Menem is identified with a sustained project of transformation in both the economic and political spheres in Argentina, ending the spiral of political and economic ungovernability that had characterised the entire post-war period. The Menem government's reform effort constituted the only sustained and successful attempt in over four decades to govern both the economic and political arenas, and as such is identified as having broken the earlier and established 'logic' of Argentine political economy. The pertinent question is not, however, why reform happened after the crisis of the 1980s, but rather why the Menem government was able to *sustain and consolidate* its agenda when the pattern of post-war development, as well as general feeling at the start of the first Menem administration, would have predicted otherwise.

The task of this chapter is to demonstrate the importance of this central research question by highlighting the roots of the cycles of crisis and reform in Argentina. The repetition of these cycles over a period of more than forty years can be attributed primarily to political factors, which led to the consistent relegation of coherent macroeconomic policy management. The Argentine political economy since the first Peronist government was characterised by a fierce 'distributional conflict' in which entrenched corporatist and other interests competed in the arena of the state for resources and power. This was exacerbated by the persistent tensions between Peronist forces in political society and anti-Peronist factions, most notably the military. The implementation of reform following an episode of crisis was invariably followed by an increase in political pressures on the government and the system, which led to the abandonment and/or collapse of the economic policy model after a relatively short period of time. In this way, as Table 2.1 shows, patterns of post-war political economy in Argentina were characterised by boom-bust and stop-go cycles, usually of around three to five years' duration. The episodes of economic crisis invariably led to stabilisation and adjustment efforts which again collapsed a couple of years later. Table 2.1 also demonstrates the links between growth and inflation.

**Table 2.1: Percentage Change of Real GDP and Consumer Prices, 1945-1989**

Year	Real GDP	Consumer prices
1946	8.3	17.7
1947	13.7	13.5
1948	1.2	13.1
1949	-4.6	31.1
1950	1.6	14.1
1951	3.9	50.4
1952	-5.1	38.7
1953	5.4	4.0
1954	4.1	3.8
1955	7.1	12.3
1956	2.8	13.4
1957	5.1	24.7
1958	6.1	31.6
1959	-6.4	114.0
1960	7.8	27.1
1961	7.1	13.6
1962	-1.6	28.2
1963	-2.4	24.0
1964	10.3	22.2
1965	9.1	28.7
1966	0.6	32.0
1967	2.7	29.2
1968	4.3	16.2
1969	8.6	7.6
1970	5.4	13.6
1971	4.8	34.7
1972	3.1	58.5
1973	6.1	60.3
1974	6.1	23.5
1975	-0.9	182.3
1976	-1.7	443.2
1977	4.9	176.1
1978	-3.9	175.5
1979	6.7	159.5
1980	0.7	100.8

**Table 2.1 (cont.)**

1981	6.6	104.5
1982	-4.9	164.8
1983	2.4	343.8
1984	2.4	626.7
1985	-4.3	672.1
1986	5.6	90.1
1987	2.2	131.3
1988	-1.9	343.0
1989	-6.2	3,079.0

Source: *Statistical Abstract of Latin America*, various numbers.

On the basis of the evidence presented above, we can identify the principal points of the cycles as those at which crisis gave way to emergency adjustment measures, often in connection with agreements with the International Monetary Fund (IMF): 1952 under the government of Perón, 1958 and 1962 at the start and end of the Frondizi government, 1966-7 under Onganía, 1976 at the end of the second Peronist administration, 1982 at the end of the military government, and 1985 and 1988-9 under Alfonsín. The following sections outline in more detail the political economy of successive crises in post-war Argentina, and then draw the strands together to offer a context in which to examine the political and economic reform process implemented by the Menem government from 1989.

### **Peronism to the 'Dirty War': Crisis and Instability**

#### *The Collapse of the Peronist Experiment in the 1950s*

Following the collapse of laissez-faire as a result of the Depression and the Second World War, the first Peronist government which took power in 1946 institutionalised an alternative development strategy in Argentina. This was based on the doctrine of import-substituting industrialisation (ISI) as a means of achieving full employment and emphasised the following policy objectives: (a) the further development and consolidation of the industrialisation drive through a more

coherent system of state intervention in the economy; (b) the political integration of the working classes through a programme of social reform; and (c) the achievement of national autonomy vis-à-vis the international economy.

The Peronist strategy enjoyed some considerable success in terms of its stated goals in its early years. By the late 1940s, almost all of the foreign-owned economic activities had been nationalised, industry experienced a period of unprecedented investment and expansion (largely as a result of a 35% increase in the money supply), and new institutions had been created to complement the new economic orientation. An example is the Argentine Trade Promotion Institute (IAPI) which constituted the state monopoly on agricultural exports and was originally intended to finance the government's five-year economic plan.<sup>1</sup> The consumer boom between 1946 and 1950 was accompanied by an increase in real wages of 33%, or 70% when fringe benefits are included in the calculations.<sup>2</sup>

The inflationary potential of this combination of high wages, easy credit and the expansion of the money supply is self-evident. The increase in wages far exceeded increases in productivity and generated an annual rise in living costs of some 68% by 1949.<sup>3</sup> By 1948 gold reserves had been depleted by 89% and foreign currency holdings remained largely in the form of sterling, which was not convertible in the international marketplace.<sup>4</sup> The difficulties in the economy were exacerbated after 1948 by a decline in export earnings, drought in 1950 and 1951 and inflationary pressures as a result of unsustainable increases in incomes and wages. The crisis of the late 1940s and early 1950s gave way to the announcement of a package of emergency austerity measures, known as the Economic Plan for 1952, which included a two-year freeze on wages, price increases, reduced state expenditure, the increased availability of credits for rural producers, and the proposal to limit domestic consumption for exportables such as beef and wheat.<sup>5</sup> As such, the Economic Plan constituted a departure from the sacred cows of Peronism: the privileging of the industrial working classes over rural producers and

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<sup>1</sup> Robert A. Potash: *The Army and Politics in Argentina 1945-62: Perón to Frondizi* (1980), pp. 61-3; Paul H. Lewis: *The Crisis of Argentine Capitalism* (1992), pp. 159-61.

<sup>2</sup> Lewis, pg 182.

<sup>3</sup> *ibid.*, pg 183.

<sup>4</sup> Gary Wynia: *Argentina in the Postwar Era: Politics and Economic Policy Making in a Divided Society* (1978), pg 6.

<sup>5</sup> Potash, pg 92.

a position of autonomy vis-à-vis foreign investment and international economic exchange. Priority was given to agrarian sectors, energy resources, mining, heavy industry and infrastructural development: only 4% of the projected expenditure for 1953-57 was intended for social programmes, compared with 42% for public works and 33% for export promotion.<sup>6</sup> The implementation of these objectives was seen to be dependent on foreign and domestic private capital, which was reflected in an apparent about-turn on foreign investment laws and, significantly, oil sector policy which previously had been the nationalist symbol of Peronist independence.

The Economic Plan led to some degree of recovery in the next two years, particularly in terms of a reduction in inflation and correction on the balance of payments, and some considerable support for short-lived ideas of economic integration with neighbouring countries. However, the new economic orientation gave relatively more political weight to business sectors, despite the fact that the labour sector remained the bulwark of Perón's power base. The emphasis in the early 1950s, in contrast to the early days of Peronism, was on the maintenance of labour discipline and the avoidance of new wage demands.<sup>7</sup> In addition, Perón systematically alienated both the military institution and the Church, culminating in the open hostilities of 1954 and 1955, and the overthrow of the government by a military coup in September 1955.

The reasons for the failure of the experiment can be attributed in part to broad difficulties associated with ISI.<sup>8</sup> It is generally recognised that the implementation of ISI in various parts of Latin America was mis-timed: while Argentina and other countries were closing their economies the international economy was embarking on a period of growth that lasted for more than thirty years. Furthermore, the size and capacity of the internal market is one of the fundamental constraints on the successful implementation of this type of economic strategy. ISI depends on the expansion of domestic demand in order to increase productive capacity and to compensate the loss of consumption potential in foreign

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<sup>6</sup> *ibid.*, pg 144.

<sup>7</sup> *ibid.*, pg 165.

<sup>8</sup> For fuller accounts of the economic difficulties associated with ISI, see Werner Baer: "Import Substitution and Industrialization in Latin America: Experiences and Interpretations", *Latin American Research Review* VII, Spring 1972; and Juan Carlos de Pablo: "Beyond Import Substitution" in Werner Baer & Larry Samuelson (eds.): *Latin America in the Post-Import-Substitution Era*, special issue of *World Development* 5, 1/2, 1977.

markets. The size of the market is inevitably going to restrict the viability of such an expansion, and the bottlenecks without exception became quickly apparent in Latin American flirtations with this type of development model. Other difficulties concern the damage to both import and export sectors caused by protectionist economic policies, which push resources into inefficient and unproductive sectors and create problems associated with social welfare.<sup>9</sup>

However, the principal reasons for the collapse of the experiment are clearly political, and set the pattern for the following forty years. The Peronist experiment inevitably, and intentionally, brought traditional rural interests and the industrial sectors into sharp conflict and created a situation of political stalemate. The government financed its industrialisation project from two main sources: its substantial gold reserves accumulated during the War and the agricultural export sector. The relative importance of the latter increased as the former became depleted, especially in the absence of revenues from exports. In this way, the viability of the economic model rested on the state's ability to transfer resources from the rural to the urban sectors. The former consistently resisted the process of industrialisation and the erosion of their political and economic influence. The controls imposed by the state on trade, credit and exchange flows and the regulations imposed on the financial system alienated the very sectors on which the project depended for financing. The hostility from rural producers to the economic orientation established in the 1940s waned somewhat in response to the more favourable measures outlined in the 1952 package, but stopped far short of turning into overall support for the Peronist government.

The political project established the working classes as the power base for the government, in exchange for economic concessions like better wages and protective legislation, and political benefits in the form of possibilities for much higher levels of participation.<sup>10</sup> The increasing political weight of these interests explains the reluctance of the government to lower wages throughout the 1949-52 period, even with strong evidence of impending economic crisis. It also explains how the freeze on wages announced as part of the 1952 Economic Plan was

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<sup>9</sup> Tim Congdon: *Economic Liberalism in the Cone of Latin America* (1985), pg 8.

<sup>10</sup> Carlos Waisman: *Reversal of Development in Argentina: Postwar Counterrevolutionary Policies and Their Structural Consequences* (1987), pg 135.

implemented without a withdrawal of support from the affected interests. However, the collapse of the economy and of the government in 1955 can be attributed almost entirely to the damage caused to the confidence of industrialists as well as rural producers by the apparent loss of direction evident in the policy provisions of the 1952 Economic Plan. Initially, industrial interests opposed these amendments to the economic orientation, although this stopped short of a withdrawal of political support. However, by 1955 their withdrawal of support was as critical to the fate of the government as the opposition of traditional rural interests. In sum, the government failed to convince most of the crucial non-Peronist actors of the utility and coherence of the policy package, which was at least in part attributable to the centralised nature of the policy-making process it established.

At the same time, the expansion of political participation under Perón had not been accompanied by a successful strategy of inclusionary institutionalisation.<sup>11</sup> The upshot was the creation of the most militant trade unions in Latin America and an enduring pattern of polarised party and interest group politics, in which there was a clear perception that “there was little room for compromise in the governing of the nation”.<sup>12</sup> These trends combined with deliberate efforts on the part of the government to restrict the possibilities for political opposition, in line with a growing perception that Peronist ideology was the *national* ideology rather than a partisan issue. In 1949, new legislation prohibited the construction of electoral coalitions or the formation of new political parties. The Peronist majority in Congress, furthermore, together with an increasingly hard line on the independence of the media, was used to restrict the possibilities for criticism of policy or politics.<sup>13</sup> As such, the increasing ideological polarisation of Argentine politics created a tension between Peronist and anti-Peronist elements in society, most notably the Armed Forces, and gave way to a repeated alternation in power between civilian and military authorities.

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<sup>11</sup> The Argentine case therefore corresponds with Samuel Huntington’s praetorian society, in which the increase in participation is not matched by the development of political institutions through which the increased pressures on the political system can be channelled and controlled. *Political Order in Changing Societies* (1968).

<sup>12</sup> Wynia: *Argentina in the Postwar Era*, pg 80.

<sup>13</sup> Potash, pg 103-4.

In just over twenty years, twelve presidents held office<sup>14</sup>, of which over half came to power as the result of a military coup and only two through open elections. The recurring pattern was one of military intervention in response to the real or potential electoral successes of the Peronists during interludes of inclusionary democracy. However, neither civilian nor military authorities were able to govern effectively without Peronism given the veto power of the unions and electoral abstention that undermined the possibilities for genuinely inclusionary or representative democracy. On the other hand, even those attempts at inclusionary democracy failed as a result of the anti-Peronist factions in society and the reluctance of the Peronists themselves to be ‘included’ in the mainstream political process.<sup>15</sup>

As far as the state is concerned, the Peronist legacy was one of the ‘hyper-politicisation’ of the economic sphere, in which the state was simultaneously activated and centralised. With its expansion, the state assumed entire responsibility for the provision of public welfare.<sup>16</sup> The consolidation of the corporatist structures established under Perón maintained the centralisation and politicisation of the state, but also created a situation in which the state became the main site of the political and distributional conflicts created by the polarisation of economic interests. As such, this was a corporatist system of interest representation in which the state struggled to mediate and satisfy the huge range of societal interests against which it was constrained to contend. Significantly, these interests, particularly labour and the military, assumed an important veto power over the political process. The perpetual instability in the economic arena and the stubborn persistence of inflation can be traced directly to the subordination of economic policy to the requirements of political survival. The economic and political history of post-war Argentina, and particularly the high turnover of regimes, demonstrate that very few governments achieved even this objective successfully.

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<sup>14</sup> Gen. Eduardo Lonardi (Sept 1955-Nov 1955), Gen. Pedro E. Aramburu (Nov 1955-May 1958), Dr Arturo Frondizi (May 1958-Mar 1962), Dr José María Guido (Mar 1962-Oct 1963), Dr Arturo Illia (Oct 1963-June 1966), Gen. Juan C. Onganía (June 1966-June 1970), Gen. Roberto M. Levingston (June 1970-Mar 1971), Gen. Alejandro Lanusse (Mar 1971-May 1973), Dr Héctor Cámpora (May 1973-July 1973), Mr Raúl Lastiri (July 1973-Sept 1973), Gen. Juan D. Perón (Oct 1973-July 1974), and Mrs Isabel Perón (July 1974-Mar 1976).

<sup>15</sup> Vicente Palermo & Marcos Novaro: *Política y Poder en el Gobierno de Menem* (1996), pg 38.

<sup>16</sup> Gary Wynia: *Argentina: Illusions and Realities* (1986), pg 65.

### *Crisis in the Early 1960s*

The government of General Pedro Aramburu from 1955 aimed essentially to resuscitate the economy and to re-establish political stability through the elimination of Peronism and the restoration of constitutional government. The former objective was implemented in connection with ECLAC economist Raúl Prebisch, and involved a neoliberal solution to the problems of Peronism. The abolition of the IAPI and the creation of the National Institute of Agrarian Technology (INTA) reflected the move away from state control of foreign trade and the new focus on the expansion and technification of the agricultural sector. The National Directorate of State Industry (DINIE) was also dissolved and the confiscated foreign companies returned to their owners. The refinancing of the foreign debt in 1955 led to Argentina's re-admission to the multilateral trading arena, and its subsequent membership of the Paris Club, the IMF and the World Bank. Other measures included the reform of the financial and banking sectors and the active promotion of basic industries.

However, this sort of strategy coincided with a period in which international terms of trade were at their worst since the early 1930s and investment flows were in any case inhibited by the exchange controls and tariff barriers erected by the Peronist government. The disappointing performance of exports and the low levels of confidence in Argentina on the part of multinationals fuelled the conviction that capital accumulation depended on foreign investment rather than trade, and led to the dependence on the former which characterised subsequent economic policies.<sup>17</sup> Moreover, the difficulties encountered by this attempt at a shift away from ISI reinforced perceptions of the virtues of Peronist economic strategies, especially with respect to self-sufficiency.

From May 1958 nationalist resentment stymied the attempts of the government of Arturo Frondizi to chart a middle course between the twin currents of national populism and economic liberalism.<sup>18</sup> The experiment in 'developmentalism' under this administration was based on a policy of "intensive

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<sup>17</sup> Pablo Gerchunoff: "A Note on the Economic Policies of the 'Liberating Revolution' in Di Tella & Dornbusch (eds.), pg 106.

<sup>18</sup> Lewis, pp. 277-8.

vertical ISI' which emphasised the promotion of basic industries (such as steel, energy, chemicals, machinery and capital goods) together with an emphasis on foreign sources of finance for the purposes of capital accumulation, industrial modernisation and infrastructural development.<sup>19</sup> This was made feasible by the expansion of US investment in Latin America (partly out of anti-Communist concerns) and the increased availability of trade and suppliers' credits.<sup>20</sup>

This went together with the controversial policy of allowing foreign participation in the oil sector, especially in the light of Frondizi's originally nationalist credentials. In this sense, the Frondizi government was something of a "study in contradictions", in which an apparently nationalist economic agenda was financed by massive injections of foreign capital.<sup>21</sup> The nationalist resentment of both of these policy positions was fuelled by Peronist opposition to the 'selling out' of the economy to imperialist interests, and led to a spate of labour activism, the most important instance of which was the Peronist-led oil workers' strike of November 1958. The President, significantly, made increasing use of military agents to assist in the management and repression of these episodes of protest in order to enable him to continue his economic policies.<sup>22</sup>

The economic crisis which had been brewing since the end of the Peronist government led to the negotiation of a stand-by agreement with the IMF in December 1958, which in the event was never enforced with any degree of conviction. In part the collapse of developmentalism subsequently can be attributed to an increased dependence on private loans in order to avoid the problems of reconciling IMF demands and domestic pressures.<sup>23</sup> More importantly, however, the failure to enforce the agreement can be attributed to the political pressures it generated. Government links with the IMF fuelled the Peronist-led nationalist opposition and led, together with the effective freeze on wages involved in the stand-by agreement, to the breakdown of the alliance that had been established with labour. This was exacerbated by the further involvement of the military in

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<sup>19</sup> Kathryn Sikkink: *Ideas and Institutions: Developmentalism in Brazil and Argentina* (1991), pg 4; Celia Szusterman: *Frondizi and the Politics of Development in Argentina, 1955-62* (1993).

<sup>20</sup> Sikkink, pg 215.

<sup>21</sup> William C. Smith: *Authoritarianism and the Crisis of the Argentine Political Economy* (1989), pp. 39-40.

<sup>22</sup> Potash, pg 298.

<sup>23</sup> Sikkink, pg 48.

'enforcing' the political conditions necessary for the implementation of the economic policy agenda. At the same time, the military's support for the IMF agreement led to the replacement in June 1959 of Economy Minister Emilio Del Carril and his team with one acceptable to military preferences (headed by Alvaro Alsogaray) along with the effective end to possibilities for resurrecting labour relations.

However, political pressures continued to weigh heavy on economic policy coherence, and led to such measures as a huge increase in government spending for public works in the run-up to the March 1960 elections, which entailed a doubling of the rate of monetary expansion and the resurgence of the inflationary pressures which Alsogaray had been attempting to eliminate. Before the 1962 elections, furthermore, huge sections of the budget were diverted for the purposes of hiring more government employees and financing more public projects.<sup>24</sup> These measures exacerbated the negative balance of payments situation and the persistence of payments and liquidity problems throughout 1962.

The crisis can also be seen in the economic context of the shortcomings of ISI, relating to the limited absorbent capacity of the domestic market and the balance of payments issues generated by the need for investment inputs from foreign sources. The effect of the foreign exchange bottleneck was to produce significant inflationary pressures and a policy shift towards agricultural exports in order to meet foreign debt obligations and purchase industrial inputs. However, this shift coincided with a period of declining international prices for agricultural goods and precipitated a series of devaluations which fed into the inflationary spiral, especially after the abandonment of exchange controls in 1959.<sup>25</sup> It is clear, however, that there was very little political support for developmentalism in Argentina. Although opposition stemmed primarily from Peronist quarters, industrial sectors and the military were largely lukewarm, and therefore there was limited backing from other sectors which might have helped to increase the legitimacy of the experiment. The expectation that the increased emphasis on both foreign capital and some encouragement of the agricultural sector signalled a

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<sup>24</sup> Lewis, pg 278.

<sup>25</sup> Daniel James: *Resistance and Integration: Peronism and the Argentine Working Class, 1946-1976* (1988), pg 164.

reversal of the policy orientation was not fulfilled, and the consistency of policy management was undermined as a result.

The political legitimacy of the government was eroded from the outset by the exclusion of the Peronists from the 1958 elections. When Aramburu took office, the Peronist Party (PJ) had been declared illegal and its assets confiscated. The effort to destroy the Peronist movement was conducted against the labour sector, with the encouragement of the emergence of an anti-Peronist union leadership. A series of labour reforms aimed to depoliticise and disempower the unions and, by extension, the working classes. Decree 7107, for example, banned from union activity all those who had held leadership or representative positions in the main union, the General Labour Confederation (CGT), and associated organisations between February 1952 and September 1955. This was subsequently extended to all those who had been present at the CGT Congress of 1949 at which new statutes proclaimed the CGT as the “faithful repository of the Peronist doctrine”.<sup>26</sup> The anti-Peronist factions of society during the Frondizi government, particularly the military, were keen for these and other restrictions to be maintained, while Peronists were pressing for a full restoration of former levels of influence.<sup>27</sup>

The military government which overthrew Frondizi, however, was followed by an ill-fated attempt at inclusionary elections which brought Arturo Illía to power and undermined his political authority. Although this was the most liberal period in post-war Argentine politics, this democratic experiment in the event did more to increase the legitimacy of non-democratic forms of government than any other. Many nationalist policies abandoned by Frondizi were reinstated, with the exception of links with the IMF, and there was an improvement in the foreign debt and balance of trade situations. Nevertheless, by 1965 inflation was resurgent and production was slowing, export levels were falling and the familiar foreign exchange bottlenecks were emerging. The effect was a decline in industrial output as a result of restrictions on imports and an increase in unemployment. Moreover, the collapse of the Illía government can be linked most clearly to electoral politics. Immediately after the election, all elements of the urban and rural bourgeoisie

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<sup>26</sup> James: op.cit., pg 55.

<sup>27</sup> Potash, pg 281.

mounted a fierce opposition campaign against the government, which found itself at the same time in conflict with the unions and Peronists.<sup>28</sup> The CGT-led 'Protest Week' of 1963 and the 'Battle Plan' of mid-1964, as well as general patterns of mobilisation throughout 1965, contributed to a general climate of instability which created the conditions for the coup of 1966.

Labour activism during this period was apparently intended to demonstrate the weakness of the Illía government to the military, and to highlight the advantages for political order of allowing Peronist electoral participation.<sup>29</sup> In doing so, however, the unions underestimated the anti-Peronist orientation of the Armed Forces, and were unlikely ever to have won the political game they were attempting to play. As noted above, the pattern of military intervention suggests that even the threat of Peronist electoral success was sufficient to prompt a military reaction.<sup>30</sup> The provincial elections of 1965 demonstrated clearly that the Radical party was still unable to compete electorally with the Peronists, and suggested to the Armed Forces that potential Peronist success in presidential elections could only be avoided by the elimination of Peronism from the political landscape.<sup>31</sup> Although there is a suggestion that the perception of threat was significantly exaggerated<sup>32</sup>, this was the basis on which General Juan Onganía came to power in 1966.

#### *Onganía, the 1966/7 Crisis and the Revival of Peronism*

We have seen, then, that since 1946 macroeconomic consistency and policy-making coherence were systematically undermined by political pressures stemming from the entrenchment of societal interests and the polarisation of interest and class politics. The most sustained attempt at rectifying this pattern occurred under the Onganía dictatorship of 1966-70. This was the first attempt in the post-war period to 'depoliticise' economic policy-making and to privilege

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<sup>28</sup> Guillermo O'Donnell: *Bureaucratic Authoritarianism: Argentina, 1966-1973*, in *Comparative Perspective* (1988), pg 42.

<sup>29</sup> James: *op. cit.*, pg 183.

<sup>30</sup> O'Donnell: *op.cit.*, pg 43.

<sup>31</sup> *ibid.*, pg 51.

<sup>32</sup> George Philip: *The Military in South American Politics* (1985), pg 249.

technical expertise as the basis of the policy-making process. The success of the economic strategy, therefore, was seen to depend fundamentally on the removal of such obstacles to the essentially 'technical' task of economic policy formulation and management.<sup>33</sup> This was also the first instance of an authoritarian regime which aimed to centralise state power and use it to attack the unions and working classes.<sup>34</sup>

Economic policy emphasised the completion of the industrialisation project through the manipulation of income distribution and relative prices, with greater importance attached than previously to the private sector and multinationals.<sup>35</sup> This was not, however, a free-market strategy. Economy Minister Adalbert Krieger Vasena did not share Alsogaray's belief in the market as the vehicle for promoting efficient industrialisation, but rather emphasised state planning and regulation in the pursuit of growth and the reduction of inflation. In addition, the economic strategy aimed to achieve an extensive redistribution of resources from domestic to foreign investors (through a lowering of tariff and other barriers and an increase in the incentives for foreign investment), and from workers and the agrarian sector to urban employers.<sup>36</sup>

The economic strategy announced in March 1967 involved a tight monetarist stabilisation plan which entailed wage controls, fiscal restraint, credit restriction and a 40% devaluation of the currency. In addition, the package involved a significant reduction in import duties, the liberalisation of the foreign currency market, the suspension of collective bargaining, and a price agreement with industrial firms in exchange for access to credit and state contracts.<sup>37</sup> This was supplemented several days later by the announcement of a stand-by agreement with the IMF and several other lines of international credit. The rationalisation of the state sector involved the removal of subsidies to regional governments and transportation, the reduction in the size of government bureaucracy, and the reduction of the protection available to small and medium sized businesses. The reform of the state was clearly fundamental to the strategy of depoliticising the

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<sup>33</sup> O'Donnell: *op.cit.*, pp. 75-6.

<sup>34</sup> James: *op.cit.*, pg 218.

<sup>35</sup> Wynia: *Argentina in the Postwar Era*, pg 167.

<sup>36</sup> James: *op.cit.*, pg 217.

<sup>37</sup> O'Donnell: *op.cit.*, pp. 85-6.

economy and the task of economic management, in the same way as the free market strategies of the 1970s and 1990s.

The positive initial results of the programme, especially with regard to growth figures, inflation, and the foreign exchange and fiscal situations, did not hide its more compromising effects on agriculture and the export sector. The government evidently expected that the details of the economic plan would serve several political purposes simultaneously: the subordination of the popular sector and the agrarian bourgeoisie on the one hand, and the cooptation of the workers through the maintenance of low food prices on the other.<sup>38</sup> However, the economic orientation failed to achieve support from influential interests, despite the fact that the coup had been backed by both economic liberals and the CGT, which hoped to achieve a kind of 'Peronism without Perón'.<sup>39</sup> Although the labour movement was significantly weakened as a result of the undermining of its bargaining power, there was fierce opposition to this 'denationalisation' of industry and to associated cuts in government spending, as well as the repression of wages which affected income distribution. In February 1967, the CGT's 'Plan of Action' demanded wage and salary increases and greater possibilities for political participation in the decision-making process, as well as calls for mobilisation and strike action.<sup>40</sup> These measures were repressed by the military on anti-subversive grounds. Similarly, opposition emerged after the first couple of years from business, rural landowners and regional entrepreneurs whose position deteriorated relative to industrial and financial interests.<sup>41</sup>

The result of this and opposition to the authoritarian and repressive nature of the regime was the *Cordobazo* uprising of 28-29 May 1969, which started as student protest action and grew into strikes and bloody rioting. The *Cordobazo* destroyed the confidence of the upper bourgeoisie which had been the government's only pillar of support, as a result of the manifest failure of the Onganía administration to maintain political order.<sup>42</sup> The consequent political

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<sup>38</sup> ibid., pg 121.

<sup>39</sup> Philip: op.cit., pg 249.

<sup>40</sup> O'Donnell: op.cit., pg 79. The major strike action of February 1967, however, failed miserably and greatly strengthened the government's hand in terms of its economic policy agenda. See Philip: op.cit., pg 252.

<sup>41</sup> James: op.cit., pg 221.

<sup>42</sup> O'Donnell: op.cit., pg 168.

instability also undermined investor confidence and led to increasing economic difficulties. Krieger Vasena was dismissed and replaced by an economic team less openly favourable to foreign investors. The Onganía administration, then, is a particularly good example of the subordination of economic policy to politics. The *Cordobazo* had very little to do with economic performance: Table 2.1 shows that GDP in 1969 registered one of the highest growth rates in the post-war period (8.6%), and inflation one of the lowest (7.6%). Rather, the events of the *Cordobazo* responded to the political exclusion of Peronism from electoral competition since 1955.<sup>43</sup>

The collapse of this particular authoritarian interlude in 1973 (after the periods in office of Generals Levingston and Lanusse) relate, as before, to the failure to find an acceptable means of incorporating social sectors into the political system. It is perhaps the case that Onganía fell into the typical military trap of assuming governance to be simply a technical matter in which politics could be relegated or eliminated: particularly in view of the complexity and sophistication of Argentine political society, the emphasis on the technical aspects of economic policy-making was simply too limited.<sup>44</sup> The emergence of terrorist activity in the late 1960s is one manifestation of the resurgent political pressure. The resulting levels of instability affected economic performance and the external credibility of the Argentine economy, feeding into the cyclical pattern of crisis. In essence, by 1973 the economic problems were largely the same as those which had faced Aramburu in 1955 and Frondizi in 1958, and the political problems constituted a vicious cycle which neither democratic nor authoritarian governments had been able to break.

The military's response to such persistent political tensions, exacerbated by new forms of violent conflict, was to allow Juan Perón to return from exile and begin a second period in office. In the interests of re-establishing political order and reducing labour unrest, Perón's initial approach rested on a 'social pact' which aimed to bring inflation under control and revive productivity through wage and

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<sup>43</sup> Adolfo Canitrot: "Crisis and Transformation of the Argentine State (1978-1992)", in William C. Smith, Carlos H. Acuña & Eduardo A. Gamarra (eds.): *Democracy, Markets and Structural Reform in Latin America: Argentina, Bolivia, Brazil, Chile, and Mexico* (1993), pg 76.

<sup>44</sup> Philip: op.cit., pg 255.

price freezes agreed with business and the unions.<sup>45</sup> The aim, in sum, was to stem the “inter-sectorial bickering” and the hostility between capital and labour.<sup>46</sup> Worker unrest was expected to diminish with the full-scale incorporation of the CGT into the political process. Basic labour legislation remained largely intact, but the capacities of the CGT were greatly enhanced vis-à-vis the state and local unions, and the monopolies of the unions over their economic sectors were strengthened.<sup>47</sup> Similarly, Peronist domination of the labour sector was consolidated even further, and labour leaders held significant government positions in the 1973-4 period. However, the new government failed to realise that many unions and other labour groups had moved away from the CGT during Perón’s time in exile, and the Peronist Youth, particularly, had become accustomed to revolutionary militancy.<sup>48</sup> As a result, the early part of the second Peronist government had little political success in stemming labour unrest or terrorist violence.

The politically-inspired economic policies pursued during this first year also failed to achieve the stabilisation of the economy. Despite early improvements in employment figures, inflation, growth figures and the external situation, the expansion of the money supply was creating inflationary pressures and the economy showed clear signs of overheating, exacerbated by the oil shock of 1973.<sup>49</sup> After Perón’s death in July 1974, the new president Isabel Perón ended the Social Pact which in any case had started to crumble, and the renegotiation of wages prompted an open confrontation with the unions. The alliance with labour was shattered by the conservative orientation of Isabel Perón’s policies and the 1975-6 period was dominated by increasing levels of activism and protest from the bulwark of the Peronist support base, which were violently repressed. Economic policy was dominated by a freeze on wages and prices that deterred investment and a fixed exchange rate that led to an overvaluation of the currency, economic

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<sup>45</sup> Lewis, pg 419.

<sup>46</sup> Guido Di Tella: “Argentina’s Economy under a Labour-Based Government, 1973-1976” in Di Tella & Dornbusch (eds.), pg 217.

<sup>47</sup> Paul W. Drake: *Labor Movements and Dictatorships: The Southern Cone in Comparative Perspective* (1996), pg 155.

<sup>48</sup> Wynia: *Argentina: Illusions and Realities*, pg 75; Lewis, pp. 418-9.

<sup>49</sup> Guido Di Tella: “The Economic Policies of Argentina’s Labour-Based Government (1973-6) in Rosemary Thorp & Laurence Whitehead (eds.): *Inflation and Stabilization in Latin America* (1979), pp. 190-1.

overheating and foreign exchange shortages. In an attempt at a ‘do-it-yourself’ adjustment under Economy Minister Rodrigo in 1975, the currency was devalued by 50%, which led to a doubling of the exchange rate and a three-fold increase in petrol prices. Inflation rose from 67.7% in the year to May 1975 to 87.7% by May 1976. The economic crisis was such that the government was forced to negotiate a stabilisation agreement with the IMF in early 1976, which constituted a reversal of its traditionally nationalist position. Isabel Perón was overthrown by a military coup in March.

### **Military Dictatorship, 1976-82**

The most sustained attempt after Onganía to break the cyclical pattern of crisis occurred under the military government of 1976-82, with the ‘Process of National Reorganisation’. The link between the economic and political projects in the ‘Proceso’ goes to the heart of the problems of the post-war period. The economic crisis was seen to be a direct result of the social and sectoral conflicts that led to a situation of ungovernability. The military’s virulent anti-Peronism was justified on the grounds that the spiral of economic and political instability was a direct consequence of the changes implemented by the first Peronist government in 1946-55. Specifically, the problems of the preceding decades were attributed to the excessive role of the state in the economy and the distortion of domestic prices as a result of the industrialisation policy, both of which were consequences of Peronist strategy in the 1940s and 1950s.<sup>50</sup> The industrialisation drive furthermore had created a polarised social and civil environment characterised by militant unions and a huge state bureaucracy.

The adoption of liberal economic policies, therefore, was intended not only to eliminate the distortions in the national economy through market-oriented reform but also to eliminate the political problems attributed to Peronism. Apart from the colossal physical repression of Peronist opposition, in which thousands of people were killed or ‘disappeared’, tortured, incarcerated or kidnapped, this was

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<sup>50</sup> Adolfo Canitrot: “La Disciplina como Objetivo de la Política Económica: Un Ensayo sobre el Programa Económico del Gobierno Argentino desde 1976”, *Desarrollo Económico* 76, 19, Jan-March 1980 (pg 453).

attempted through the elimination of the economic arena in which Peronist and associated political interests functioned. A reduction in the size and role of the state, therefore, served both economic and political goals. However, despite this opposition to Peronism there remained significant dialogue between the military government and the unions, which stemmed in part from a long-standing endeavour by elements in both camps to reconstruct the coalition between the state, the military and the unions that had existed under the first Peronist administration in the 1940s.<sup>51</sup>

The economic programme of the 1976-80 period was the first attempt in post-war Argentina to effect a fundamental change in the pattern of capital accumulation, and the first to demonstrate a genuine commitment to market-oriented reform. The first phase of 'orthodox stabilisation' from April 1976 to May 1977 was supported by a substantial inflow of foreign funds following the negotiation of a stand-by agreement with the IMF.<sup>52</sup> Policy measures included the implementation of foreign investment legislation, wage controls and the freeing of prices, which together led to an improvement in Argentina's external situation (in conjunction with the renegotiation of the foreign debt) although inflation remained bothersome. Major financial reform followed from June 1977 to April 1978, the implications of which generated the '20 December Plan' of 1978, which constituted an attempt to use foreign competition to stabilise domestic inflation. This involved commercial liberalisation, the shift of public finance from the Argentine Central Bank (BCRA) to internal and external capital markets, and the adoption of an exchange table (*tablita*). The fixing of the exchange rate at a level significantly below inflation was intended to generate stability and investor confidence, and to influence internal price levels so that domestic and international prices would converge.<sup>53</sup>

The economic reasons for the eventual failure of Economy Minister Martínez de Hoz's policy package are several. On the one hand, the counter-

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<sup>51</sup> Drake, pg 164.

<sup>52</sup> Following the stand-by, \$1 billion was granted to Argentina by a consortium of Japanese, US and European banks. See William C. Smith: "Reflections on the Political Economy of Authoritarian Rule and Capitalist Reorganization in Contemporary Argentina" in Philip O'Brien & Paul Cammack (eds.): *Generals in Retreat: The Crisis of Military Rule in Latin America* (1985), footnote 38.

<sup>53</sup> Smith: *Authoritarianism*, pg 241.

inflationary effort was pursued at the cost of an overvaluation of 50%, which in turn hurt the liberalisation component of the economic strategy. The overvaluation was also generated by the failure of the military government to make the drastic reductions in state spending necessary for addressing the fiscal problem: levels of state ownership and government expenditure actually *increased* during the Proceso, particularly in areas of industrial promotion and military budgets, together with the acquisition of key enterprises such as Fabricaciones Militares. The agricultural bias of commercial policy, as well as the liberalisation of the economy, led to a sustained process of de-industrialisation: industrial production declined by more than 25% between 1976 and 1980. The labour force, for its part, was reduced by 26%.<sup>54</sup> In any event, the liberalisation programme was never successfully implemented (in 1981, the highest tariff rate was still 55%), the current account slipped from a surplus of \$2 billion in 1978 to a deficit of \$5.7 billion in 1981, and the balance of trade registered a deficit of \$2.23 billion in 1980 after a \$2.34 billion surplus in 1978. Capital flight was endemic by the early 1980s as a result of the collapse of the banking sector in March 1980.<sup>55</sup> The foreign debt rose from \$8 billion in 1975 to \$27 billion in 1980 and \$45 billion by late 1983.

The failure of the project of the Proceso was linked more generally to the subordination of economic policy to strategic / military concerns, and also, more importantly, to the unravelling of the initial support coalition it constructed.<sup>56</sup> This was compounded by extremely high levels of factional disunity within the military institution, which complicated the generation of consensus both within the ruling elite as well as outside it.<sup>57</sup> As economic difficulties compelled adjustments in the economic policy orientation, the support of the Argentine Rural Society (SRA) and the financial community (to whose interests the financial reform of 1977 had responded) began to dwindle, and with it the military's only sources of societal legitimacy.

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<sup>54</sup> Alain Rouquié: "Argentina: The Departure of the Military - End of a Political Cycle or Just Another Episode?", *International Affairs* 59, 4, 1983 (pg 578).

<sup>55</sup> The Banco de Intercambio Regional was the first to collapse, followed by the Banco de los Andes, Banco Oddone and Banco Internacional. Deposits in these banks amounted to 10% of the national total. Edward C. Epstein: "Recent Stabilization Programs in Argentina, 1973-86", *World Development* 15, 8, 1987 (pp. 998-9).

<sup>56</sup> *ibid.*, pg 996.

<sup>57</sup> See Philip: op.cit., pg 273; David Pion-Berlin: "The Fall of Military Rule in Argentina, 1976-83", *Journal of Inter-American Studies and World Affairs* 27, 2, Summer 1985 (pg 56).

## The Alfonsín Administration and the Economic Crisis of 1988-9

The most pressing objectives for the incoming civilian government in 1983, therefore, were the stabilisation and adjustment of the economy and the normalisation of Argentina's external position. During the first part of the 1980s, the government proposed simultaneously to reactivate the economy, eliminate inflation and increase real wages. As such, the strategy was a largely *sui generis* attempt to address the problem of inflation (running at 343.8% in 1983) without fiscal restructuring, to instigate a policy of redistribution rather than structural reform on the assumption that growth would resume as a result of reactivated domestic demand, and to adopt a confrontational stance vis-à-vis external creditors in the expectation that their concern for the maintenance of democracy would compel special treatment.<sup>58</sup> The poor performance of the economy from 1983-5, however, reflects a general underestimation of the severity of the economic crisis<sup>59</sup>, on the part of the government and of societal actors that were not inclined at this stage to tolerate the costs of harsh adjustment measures. Business groups were opposed the general orientation of the Alfonsín government's economic strategy. The failure of the government's plans for labour reform in 1984 combined with poor economic performance in the first couple of years provoked significant opposition to the Radical administration from the labour sector, which may well have been expected in light of its traditional allegiance to the PJ. The consequent decision to postpone initiatives on labour legislation and the resort to legal mechanisms established during the *Proceso* to set prices and salaries strengthened the unions to the extent that the leadership felt able to launch a concerted campaign of opposition.<sup>60</sup>

The appointment of Juan Sourrouille as Economy Minister in February 1985 led to a change in this economic strategy with the announcement of the

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<sup>58</sup> Roberto Bouzas: "Más Allá de la Estabilización y la Reforma: Un Ensayo sobre la Economía Argentina a Comienzos de los 90", *Desarrollo Económico* 33, 129, April-June 1993 (pg 9).

<sup>59</sup> José Luis Machinea: "Stabilisation under Alfonsín" in Colin M. Lewis & Nissa Torrents (eds.): *Argentina in the Crisis Years (1983-1990): From Alfonsín to Menem* (1993), pgs 124 & 127.

<sup>60</sup> Carlos H. Acuña: "Politics and Economics in the Argentina of the Nineties (Or, Why the future no longer is what it used to be)" in William C. Smith, Carlos H. Acuña & Eduardo A. Gamarra (eds.): *Democracy, Markets and Structural Reform in Latin America: Argentina, Bolivia, Brazil, Chile and Mexico* (1994), pp. 32-3.

Austral Plan in June. This was a heterodox economic plan that aimed to control inflation and stabilise the external sector. Effectively, the shock treatment aimed to force socio-economic actors to redefine their expectations and generate credibility for the government both internally and externally.<sup>61</sup> After early positive results, and the implementation of the second phase in February 1987, a combination of structural difficulties associated with the reform programme, an increasingly unfavourable international environment (especially with regard to agricultural prices) and political factors led to the re-emergence of economic imbalances and the Austral Plan quickly ran out of steam. The recession generated by falling inflation levels and the impact of the wage freeze on incomes led to increased labour activism and a spate of industrial action.

These early difficulties of the Alfonsín administration stemmed largely from societal reactions to economic instability (in the form of a loss of confidence in the government) and to the frustration of the high expectations that inevitably accompany a transition to democracy. Former President Alfonsín insists on the point about unsustainable expectations, although he maintains that these did not have a significant impact on policy choice.<sup>62</sup> In fact, the government's emphasis on building relations with key societal interests, and its need for the support of both business and labour, were not matched by any significant concessions to societal input into the decision-making process.<sup>63</sup> For example, after a series of lukewarm efforts to negotiate a general 'social pact' with the unions, from May 1986 the Sourrouille team started to bypass the CGT in favour of bargaining directly with

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<sup>61</sup> Acuña: op.cit., pp. 33-4. For a full account of the Austral Plan, see William C. Smith: "Hyperinflation, Macroeconomic Instability, and Neoliberal Restructuring in Democratic Argentina" in Edward C. Epstein (ed.): *The New Argentine Democracy: The Search for a Successful Formula* (1992), pp. 27-32; Luigi Manzetti & Marco Dell'Aquila: "Economic Stabilisation in Argentina: The Austral Plan", *Journal of Latin American Studies* 20, 1, 1988; and Roberto Bouzas & Saúl Keifman: "Argentine Export Promotion Policies: An Overview of the 1976-1985 Decade" in Helen Hughes (ed.): *The Dangers of Export Pessimism: Developing Countries and Industrial Markets* (1992).

<sup>62</sup> Interview with Raúl Alfonsín, Buenos Aires, 31 July 1995

<sup>63</sup> William C. Smith: "Democracy, Distributional Conflicts and Macroeconomic Policymaking in Argentina 1983-89", *Journal of Inter-American Studies and World Affairs* 32, 2, Summer 1990 (pp. 12-13).

the heads of key industrial federations, in the interests of stemming wage pressures.<sup>64</sup>

Despite considerable scepticism from the private sector throughout the period, the Austral Plan garnered tentative initial support from business but outspoken opposition from labour. Hostile reactions to continued austerity measures, falling wage levels, rising unemployment, recession in the agricultural sector and the government's failure to take a hard line with the unions, by 1987 had engendered opposition from both labour and capital, agricultural groups and the Argentine Industrial Union (UIA). Furthermore, the political wings of the Radical administration were leaning on the technocratic economic team as a result of the political backlash from the Austral plan and subsequent economic policies.<sup>65</sup> These tensions were exacerbated by the coincidence of the Austral Plan announcement with the start of judicial proceedings against members of the Armed Forces associated with human rights violations.

The situation in late 1986 and early 1987 reflected the reconsideration of government policy. It appeared that the government had recognised its earlier underestimation of the severity of the crisis, and the new emphasis on liberalisation and state reform constituted an attempt to rectify the consequent failure of economic policy. The problem was that the government had considerably eroded the political capital it possessed in 1983 as a result of the transition to democracy, and growing societal opposition even at this stage significantly reduced the feasibility of successfully implementing the new set of policy goals.<sup>66</sup> In addition, political developments contributed to the general impression of government weakness: the military's Easter uprising of 1987, and the appointments of a union leader as Labour Minister and a representative of the SRA as Agriculture Secretary appeared to contradict the 'new' orientation of economic policy.<sup>67</sup> Put together, these created an impression of political vulnerability, in which the government was seen to be capitulating to the demands and preferences organised interests.

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<sup>64</sup> Robert R. Kaufman: "Stabilization and Adjustment in Argentina, Brazil and Mexico" in Joan M. Nelson (ed.): *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (1990), pg 89.

<sup>65</sup> Smith: "Democracy, Distributional Conflicts", pp. 16-17.

<sup>66</sup> Acuña: op.cit., pg 35.

<sup>67</sup> ibid., pg 35.

Attempts were made to deepen and reinforce the process of structural adjustment throughout 1987, particularly with the 'July Plan', in the shadow of the 1987 elections in which the government lost its majority in the Chamber of Deputies and control of several provincial governments. Despite the government's assurances throughout June and July of the following year that it was not preparing a new anti-inflationary 'shock' programme<sup>68</sup>, in August 1988 the 'Spring Plan' (*Plan Primavera*) was implemented as a last-ditch attempt to shore up political capital and to secure the financial support of international institutions such as the IMF and the World Bank.<sup>69</sup> It involved an agreement with the UIA and the Argentine Chamber of Commerce, both of which were concerned that an economic crisis would result in the presidential election of a Peronist candidate.<sup>70</sup> However, the condemnation of the Plan from all of the major agricultural groupings (including the SRA) was almost immediate, and soon accompanied by opposition from industrial interests.<sup>71</sup>

The failure of the Spring Plan and the continuing economic instability, as well as the persistence of inflation, led to the virtually complete withdrawal of support by all economic (and political) sectors by late 1988. This was exacerbated by expectations of greater pressures on wages and the intensification of the presidential election campaigns, in which candidate Menem was making reference to a possible moratorium on the external debt and the *salarioazo*.<sup>72</sup> The ensuing political and economic crisis, characterised most notably by the return of hyperinflation, necessitated the resignation of Sourrouille on 31 March 1989, along with the BCRA President José Luis Machinea, Treasury Secretary Mario Brodersohn, Economic Coordination Secretary Adolfo Canitrot and Domestic Trade Secretary Carlos Bonvecchi.<sup>73</sup> Sourrouille was replaced by Juan Carlos Pugliese, who was in turn replaced in June by Jesús Rodríguez after waves of rioting and looting in various parts of the country, in response to which the government declared a state of siege.<sup>74</sup>

<sup>68</sup> *Latin America Weekly Report*, 2 June 1988.

<sup>69</sup> See Presidencia de la Nación, Secretaría de Planificación: *Plan Nacional de Desarrollo 1987-1991*, April 1987.

<sup>70</sup> Acuña: op.cit., pg 36.

<sup>71</sup> For an analysis of the opposition to the Spring Plan, see "New Plan Attacked From All Sides", *Latin America Weekly Report*, 1 September 1988, "Government Moves to Ease Imports", *Latin America Weekly Report*, 22 September 1988.

<sup>72</sup> Acuña: op.cit., pp. 36-7.

<sup>73</sup> *Latin American Regional Reports - Southern Cone*, 20 April 1989.

<sup>74</sup> "Inflation provokes social explosion", *Latin American Regional Reports - Southern Cone*, 29 June 1989.

On 31 May, Alfonsín and President-elect Menem issued a joint communiqué after a secret meeting, in which Menem agreed to the establishment of joint UCR-Peronist commissions to work on reformulating the 1989 budget (giving greater attention to social issues), sending a delegation to the United States to discuss the debt situation and designating representatives in all areas of government to facilitate the changeover of government.<sup>75</sup> This was followed by a surprise announcement (even to Menem) of Alfonsín's intention to leave the presidency on 30 June rather than in November.

The crisis of the late 1980s was characterised principally by an acute foreign exchange shortage and hyperinflation caused by macroeconomic imbalances, accompanied by a fall of around 20% in per capita income and a reduction in domestic investment of around 50%.<sup>76</sup> In addition, in the light of fears of a default on the foreign debt, capital flight accelerated, along with an increase in tax evasion that exacerbated the problem of deteriorating revenues. The crisis has been attributed to three trends that characterised the Argentine economy in the 1980s.<sup>77</sup> The first was the consolidation of an inflationary economy, characterised not only by persistent increases in price indexes, but also by a "set of formal and informal institutional arrangements which aimed to equip private sector activity to a highly uncertain and unstable environment". Second, the collapse of the financial system at the start of the decade produced a marked reduction of internal financial intermediation and a notable dollarisation of significant parts of the private sector. Third, the external debt accumulated in the late 1970s drastically altered the structure of external accounts, and net outflows of funds created a persistent current account deficit. Moreover, the economy became more vulnerable to external shocks such as rises in interest rates, and participation in international markets was thus constrained. The collapse of the Soviet Union, after a steady decline in its importance as a market for Argentine exports, exacerbated these difficulties in the external sector. Moreover, the fiscal deficit, which presented the most apparently intractable problem for the Alfonsín government, was never low enough (with the exception of the first year of the Austral Plan) to sustain the stabilisation of the economy.<sup>78</sup> This may be traced to a

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<sup>75</sup> *ibid.*

<sup>76</sup> Bouzas: "Más Allá", pg 3.

<sup>77</sup> *ibid.*

<sup>78</sup> Machinea, pg 131.

conjunction of political factors, dominated by a concern for the survival of democracy.

On the political front, the end of the decade was characterised by a general mobilisation on the part of formerly corporatist political interests. These included a series of military uprisings (such as the La Tablada incident) in protest at the Alfonsín administration's attempts to try officers responsible for human rights abuses under the military government and later at the pervasive economic crisis. Labour activism increased, particularly from 1986, in the form of frequent general and partial strikes. Between 1983 and 1989, there were a total of 13 general strikes and 72 sectoral strikes. If the number of participants in the latter are added together, these sectoral strikes would constitute over 50 general strikes over a six-year period.<sup>79</sup> Business registered its opposition through the usual mechanisms of sending capital abroad and decreasing investment levels in the economy. The regional electoral successes of the PJ throughout 1987 and 1988 contributed to an overall climate of instability and frustration, and fed into the spiral of economic decline which ended in hyperinflation and the collapse of the government in 1989.

With each failure of stabilisation under Alfonsín, public confidence in the government was eroded further. As such, this was something of a vicious circle in which a failure to stabilise threatened economic development, but the failure of stabilisation, which can be attributed largely to political constraints on addressing the fiscal issue, generated exactly the same loss of legitimacy. The economic consequences of the repeated failures, furthermore - such as a lower demand for money and diminishing opportunities to finance the deficit in the domestic capital market - fed back into the loop and made stabilisation dependent on an even lower fiscal deficit, which in turn was made unfeasible by the government's loss of credibility.<sup>80</sup>

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<sup>79</sup> Interview with Julio Godio, Buenos Aires, 26 May 1997. For a full analysis of labour relations under the Alfonsín government, see James W. McGuire: "Union Political Tactics and Democratic Consolidation in Alfonsín's Argentina", *Latin American Research Review* 27, 1, 1992.

<sup>80</sup> Machinea, pg 131.

## **Patterns of Crisis and Reform in Argentina**

The above analysis has demonstrated, then, that the recurrent crises in the Argentine political economy stemmed largely from a blend of political difficulties which led to the relegation of macroeconomic consistency in favour of short-term political gain. This approach to politics was prompted, on one level, by the chronic insecurity of tenure in office and the constant threat of military take-over, which created a situation in which short-term political capital was far more important than long-term development strategy. The consequences for inflation (in the economic sphere) and also for the belligerence of societal interests (in the political sphere) follow a predictable pattern of generation and regeneration, and have been highlighted throughout the above discussion. Both of these in turn weaken the legitimacy of governments and further exacerbate the same insecurity of tenure in office. As such, Argentine political and economic history can be described as a sequence of ever-decreasing circles in which governments are consistently unable to balance political and economic imperatives. Those which concentrate on the pacification of societal demands create economic crisis, and those which attempt to concentrate on the implementation of an economic strategy incur political crisis.

The lesson is one which the Menem administration managed to learn quite well. The twists and turns taken by policy reform efforts in post-war Argentina stem largely from attempts to divert or neutralise political opposition to economic policy in a situation of weak governmental legitimacy. This lack of legitimacy applies to governments of all colours in this period, and stems largely from sharp divisions in the power bases or 'constituencies' represented by the main political protagonists. Peronism's support base was clearly much more firmly established than either the military's or the Radical Party's. The Peronist alliance was dominated by organised labour (principally under the umbrella of the CGT), small and medium sized business sectors and industry (represented by the General Economic Confederation (CGE)), with tangential support from large industry (the UIA) and major agriculture in rural areas (the SRA). The military, on the other hand, was closely linked to multinational finance and agricultural export sectors. Organised support for the Radical Party (UCR) was always relatively weak, and

there was no sector that traditionally has offered the sort of unconditional political commitment that the PJ received from the labour sector.<sup>81</sup> The result, predictably, was a political economy characterised by a high level of union militancy, a stalemate between capital and labour, and the extreme politicisation of the Armed Forces. These tensions and conflicts, furthermore, were enacted in a context of corporatism, in which the government itself established the pattern of political relations which created the situation of political and economic ungovernability.

The result of these patterns was open confrontation between different societal groups and between government (or state) and society. From the 1940s no single economic grouping was able to achieve sustained access to political power, which had the additional effect of undermining the possibilities for unity within these groupings.<sup>82</sup> Furthermore, no government after 1955 was able to absorb the electoral strength of Peronism.<sup>83</sup> The experiences of the second Peronist government in 1973-6 demonstrate that the relations of the labour sector with even Peronist administrations were often tense or uneasy, and these were exacerbated by ideological conflicts within and between the unions. Similarly, the industrialisation biases of the 1946-76 period in Argentina generated hostility to government policy from the economically and politically disempowered agricultural sectors, and also rivalry with industrial sectors for resources and political influence. Fragmentation even existed between industrial sectors, especially between those that utilised foreign sources of capital and those that were oriented towards domestic production and investment. It may well be the case that the consequent weaknesses of these societal interests played a large part in determining the repeated failure of attempts at social pacts between government, business and labour.<sup>84</sup>

In sum, the hyper-politicised state bequeathed by the Peronist government of 1946-55 was not adequate to the task of either economic or political governance. This was demonstrated in its inability to direct or control the corporatist system of interest representation, and in the constant undermining of economic development as a result of political instability and the impact on prices of the excessive

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<sup>81</sup> Epstein: "Recent Stabilization Programs", pg 992.

<sup>82</sup> Colin M. Lewis: "Cycles and Macroeconomic Policy since the 1930s" in Lewis & Torrents (eds.), pg 113.

<sup>83</sup> O'Donnell: *op.cit.*, pg 43.

<sup>84</sup> Lewis, pg 115.

commercial protection demanded by these interests. The result was a spiral of recurrent economic crisis, which usually led to military intervention, and hence to recurrent political crisis. The period from the mid-1950s to the time of the military's intervention in 1976 was characterised principally by stop-go growth cycles in the economy with consistently high levels of inflation, and in the political sphere by an astonishingly high turnover of governments. The expansionary phases in the economy were associated usually with the democratic interludes, while the restrictive policies that followed were typically implemented by military governments that were less compelled to be responsive to hyperactive political interests.

As a result, the predominance of inflation in the Argentine economy can be explained with reference to a process by which "inflation replaced politics"<sup>85</sup> as the state resorted to inflationary policies of transfers of income between sectors as a means of resolving societal conflict. Democratic governments concerned with political survival were most likely to implement expansionary policies that were inherently inflationary. The other feature of this situation concerned the inadequate tax system, the implication of which was a huge gap between the state's ability to extract resources from society and its contractual obligations to various societal sectors.<sup>86</sup> From there stemmed recurrent fiscal problems and the pattern of development based on the maintenance of high deficits, high levels of indebtedness and problems with inflation as a result of the expansion of the monetary base.

This 'culture of inflation' exacerbated the short-termism mentioned earlier on the part both of government policy-makers and society at large. This in turn created high levels of "distributional conflict" in which all groups in society were pursuing short-term pay-offs in the expectation that inflation would remain high.<sup>87</sup> The distributional conflict, therefore, is characterised by a situation in which a government attempting to implement a stabilisation programme during a situation of economic crisis or stagnation would necessarily have to engage in zero-sum payoffs and impose income losses on labour, sectors of the middle classes and the weaker business sectors. These conditions would be exacerbated by a reduction in

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<sup>85</sup> Palermo & Novaro, pg 40.

<sup>86</sup> ibid., pg 42.

<sup>87</sup> Smith: "Democracy, Distributional Conflicts", pg 4.

the collective wealth of the society which imposes negative-sum payoffs in the process of adjustment.<sup>88</sup>

These tensions characterised the Alfonsín government throughout the 1980s. Apart from political opposition to government policy, this featured an enduring opposition between labour and business sectors, which resisted overtures from the latter towards the construction of some kind of social pact.<sup>89</sup> At the time of the announcement of the Spring Plan, the economic team were blunt in their attribution of the economic difficulties to Argentine civil society. Furthermore, in 1989 the interim Economy Minister Rodríguez stated that the ‘definancing’ of the Argentine economy was due principally to the situation of political fragility throughout the period.<sup>90</sup> However, the problem can be better formulated in terms of the government’s limited political capacity to implement its policies and to achieve respect for these from society and societal interests.<sup>91</sup>

Put together with the military unrest of 1987 and 1988, the crisis can be seen in two ways: first, as the culmination of the process of economic decline characterised by recurrent inflation and fiscal collapse, and second, as the culmination of the type of political society and interest group politics constructed by Peronism and maintained throughout the post-war period. As such, therefore, we can see the crisis of the late 1980s as representing the exhaustion of both the economic model that dominated the preceding 40 years, and the political structure of Argentina characterised by a hyperactive state and a corporatist system of interest representation.

## Conclusion

This chapter has demonstrated both the cyclical nature of post-war development in Argentina, and the essentially interconnected nature of the political and economic trajectories. As Paul Lewis summarises neatly, “the political and economic systems are like two connected wheels that rotate together with a certain

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<sup>88</sup> ibid., pp. 4-5.

<sup>89</sup> Jesús Rodríguez: “Agosto ‘89”, mimeo, Buenos Aires, 1989 (pg 11).

<sup>90</sup> ibid.

<sup>91</sup> Graciela Ducatenzeiler & Philip Okhorn: “Democracia, Autoritarismo y el Problema de la Gobernabilidad en América Latina”, *Desarrollo Económico* 34, 133, April-June 1994 (pg 45).

degree of predictability".<sup>92</sup> The cycles can be defined according to a number of different parameters: growth, inflation, foreign exchange bottlenecks and military intervention in politics are some of the possibilities. These trends in the Argentine political economy led most analysts and observers to be pessimistic about the prospects for resolving the perpetual propensity towards crisis. Numerous statements to the effect of "even under an authoritarian regime, a strategy of transformation based upon market mechanisms is bound to face insurmountable opposition in Argentina"<sup>93</sup> give a good impression of the ways in which the pattern of crisis and reform was perceived to be institutionalised and intractable. There was no reason to assume in 1989 that the experience of the incoming Menem government would be any different.

At face value, therefore, the implementation of reform in the 1989-91 period is not particularly surprising as a response to the severity of the economic crisis and the collapse of the state in 1988-9. The consolidation of Menem's reform effort through the first part of the 1990s, on the other hand, is rather more surprising. Rather than collapsing under its own weight as a result of political pressures, the outcome of reform in the 1990s was the consolidation of a neoliberal economic model which has remained intact despite the recent emergence of serious opposition parties in Argentina. Although the political orientation of the Menem administration is the foundation of these new opposition currents, the economic model is rarely questioned. Chapters 5, 6 and 7 argue that this can be traced directly to new international currents which allowed for a sustained and durable process of reform in Argentina. The following two chapters, by way of preface to this analysis, are concerned with the nature of economic and political reform under Menem, and the ways in which these processes led to a rupture with the pattern of crisis and reform discussed above.

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<sup>92</sup> op.cit., pg 502.

<sup>93</sup> L. Beccaria & R. Carcifoi: "The Recent Experience of Stabilising and Opening Up the Argentinian Economy", *Cambridge Journal of Economics* 6, 1982 (pg 163).

## Chapter 3

### ‘Surgery Without Anaesthetic’: Economic Reform under Menem

The recurrent crises of the post-war period point to two principal problems in the Argentine economy. The first is one of economic (mis)management, and relates to flaws in policy choice as well as problems of economic governance created by the political difficulties outlined in the previous chapter. Essentially, the politics of economic management in Argentina frustrated possibilities for coherent macroeconomic policy and created a situation in which long-term development strategy was subordinated to short-term considerations dictated by the pervasive threat of military take-over. The second is a growth problem, characterised by persistent economic stagnation. This may be attributed reasonably to a crisis in the export economy. The inward-looking orientation of post-war economic policy resulted in the neglect and underdevelopment of the external sector, as well as Argentina’s relative isolation from the international economy. In the 1980s, this was exacerbated by the closing of international markets in the aftermath of the Falklands War and the collapse of the alternative market - the Soviet Union - towards the end of the decade.

This and the next chapter are concerned with outlining the nature of Menem’s economic and political strategies, and therefore with addressing the ways in which Menem apparently rectified both of these problems in the political economy of his country. This two-fold classification of the difficulties of the Argentine economy also sheds further empirical light on the more theoretical arguments advanced in Chapters 5, 6, and 7. The issue of management was addressed largely through the establishment of closer relations with the IMF, and the adoption of the political and economic measures required to comply with the conditionality provisions. The growth issue ties in with the discussion of regionalisation. If the stagnation of the Argentine economy can be related primarily to the poor functioning of the export economy, the development of the Southern Cone Common Market (Mercosur) is obviously a means by which this particular bottle-neck can be resolved. These arguments will be expanded in the relevant chapters.

The specific economic achievements of the Menem government, in the light of the recurrent characteristics of post-war development, can be identified as the following. First, throughout the post-war period economic policies associated with anti-inflationary strategies necessarily conflicted with any possibilities for genuine or sustained growth. Similarly, the macroeconomic imbalances created by the persistence of inflation complicated the implementation of coherent growth strategies. The Menem government, on the other hand, managed to combine low inflation with relatively high growth levels, thus eliminating the traditional trade-off between these two economic goals. This is illustrated in Table 3.1 below. Second, the economic strategy was the first to achieve the full-scale reform of the state, principally through policies of privatisation, deregulation and administrative reform, which had the effect of eliminating the inefficiencies and fiscal burdens associated with an inflated public sector. This also had a significant political dimension, in that the depoliticisation of the economy was closely linked to the reform of the state and the consequent removal of the arena in which socioeconomic interests could actively press their demands. Third, the Menem government is associated with the only successful liberalisation of the economy in the post-war period, based on an opening to international markets and a process of internal deregulation.

**Table 3.1: Percentage Change of Real GDP and Consumer Prices, 1988-1995**

Year	GDP Growth Rates	Consumer Prices
1988	-1.9	343.0
1989	-6.1	3079.0
1990	0.0	1343.9
1991	8.8	84.0
1992	8.6	17.5
1993	6.1	7.4
1994	7.4	3.9
1995	-4.4	1.6

Sources: *United Nations Economic Survey of Latin America and the Caribbean*, various numbers; *Statistical Abstract of Latin America*, various numbers

For the purposes of the present chapter, the chronology of reform under Menem is particularly important for fleshing out the central research question: how sustained and consolidated reform became possible in Argentina. The process of economic reform can be divided into two periods: from 1989-1991, and from 1991/2 to the end of the first Menem administration in 1995. The evidence suggests that the first 'implementation' phase showed signs of repeating the pattern that had been established over previous decades, with the resurgence of hyperinflation in 1990 and the emergence of serious questions about the fate of the government. The implementation of the Convertibility Plan in 1991, after the appointment of Economy Minister Domingo Cavallo, constituted the start of the second 'consolidation' phase in which the Argentine economy was genuinely stabilised and restructured. As such, the chronological analysis of reform suggests a reversal of the usual outcome of reform efforts in the post-war period, and the consequent installation of a "neoliberal revolution" in Argentina.<sup>1</sup> This chapter, therefore, aims to trace the development of economic policy under Menem and to highlight the issue of the chronological sequence of reform, as well as the nature of the strategies pursued in both of the phases.

### **1989-91: Implementation of Reform and Resurgence of Hyperinflation**

The economic policy trajectory of the Menem government was somewhat bumpy from 1989 until the appointment of Domingo Cavallo as Economy Minister in March 1991. This can be attributed in part to the often incoherent and inefficient implementation of policy as a result of significant power struggles in the executive branch.<sup>2</sup> Nevertheless, the government's commitment to neoliberal reform was manifest and remained intact during the first two years of the administration. The response of successive economic teams to the resurgence of inflation or the prospect

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<sup>1</sup> Carlos H. Acuña: "Politics and Economics in the Argentina of the Nineties (Or, Why the future no longer is what it used to be)" in William C. Smith, Carlos H. Acuña & Eduardo A. Gamarra (eds.): *Democracy, Markets and Structural Reform in Latin America: Argentina, Bolivia, Brazil, Chile and Mexico* (1994), pg 31.

<sup>2</sup> See, for example: "Menem troubled by cabinet infighting", *Latin American Regional Reports - Southern Cone*, 21 December 1989; "Argentina's Peronists facing a split", *Latin American Regional Reports - Southern Cone*, 13 September 1990 .

of renewed economic collapse was to progressively accelerate the liberalisation of the economy. Paradoxically perhaps, the neoliberal policy orientation was sustained and deepened through the 1989-91 period, largely in response to the emergence of difficulties with it. As the next chapter demonstrates in more detail, this period was also associated with a progressive centralisation of power which aimed to remove the political obstacles to the economic reform agenda.

In the context of severe economic crisis and political collapse, the new government of Carlos Menem that took power on 8 July 1989 had two principal economic policy goals: to eliminate hyperinflation (running at 5000%) through an improvement of the fiscal situation and to undertake a far-reaching reform of the state, including a programme of extensive privatisation, with the aim of improving efficiency and coherence. These goals were formulated on the basis of a number of assumptions concerning the economic mechanisms by which the crisis of the late 1980s had been produced: (i) the role of state regulation of the economy in producing persistent economic stagnation; (ii) the role of consequent macroeconomic instability in creating inflationary crises, rising levels of external indebtedness and pressure on the exchange rate; (iii) the consequent absence of available funds for investment which led to low overall productivity levels; and (iv) the resulting maintenance of a relatively closed economy which prevented improvements in efficiency by protecting domestic industries from outside competition.

In a swift reversal of populist election promises, therefore, the government adopted a neo-liberal set of economic policies in line with the so-called ‘Washington Consensus’<sup>3</sup> that emphasised stabilisation, adjustment and liberalisation. This was accompanied by an active foreign policy that aimed to mend fences with international creditors, establish strong global trading links and restore political relations with countries such as Great Britain and the United States. The new policy direction was notable for its relegation of the public sector as the motor of development in favour of private investment, and also for the central importance accorded to the agricultural sector. More specifically, the economic package emphasised deregulation and privatisation, tax and monetary reform, exchange rate stabilisation, the long-term

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<sup>3</sup> For classic statements of the Washington Consensus, see John Williamson (ed.): *Latin American Adjustment: How Much Has Happened?* (1990), and *The Political Economy of Policy Reform* (1994).

renegotiation of the foreign debt, and the continuation of trade and industrialisation policies in the interests of supporting price stability and renewed economic growth.

A number of stabilisation plans were implemented in quite rapid succession during the first two years of the Menem administration, which contributed to the impression of a rather *ad hoc* decision-making process. The first, the *Plan Bunge y Born* (or 'Plan BB') was announced in July 1989 by former Bunge & Born vice-president and new Economy Minister Manuel Roig, and implemented following his sudden death by Néstor Rapanelli. The Plan BB constituted a fairly run-of-the-mill series of stabilisation measures with the full support of the IMF, World Bank and United States government. Its overall aim was to initiate a process of economic restructuring which emphasised deregulation, privatisation and fiscal discipline through the achievement of increased external competitiveness and the capitalisation of the foreign debt.<sup>4</sup> The currency was devalued by 53.6% and rates for public goods and services raised. In addition, and in the interests of stabilising inflation and improving the fiscal situation, Rapanelli negotiated an agreement on prices with the business sector (specifically with 350 'price-forming' companies) in which the latter agreed to moderate future price increases in return for assurances from the government that interest rates would be lowered and that changes to the exchange rate and public sector tariffs would be delayed until March 1990.<sup>5</sup>

The process of economic restructuring was facilitated by two major pieces of 'omnibus' legislation enacted by decree in August 1989, with the support of both Chambers of Congress. The Reform of the State Law (no. 23,696) and the Emergency Economic Law (LEE) (no. 23,697) prepared the ground for the privatisation process and eliminated government policies that were seen to cosset key economic actors such as industrial promotion subsidies. The LEE also laid the ground for trade policy reform, particularly the elimination of import restrictions and

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<sup>4</sup> William C. Smith: "State, Market and Neoliberalism in Post-Transition Argentina: The Menem Experiment", *Journal of Inter-American Studies and World Affairs*, 33, 4, Winter 1991 (pg 54).

<sup>5</sup> Smith: "State, Market", pg 53; Felipe A.M. de la Balze: "Reforma y Crecimiento en la Argentina" in De la Balze (ed.): *Reforma y Convergencia: Ensayos sobre la Transformación de la Economía Argentina* (1993), pg 61.

export taxes.<sup>6</sup> As such, both pieces of legislation constituted a direct hit on the model of “government-assisted capitalism” that had dominated the post-war period.<sup>7</sup>

The stabilisation of the economy in the early 1990s was reflected in the behaviour of the real exchange rate, which fell from its highest level in the hyperinflationary episode of May 1989 to its lowest level in late 1990. When the Menem government came to power in 1989, the economy was characterised by high levels of capital flight generated by a perception that a change in the exchange rate policy regime was both imminent and necessary.<sup>8</sup> In the three months from 6 February 1989 to the presidential elections in May, the exchange rate structure was amended three times. In December 1989 the difficulties encountered in the stabilisation of the economy, as well as the 50% gap between the free and official exchange rates, prompted the government to attempt to reverse the decline with the adoption of a fixed rate. This was abandoned a few days thereafter and replaced with a free and floating exchange rate system under which the various different rates were unified, accompanied by the elimination of nearly all existing price controls. Towards the end of December, however, rumours of the complete 'dollarisation' of the economy were gaining ground.<sup>9</sup> In the first two months of 1990, the continued climb of the currency against the dollar prompted the government's advisor on foreign debt, Alvaro Alsogaray, to admit the possibility on 23 February that the government would allow the free circulation of foreign currencies in the domestic market.<sup>10</sup> Although the policy goal of achieving a completely free foreign exchange market was not realised, this switch in exchange rate policy should be seen as fundamentally a move away from the previously consistent use of the exchange rate as an instrument of stabilisation towards a greater emphasis on fiscal and monetary discipline.<sup>11</sup>

Despite strong support for the Menem government, particularly from the capitalist classes, as a result of the positive initial results of the neoliberal policy agenda, in November 1989 a fall in the supply of dollars resulted from exporters'

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<sup>6</sup> For a full breakdown of the provisions of both Laws, see Ministerio de Economía: *Argentina: A Growing Nation* (1995), pp. 4-12 & 34-5.

<sup>7</sup> Pablo Gerchunoff & Juan Carlos Torre: “La Política de Liberalización Económica en la Administración de Menem”, *Desarrollo Económico* 36, 143, Oct-Dec 1996 (pg 736).

<sup>8</sup> United Nations: *Economic Survey of Latin America and the Caribbean 1989*, pp. 171-4.

<sup>9</sup> “Menem weathers end-year storm”, *Latin American Regional Reports - Southern Cone*, 8 February 1990.

<sup>10</sup> *Latin American Regional Reports - Southern Cone*, 15 March 1990.

<sup>11</sup> GATT: *Argentina 1992*, Vol 1, pg 73.

opposition to the frozen exchange rate. Disputes within government circles led to a spate of resignations, including the President of the Central Bank. The Plan BB II was implemented in December 1989 following a burst of inflation as a result of low confidence in the government's ability to maintain the exchange rate. This second stabilisation plan represented a significant departure in many respects from the original economic programme, and involved a 34.7% devaluation of the currency, the splitting of the foreign exchange market into official and free markets, sharp increases in public sector prices and 10% reduction in import tariffs, along with increases in fuel prices and export taxes.<sup>12</sup> Generally, economic strategy up to this point had failed both to stem inflationary pressures and also, more fundamentally, to satisfy demands from economic interests for economic restructuring and genuine adjustment.<sup>13</sup>

The forced resignation of Rapanelli and his replacement by Antonio Erman González later in December 1989 brought about a renewal of the liberalising bent of government policy, expressed in Menem's advocacy of 'surgery without anaesthetic' in order to stem the 'terminal disease' of the Argentine economy. Most of the emergency measures implemented in the Plan BB II were reversed. The renewed approach quickly ran into trouble as firms raised their prices, and led to another devaluation of the currency and a consequent resurgence of inflation in that month. In response, the Bonex Plan (decree no. 36/90) was announced on 1 January 1990, which required the conversion of fixed term deposits into ten-year dollar-denominated government bonds. This created a severe contraction in liquidity, in turn leading to a deepening of the existing recession without the intended stabilisation of the currency, and to an eventual suspension of IMF funds. Capital flight in mid-1990 exacerbated the situation and led to a resurgence of hyperinflation.

In response, in March 1990 González announced a major fiscal reform programme (*Erman III-IV*) in order principally to regain market confidence, but the economy continued to contract in 1990 despite progress on the inflation front and an improvement in the external accounts. The latter, once again, was principally attributable to the climate of "hyper-recession"<sup>14</sup> in which depressed domestic

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<sup>12</sup> Smith: "State, Market"; Acuña: op.cit., pg 41.

<sup>13</sup> De la Balze: "Reforma y Crecimiento", pg 62.

<sup>14</sup> Smith: "State, Market", pp. 59-61.

demand led to an overall trade surplus, in addition to the effect of overvaluation on the export sector. Throughout this period social disturbances created serious political problems for the government - the so-called 'food riots' reflected those of May 1989<sup>15</sup>, and coincided with an atmosphere of 'coup-mongering' which put in question the survival of the President.<sup>16</sup> At the end of late 1990, a burst of central bank lending to the provinces and the social security system generated a resurgence of hyperinflation in the early months of 1991.<sup>17</sup>

This brief overview of the 1989-91 period demonstrates the clear (and strengthening) commitment of the government to neoliberal reform, but also its inability to stem the persistent recurrence of inflation. Generally, the 1989-91 period bears the hallmarks of a transition period, in which the economic (and political) conditions necessary for the success of the reform agenda were being created. As such, this period has the impression of a certain level of political and economic instability, which by 1991 was expressed in concern about the stubbornness of inflation and the survival of the President himself. What is clear, however, is that the only apparently consistent thread in this period was a general adherence to a broad conception of neoliberal reform, and an impression of continuity with the general patterns of post-war development. At the end of the 1990s it was far from clear that Menem's reform effort was going to last, much less work, and this was reflected in a generalised instability in the political sphere as well as the economic arena with the resurgence of hyperinflation.

### **1991-95: Consolidation of Neoliberal Reform**

After the shaky results associated with what we have identified as the 'implementation' phase of reform in 1989-91, the appointment of Domingo Cavallo as Economy Minister in February 1991 marked the turning point in economic policy in the first Menem administration. The resulting 'Argentine miracle', in which

<sup>15</sup> See Duncan Green: *Silent Revolution: The Rise of Market Economics in Latin America* (1995), pp. 165-72; *Latin American Regional Reports - Southern Cone*, 15 March 1990.

<sup>16</sup> "Coup-mongering spells danger for Menem in crisis-ridden Argentina", *Latin American Regional Reports - Southern Cone*, 8 February 1990; "Rumour mills busy with talk of coups as Menem's allies start to decamp", *Latin American Regional Reports - Southern Cone*, 19 April 1990; "Seineldín arrested for planning coup", *Latin American Regional Reports - Southern Cone*, 22 November 1990.

<sup>17</sup> William R. Cline: *International Debt Reexamined* (1995), pg 311.

inflation was all but eliminated, led to renewed electoral successes for the PJ, and Menem's re-election in 1995. The bulk of economic restructuring was achieved during this second period, after the stabilisation of the economy resulting from the Convertibility Plan (law no. 23928) announced by Cavallo on 1 April. This was the centrepiece of the reform agenda.

### *The Convertibility Plan*

Convertibility was both a response to fiscal problems in early 1991 that threatened currency stability and to the steady appreciation of the austral in 1990-1. It was also a genuine attempt to achieve the policy goal of stabilising the currency in the interests of maximising trade and investment opportunities. The Convertibility Law established the full convertibility of the Argentine currency (still at that stage the *austral*) with the US dollar, within the range of 9,500-10,000 australs to the dollar. This was later modified with the reintroduction of the peso from 1 January 1992 that was fixed on a 1:1 parity with the dollar as a means of consolidating full convertibility and the harmonisation of domestic and external prices. Second, the Convertibility Plan stipulated that the monetary base must be backed fully by available reserves of gold and hard currency. This mandatory dollar backing for the currency meant that the government was no longer at liberty to print money to cover deficits, and the discretionary powers of the BCRA were significantly constrained. In effect, the fixing of the exchange rate system under which fluctuations in the money supply would be linked to the balance of payments consolidated the trend mentioned earlier towards the use of the exchange rate as an instrument of fiscal and monetary discipline instead of as an instrument of stabilisation. By effectively eliminating the role played by the exchange rate in determining the vulnerability of economic sectors to pressures from outside competition, the government's policy aimed to emphasise costs and productivity as the keys to competitiveness. By maintaining parity with a cheap dollar, the task of import liberalisation was greatly assisted although predictably the export sector was affected negatively.

The key issue determining this shift in exchange rate policy was a recognition of the pressing need for stability, especially in view of the unpredictable policies

pursued during the 1980s. With structural adjustment and trade liberalisation, exchange rate stability assumed an added importance relating to the competitiveness of Argentine products in international markets and to foreign investment flows, particularly with the privatisation drive of the 1990s. To this effect, Cavallo declared at the announcement of the Plan that “there will be no more alchemy”, and that Argentina was entering a new phase “in which all rules point to stability”.<sup>18</sup> As such, the exchange rate can be seen to act as the pivot between various elements of economic policy reform, most notably price stabilisation, trade liberalisation, foreign investment policy and privatisation.

In light of the interconnected nature of these policy priorities, the Convertibility Plan was conceived also as a broader package of policy measures, which related to both fiscal discipline and to creating the political conditions necessary for the implementation of economic reform. As a result, the Convertibility Plan aimed simultaneously to address the two principal problems in the Argentine political economy identified at the start of this chapter as relating to growth and economic management. Its principal contribution to the elimination of the cyclical process of crisis and reform identified in Chapter 2 was the simultaneous defeat of inflation and the maintenance of growth (as illustrated in Table 3.1 above). It also became identified with the consolidation of the neoliberal restructuring of the economy. The economic aspects of these integral policy prescriptions emphasised the continuation of liberalisation, reform of the state (through privatisation, deregulation and administrative reform), and the renegotiation of the foreign debt (through agreements with the IMF and a debt reduction agreement under the Brady Plan. These will be discussed in turn.

### *Trade Reform and Economic Liberalisation*

The Menem government aimed to implement an extensive programme of import liberalisation in order to increase efficiency levels through increased competition, and to adjust the balance of payments difficulties experienced at the end of the 1980s. After a series of abortive attempts at trade liberalisation under the

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<sup>18</sup> *Latin American Regional Reports - Southern Cone*, 25 April 1991.

Austral and Spring Plans during the 1980s, in mid-1989 the average tariff was 39% including a tariff surcharge of 15% on all imports.<sup>19</sup> By 1993, the average tariff had fallen to 12%, with a maximum tariff of 35% as opposed to 50% in 1989.<sup>20</sup> Table 3.2 shows the sequence of reforms implemented between October 1989 and the announcement in April 1991 of trade policy changes associated with the Convertibility Plan. Other non-tariff liberalisation measures included changes to the legal requirements which allowed for automatic imports of goods previously requiring a 'Sworn Declaration of the Need to Import' (DJNI) and the automatic processing of around 734 tariff positions (Decree No. 2226/90 and Resolution 330/89 respectively).<sup>21</sup>

**Table 3.2: Import Tariff Reform, 1989-1991**

<i>Date</i>	<i>Tariff Reform Measures</i>
October 1989	Maintenance of maximum tariff rate of 40%, with range of intermediate levels from 10-38%. Gradual elimination (between 10 October 1989 and July 1990) of 20% duty imposed on all imports in May 1989.
December 1989	Reduction of maximum tariff to 30%, with range of intermediate levels from 5-28%.
January 1990	Reduction of maximum tariff to 24%, with range of intermediate levels from 5-20%.
March 1990	Disinvocation of GATT Article XVIII:B which allowed for imposition of import restrictions in response to balance of payments difficulties.
April 1990	Retention of maximum tariff at 24%, with increases of between 2% and 5% on all other levels.
December 1990	Establishment of single tariff rate at 22%.
April 1991	Announcement of the Convertibility Plan and associated tariff reforms: three-tier structure (22%, 11% and 0%)

Source: own elaboration based on GATT: *Argentina 1992: Trade Policy Review*, Vol 1 -2.

<sup>19</sup> Ministerio de Economía: *Argentina: A Growing Nation*, pg 45.

<sup>20</sup> *ibid.*, pg 45.

<sup>21</sup> GATT: *Argentina 1992*, Vol 1, pp. 92-3; United Nations: *Economic Survey of Latin America and the Caribbean 1993* (vol. 1), pg 131. The DJNI was replaced by a registry of imports that was to be used solely for statistical purposes.

The Convertibility Plan marked a key departure in trade policy, and also the process of liberalising the Argentine economy. The adoption of the three-tier tariff structure marked the start of full-scale liberalisation after a faltering start in 1989-91. The new tariff structure (of 22%, 11% and 0% for finished goods, intermediate goods and inputs, and raw materials or food products respectively) replaced the previous six-tier tariff in force since the late 1980s, and eliminated licensing requirements on all but 25 imports (principally automobiles and parts).<sup>22</sup> Furthermore, it classified import duties according to the value of the product and the existence of competing domestic industries, and established a simple weighted average tariff rate of 9.7%, effectively reducing by more than 50% the average rate in 1989. This was one of the lowest average tariff rates in the developing world and also compared favourably with some of the developed countries.<sup>23</sup> However, in late 1991 the three-tier structure was modified to 22%, 13% and 5% in order to reduce the spread of tariffs. These minor reforms led to an overall increase in the average tariff to 12.2% between April 1991 and early 1992.<sup>24</sup> In addition, this round of reforms made significant strides in the elimination of export duties, as part of the attempt to rectify the anti-agriculture bias in the external sector.<sup>25</sup>

These tariff reforms were supplemented by administrative reforms that aimed to simplify import and export procedures.<sup>26</sup> The Economic Deregulation Decree (DDE) (no. 2284/91) enacted on 31 October 1991 as one of Menem's 'mega-decrees' aimed to promote internal and external trade through deregulation of markets and simplification of the tax system, and was intended both to extend the process of structural transformation introduced by the LEE and the Reform of the State and to

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<sup>22</sup> An additional tariff rate of 35% still existed and was applied to some electronic items and motor vehicles. The only exception to the process of import liberalisation was the adoption of a special regime for the automotive sector.

<sup>23</sup> See GATT: *Argentina 1992* (Vol. 1), pg 89; Mario Damill & Saúl Keifman: "Trade Liberalization in a High-Inflation Economy: Argentina, 1989-91" in Manuel R. Agosín & Diana Tussie (eds.): *Trade and Growth: New Dilemmas in Trade Policy* (1993), pg 274.

<sup>24</sup> United Nations: *Economic Survey of Latin America and the Caribbean 1991* (Vol. 1), pg 131.

<sup>25</sup> There remained some relatively insignificant export and import duties after the implementation of this reform, namely: the National Export Promotion Fund (FOPEX), the National Merchant Marine Fund, the Statistical Duty, the contribution to the National Agricultural Technology Institute (INTA), and the Tax on foreign exchange transactions (Law 18.526) of 0.4% for trade-related transactions. Report of the Argentine Government to the GATT Trade Policy Review of Argentina, 4-5 March 1992. Printed in GATT: *Argentina 1992*, Vol 2 (pg 34).

<sup>26</sup> For a full analysis of the administrative structures of external trade, see chapters in Felipe A.M. de la Balze (ed.): *El Comercio Exterior Argentino en la Década de 1990* (1991), pp. 193-218.

further the insertion of the Argentine economy in the international trading system. In effect, in Cavallo's words, the package was intended to "clear the decks for the private sector" to enable it to show its "entrepreneurial and creative spirit".<sup>27</sup> The provisions of the Decree allowed for the elimination of quantitative restrictions (QRs) and non-tariff barriers (NTBs) to trade, the rationalisation of inspection and customs procedures, and the elimination of the 0.4% tax on foreign exchange transactions relating to trade.<sup>28</sup> In addition, in 1992 the Government was in the process of elaborating a new Foreign Trade Law which would be submitted to Congress as the replacement for the 1984 Foreign Trade Law (no. 23,101). The new Law aimed to simplify the existing system for the purposes of introducing greater transparency and competitiveness into international operations.<sup>29</sup>

From 1991, the general orientation of commercial policy remained largely intact. Those policy measures that were implemented were largely *ad hoc* and temporary, often in response to unforeseen difficulties in the economy. More importantly, the Convertibility provisions were creating a not entirely unexpected overvaluation of the currency which, along with increases in cheaper Brazilian imports, were seen to necessitate some minor adjustments to the trade policy regime. In the October 1992 reform package, the average level of reimbursements for exporters was raised from 3.3% to 6.3%, which eliminated a substantial part of the anti-export bias in the economy.<sup>30</sup> The tariff structure was also modified to 20%, 10% and 0%, along with an 'temporary' increase in the 'statistical tax' applied to all merchandise imports from 3% to 10%. This was reflected in the exchange rate, but did not have a significant impact on imports.<sup>31</sup> These policy measures were a response principally to the possibility that 1992 would register the first trade deficit since 1981, due to an increase of around 60% in imports, and were largely seen as a response to pressure from exporters and industrialists both to offset the impact of imports and to make exports more competitive.<sup>32</sup>

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<sup>27</sup> "Menem slashes red tape", *Latin American Regional Reports - Southern Cone*, 21 November 1991.

<sup>28</sup> Report of the Argentine Government to the GATT Trade Policy Review, pp. 81-84.

<sup>29</sup> Report of the Argentine Government to the GATT Trade Policy Review, pg 22.

<sup>30</sup> Ministerio de Economía: *Argentina: A Growing Nation*, pg 45.

<sup>31</sup> United Nations: *Economic Survey of Latin America and the Caribbean 1992*, Vol. 1, pg 137.

<sup>32</sup> "Cavallo acts to reverse imbalance", *Latin American Regional Reports - Southern Cone*, 19 November 1992.

From 1993 onwards (as Chapter 5 shows) the record is slightly mixed, with increased resort to anti-dumping measures (mainly on textiles and iron and steel products) and specific duties (principally on imports of textiles and clothing products) offset by a further reduction in duties on imports of machinery and selected industrial inputs, and a reduction in the 10% statistical duty.<sup>33</sup> As a result of these measures, by the end of 1993 the average nominal protection had increased to 18.6%, or double the rate at the time of the implementation of the Convertibility Plan.<sup>34</sup> On the other hand, duties on imports of inputs were reduced to 0%, along with the elimination of all duties and statistical taxes on imports of capital goods. Tariffs and duties on imports of capital goods were eliminated in May 1993, but raised to 10% in March 1995 in response to the difficulties created by the Mexican peso crisis discussed below. Trade policy from 1991, however, was kept on an even keel by the establishment of the Mercosur, which made alterations to the fundamentals of policy increasingly difficult. As Chapter 7 discusses in greater detail, from January 1995 the Argentine tariff structure was changed to conform with the common external tariff of the Mercosur, the 10% statistical tax was eliminated and the effective tariff rate fell from 12.8% in 1994 to 9.2% for the first half of 1995.

### *The Foreign Investment Regime and the Privatisation Process*

As mentioned earlier, the bulk of the Argentine restructuring programme was implemented from April 1991 onwards. Although the privatisation process began earlier, the resurgence of foreign direct investment (FDI) since 1991 gave an added impetus to the process which is noted for its rapidity.<sup>35</sup> Specifically, the renewed capital inflows can be attributed to the following changes in circumstances and

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<sup>33</sup> United Nations: *Economic Survey of Latin America and the Caribbean 1993*, Vol. 1, pg 153 & Vol. 2, pp. 13-4.

<sup>34</sup> Diana Tussie (with Fernanda Tuozzo): "Argentina's Big Bang Reform: the Interplay of MDBs and Domestic Actors", mimeo, Buenos Aires, October 1997 (pg 15).

<sup>35</sup> Manuel R. Agosín & Ricardo Ffrench-Davis: "Trade Liberalization in Latin America", *CEPAL Review* 50, August 1993 (pg 44) and "Trade Liberalization and Growth: Recent Experiences in Latin America", *Journal of Inter-American Studies and World Affairs* 37, 3, Fall 1995 (pg 13). For other comparative studies see Manuel Sánchez et al: "A Comparison of Privatization Experiences: Chile, Mexico, Colombia and Argentina" in Manuel Sánchez & Rossana Corona (eds.): *Privatization in Latin America* (1993), pg 9; Pablo L. Gerchunoff: "The Accelerating Pace of Privatization in Latin America: Argentina" in Paul H. Boeker (ed.): *Latin America's Turnaround: Privatization, Foreign Investment and Growth* (1993), pg 18.

policy: (a) special incentives or systems for foreign investment generally and for enterprises operating in specific sectors; (b) economic and political stability, and stability in policies governing the activities of transnational corporations; (c) attractive Latin American domestic markets; (d) the improved outlook for regional integration; and (e) the opportunity to export to developed countries.<sup>36</sup> This increase has been concentrated in a handful of countries - Argentina, Chile, Colombia, Mexico and Venezuela. For Argentina, furthermore, capital inflows were essential for the functioning of the Convertibility Plan (through the maintenance of the monetary base) and for the financing of an \$8 billion budget deficit. The foreign investment funds were readily available. Table 3.3 indicates the scale of the increase in investment funds channelled to Argentina.

**Table 3.3: Net Direct Foreign Investment to Argentina, 1990-1995**  
(millions of US\$)

1980	1990	1991	1992	1993	1994	1995
678	1,836	2,439	4,179	6,305	1,200	3,900

Source: *United Nations Economic Survey of Latin America and the Caribbean, 1995-96*

The change in investor confidence in the early 1990s can be attributed principally to three factors: increased macroeconomic stability as a result of liberalisation and reform measures; changes in the foreign investment laws; and the privatisation process conducted on terms favourable to foreign capital. The first of these factors is widely recognised. The attractiveness of investment destinations is generally conditioned by the overall orientation of economic strategy and an environment of macroeconomic stability, which is usually linked to conditions of political stability.<sup>37</sup> A logical concomitant of macroeconomic stability for foreign investors is policy consistency, and thus the expectation that there will be no sudden changes in policy or law is usually pivotal. However, the domestic implications of

<sup>36</sup> A more technical consideration of the factors influencing FDI movements can be found in United Nations Centre on Transnational Corporations (UNCTC): *The Determinants of Foreign Direct Investment: A Survey of the Evidence* (1992). Also see Carlo Secchi: "Factors Influencing Private Investment in Argentina" in Colin I. Bradford (ed.): *Mobilising International Investment for Latin America* (1993), especially pp. 180-3.

<sup>37</sup> UNCTC: op.cit., pg 61.

macroeconomic stability are equally important, and relate to the avoidance of capital flight that usually responds to fears of unexpected devaluation or a collapse in the financial system.<sup>38</sup> For this reason, the external and domestic credibility of exchange rate policies is of prime importance. The issues of credibility, the constraints on macroeconomic policy options, and the importance of international investor confidence are addressed in more detail in the context of globalisation in Chapter 5.

Second, the legal framework that currently regulates FDI has been operational since the mid-1970s. Changes under the LEE lifted the requirements of prior authorisation for foreign investment in all sectors except national defence, energy, the media, education, insurance and finance. A parallel overhaul was implemented in conjunction with the Reform of the State, in which the launch of the privatisation process allowed for the participation of foreign capital in the electricity, gas, telecommunications, postal services and sanitation sectors. The process of deregulation and state reform was further boosted on 31 October 1991 with the DDE which eliminated most of the restrictions and regulations that were still in place after several decades of interventionist state economic policies.<sup>39</sup> This followed the announcement in mid-October of the *Plan Argentina* which lifted restrictions on domestic and foreign private participation in the oil sector. Further legislation included the Tax 'Amnesty' Law (no. 24,073) of April 1992, supplemented by financial reform measures such as the Central Bank Law of September 1992 which established its independence and introduced policies aimed at greater fiscal discipline.<sup>40</sup> All of these changes were consolidated in the 1993 Foreign Investment Law, under which all restrictions on profit remittances and capital repatriation were eliminated, and foreign interests were permitted to participate in exploration and extraction of oil and gas. As a result of this cumulative legislation, by 1993 the only areas of restricted access for FDI were broadcasting and atomic energy.<sup>41</sup>

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<sup>38</sup> For an interesting account of the macroeconomic implications of capital flight, see Rudiger Dornbusch: *Capital Flight : Theory, Measurement and Policy Issues* (1990). Also Manuel Pastor: "Capital Flight from Latin America", *World Development* 18, 1, 1990.

<sup>39</sup> *Latin American Regional Reports - Southern Cone*, 21 November 1991.

<sup>40</sup> José María Fanelli & Mario Damill: "External Capital Flows to Argentina" in José Antonio Ocampo & Roberto Steiner (eds.): *Foreign Capital in Latin America* (1994), pp. 37-39.

<sup>41</sup> Daniel Chudnovsky, Andrés López & Fernando Porta: "New Foreign Direct Investment in Argentina: Privatization, the Domestic Market and Regional Integration" in Manuel Agosín (ed.): *Foreign Direct Investment in Latin America* (1995), pp. 43-4.

Third and most importantly, the privatisation process was the bedrock of the reform of the state mentioned at the start of this chapter as one of the principal achievements of the Menem government, which is closely linked to the management problem in Argentina. The bloated and inefficient public sector, as well as the politicisation of the state and economy, constituted a significant brake on governments' capacity for coherent macroeconomic policy-making and the consistent implementation of policy objectives. Table 3.4 indicates the major privatisations in the early to mid-1990s.

**Table 3.4: Principal Privatisations in Argentina**

<b>Sector / Enterprise</b>	<b>Date</b>	<b>Form of Transfer</b>	<b>Total Revenues</b> (millions of US\$)	<b>Debt Redeemed</b> (millions of US\$)
ENTel (telecommunications)	1990	Sale of shares (60%)	3527.9	5000
Aerolíneas Argentinas	1990	Sale (85%)	1198.0	1610
Highways	1990	Concession		
TV & Radio	1990	Concession		
YPF (oil)	1990-	Concession		
		Joint venture	2040.6	
		Sale of shares	3924	1271.1
Petrochemicals	1990-2	Sale of shares	82.8	139.7
Railroads	1991-3	Concession		
SEGBA (electricity)	1992	Sale	3953.6	3706.6
Ports	1992	Sale / concession	13.6	
Gas del Estado	1992	Sale	2951.1	3082.1
Obras Sanitarias (waterworks)	1992	30 yrs concession		
Steel	1992	Sale	165.4	41.8

Source: own elaboration from various sources

With the authority of the LEE and the Reform of the State law, the most important 'strategic' sectors that underwent privatisation in 1990 included the Empresa Nacional de Telecomunicaciones (ENTel, the state telecommunications company), the national airline Aerolíneas Argentinas, and some oil fields owned by the state oil company Yacimientos Petrolíferos Fiscales (YPF). Between 1991 and 1993, further legislation allowed for the final count of privatised sectors to include

television and radio stations, oil reserves, the electricity sector, Gas del Estado, Obras Sanitarias de la Nación (the Buenos Aires waterworks), national highways, Servicios Eléctricos del Gran Buenos Aires (Segba, electricity), the hydrocarbon sector, Ferrocarriles Argentinos (the national rail system), the Buenos Aires subway, ports, the water supply, mail services, shipping, the National Savings and Insurance Bank, petrochemical and steel plants, and various defence-related industries.<sup>42</sup>

In the early 1990s the privatisation process (regulated by the capitalisation of the external debt) was the principal mechanism by which investment was attracted to Argentina. Around 75% of FDI flows between 1990 and 1995 were associated with the purchase of interests in privatised enterprises or with subsequent (re)investments in these holdings.<sup>43</sup> In the mid-1990s, foreign interests accounted for around half of the total shares owned by the private sector. As Table 3.4 demonstrates, apart from the sizeable increase in volume the profile of FDI flows to Argentina has shifted away from an emphasis on the manufacturing sector in the 1970s and 1980s towards a concentration in non-tradable public services such as telecommunications, electricity, water and gas (with the exception of privatisations in the petroleum and petrochemical sectors).<sup>44</sup>

A brief profile of the investors in some of these sectors gives a clear idea of the extent of foreign participation in the privatisation process. In the case of ENTel, the offer of 60% controlling interests to purchasers, and the placement of 30% on the Argentine and international stock markets, were particularly important in attracting FDI. Consortia headed by Telefónica Española and STET/France Télécom (after the withdrawal of Bell Atlantic) were awarded the contracts for service in the southern and northern areas respectively. Aerolíneas Argentinas was purchased by a Spanish-Argentine consortium led by Spanish airline Iberia, and in the sales of the largest electricity companies, SEGBA and Agua y Energía, foreign investment accounted for

<sup>42</sup> For more detailed analysis of the privatisations of key sectors, see World Bank: *Argentina's Privatization Process: Experience, Issues and Lessons* (1993), pp. 2-3; Pablo Gerchunoff & Germán Coloma: "Privatization in Argentina" in Sánchez & Corona (eds.), pp. 253-4; Pablo L. Gerchunoff (ed.): *Las Privatizaciones en la Argentina: Primera Etapa* (1992); Ministerio de Economía: *Privatization of Public Enterprises and Services in Argentina* (1992), *Argentina's Privatization Programme* (September 1992) and *Argentina: A Growing Nation*, pp. 49-74.

<sup>43</sup> The figure for 1990-1992 (first 9 months) is around 30%, and 90% for the first three quarters of 1992. See José Antonio Ocampo & Roberto Steiner: "Foreign Capital in Latin America: An Overview" in Ocampo & Steiner (eds.), pg 10.

<sup>44</sup> However, investments in key manufacturing activities increased again in the early 1990s as a result of favourable sectoral policies and the re-activation of domestic demand.

61% and around 65% respectively. Similarly in the privatisations of Gas del Estado and Obras Sanitarias, foreign investors accounted for 63.5% and 56% of shares respectively.

By the end of 1993, the process of privatisation was well-advanced: controlling interests in 57 companies had been transferred to the private sector, with 27 public service companies transferred to concessionaires. With regard to the oil sector, nine joint venture agreements had been signed relating to primary oil fields formerly controlled by YPF, and 86 concession agreements were negotiated on the exploitation of marginal oil fields.<sup>45</sup> According to figures released at the end of December 1993, the privatisation process had generated revenues of US\$9.1 billion in cash, US\$6.8 billion in debt paper at nominal value, and US\$3.4 billion at market value.<sup>46</sup> Significantly, the vast majority of purchases were made by consortia of foreign and Argentine firms, in which the former were seen as crucial for the transfer of experience and knowledge, particularly with regard to technology and management expertise. The composition of Argentine interests, on the other hand, reflected an deepening of the concentration of domestic market power among already-established business groups such as Techint and Pérez Companc. This can be attributed to the relative inadequacy of domestic capital markets, especially in the early stages, although the fact that many of the privatisations were conducted on the Buenos Aires stock exchange contributed significantly to the expansion of the activities of these markets.<sup>47</sup> By 1995, very few of the 93 major state enterprises that existed at the end of the 1980s remained in public hands. Those outstanding included the post office, the national mint, three nuclear power plants, two bi-national electric power projects and a handful of national banks.<sup>48</sup> Virtually without exception the privatisations of these remaining sectors and enterprises were projected for the second Menem administration.

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<sup>45</sup> Santiago F. Albarracín & Stephen R. Dow: "Privatisation of the Argentine State-Owned Oil Company", *Journal of Energy and Natural Resources Law* 13, 2, May 1995.

<sup>46</sup> OECD: *Privatisation in Asia, Europe and Latin America* (1996), pgs 69 & 77.

<sup>47</sup> Melissa H. Birch: "Foreign Direct Investment in Latin America during the 1990s" in Werner Baer & Melissa H. Birch (eds.): *Privatization in Latin America: New Roles of the Public and Private Sectors* (1994), pg 104.

<sup>48</sup> International Monetary Fund: "Argentina: Recent Economic Developments", Staff Country Report 95/110, November 1995, pg 38.

## *Foreign Debt and the Brady Plan Agreement*

The problem of addressing growth performance was complicated by the external debt situation. Debt payments involved an enormous transfer of resources that limited growth through a necessary suppression of import levels, which in turn hurt investment and exports. In addition, the fact that virtually all of the debt was public exacerbated fiscal imbalances by limiting the possibilities for spending in more productive areas of the economy, which in turn necessitated some recourse to inflationary tax and hindered private investment.<sup>49</sup> The announcement of the Brady Plan in early 1989 constituted something of a departure in international debt policy. While the Baker Plan of 1986 had involved an increase in debtors' obligations through the continued provision of fresh money by the commercial banks and an increase in the credits available from multilateral financing institutions, the Brady Plan, by contrast, was oriented towards debt reduction.<sup>50</sup> Both, however, were premised on a continued adherence on the part of debtor countries to adjustment and structural reform programmes.<sup>51</sup>

On the strength of the policy reform programme and the Convertibility Plan, but after protracted negotiations, Argentina agreed a Brady Plan arrangement in April 1992, signed in April 1993. At this time, the total external debt stood at around \$60 billion. The provisions of the agreement called for the conversion of \$23 billion of this total debt in the form of long-term bank claims into 'par bonds' with reduced interest rates or 'discount bonds', reducing the face value by 35%.<sup>52</sup> These bonds, according to the provisions of the Brady Plan, would be backed by guarantees partially financed by the IMF, World Bank and creditor governments.<sup>53</sup> These reductions were supplemented by the debt-equity conversions involved in the privatisation process discussed above (and presented in Table 3.4), which amounted to some \$6 billion. Although the prospects for a genuine reduction of debt levels

<sup>49</sup> Saul Keifman: "Deuda Externa: Balance de la Gestión Radical y Perspectivas para el Próximo Gobierno", *América Latina / Internacional* 6, 20, April-June 1989 (pg 248).

<sup>50</sup> Keifman, pg 248.

<sup>51</sup> Stephan Haggard & Robert R. Kaufman: "Introduction: Institutions and Economic Adjustment" in Haggard & Kaufman (eds.): *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (1992), pg 12.

<sup>52</sup> William R. Cline: *International Debt Reexamined* (1995), pg 317.

<sup>53</sup> Barbara Stallings: "International Influence on Economic Policy: Debt, Stabilization and Structural Reform" in Haggard & Kaufman (eds.), pg 62.

were open to question, the main advantages of the Brady Plan for Argentina related to the reduction of uncertainty and the increase in capital inflows which would stem from the consequent increase in investor confidence.<sup>54</sup> This was particularly the case in view of the fact that Brady agreements required the parallel signing of an IMF agreement. In this case, the 1992 Extended Fund Facility agreement paved the way for agreements with the commercial banks, and associated links with the World Bank and Inter-American Development Bank (IDB). These are discussed at greater length in Chapter 6. Table 3.5, in the meantime, gives an indication of Argentina's external debt situation during the period in question.

**Table 3.5: Total Disbursed External Debt**  
(balance at year's end in millions of US\$)

1982	1985	1988	1989	1990	1991	1992	1993	1994	1995
43,634	49,326	58,473	63,314	62,233	58,413	59,123	67,802	79,345	89,679

Source: UN ECLA: *Statistical Yearbook for Latin America and the Caribbean*, 1996.

### The Exhaustion of the Neoliberal Revolution?

To draw attention to the unique successes of the Convertibility Plan and adjustment under Menem is not to claim that the economy has been functioning perfectly ever since. There are clear problems associated with the currency board arrangements created by Convertibility, which generated an increasingly visible overvaluation of the currency towards the middle of the decade. Second, the Convertibility provisions limit the government's ability to devalue the currency. The government has no choice but to implement spending cuts and other recessionary measures in order to address the fiscal deficit. Although this is entirely an intentional effect of Convertibility, and relates to the broader objectives of stabilisation and adjustment, the political consequences of a steady economic slow-down cannot be ignored. Third, the economy becomes more reliant on foreign capital in order to

<sup>54</sup> Ricardo Echegaray: "El Tránsito de Argentina hacia el Plan Brady", *América Latina / Internacional* 9, 31, Jan-March 1992.

finance the deficit and to meet foreign debt payments, in the absence of the monetary alternatives vetoed by the Convertibility Law. In other words, growth becomes dependent on external capital flows, especially in a situation where (as in Argentina) the local savings ratio is below the level of investment required for satisfactory economic performance. However, this situation also arises from the fact that since 1989 (and probably earlier) Argentina has needed to be a net importer of capital in order to sustain a reasonably healthy growth rate.

In the light of such underlying structural constraints on Argentine economic development, the importance of Convertibility and the foreign investment policies introduced by Menem becomes clear. Apart from explicit policy measures to weaken the link between inflation and the exchange rate, the effect of external financial liberalisation has been particularly important. With the vast increase in the volume of capital flows in the 1990s, the exchange rate became dominated by these as opposed to the trade balance and global currency relationships.<sup>55</sup> The significant increase in capital goods imports occasioned by the appreciation of the real exchange rate has highlighted the key issue of how to offset the vulnerability of the exchange rate to short-term capital flows, and hence facilitate the task of exchange rate policy management.<sup>56</sup> The strategy traditionally adopted in Argentina, as we have seen, was to allow several different exchange rates to co-exist, differentiating between commercial and financial transactions, and hence between commercial and capital markets.<sup>57</sup> However, it is generally accepted that in the longer term the tradable sector is likely to be most negatively affected by the above trends, thus contributing to the anti-export bias that paradoxically characterised the external sector until the mid-1990s.

This reliance on foreign capital does not present significant problems at a time when foreign funds are readily available, as in the 1991-94 period. However, as Chapter 5 demonstrates in detail, capital can flow out of a country quite as easily as it can flow in. Argentina experienced precisely this situation in 1994, as the inflow of funds slowed as a result of the overvaluation of the peso and an increase in US

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<sup>55</sup> For a more technical discussion of these links, see Yilmaz Akyüz: "Does Financial Liberalization Improve Trade Performance?" in Agosín & Tussie (eds.), pp. 152-8.

<sup>56</sup> See Manuel R. Agosín: "Trade Policy Reform and Economic Performance: A Review of the Issues and Some Preliminary Evidence", *UNCTAD Discussion Papers* no. 41, August 1991, pp. 12-3.

<sup>57</sup> Ocampo & Steiner: "Foreign Capital in Latin America", pg 29.

interest rates at the start of the year. Furthermore, the economy was beginning to struggle under the weight of huge current account deficits financed by these same sources of capital. The impact of the so-called 'Tequila' crisis of December 1994 was felt in volatile and sharply reduced international capital flows and increased capital flight. The consequent reduction in international reserves raised questions about the fate of the Convertibility Plan. In March 1995, continued turbulence in the stock markets raised fears of a banking crisis, especially given the uncertain fiscal environment.<sup>58</sup> In the interests of regaining market confidence, the government announced a series of adjustment measures (which included a significant tax increase), accompanied by a new agreement with the IMF and other international financial institutions. Funds from these sources were used for debt repayments and the restructuring of the banking system in order to avoid a Mexican-style collapse. The largely positive effect on international confidence was boosted by Menem's re-election in May 1995, although uncertainty among investors continued until the end of the year.

Speculation about the fate of Convertibility has continued from this time, but appearances suggest that this is a relatively solid feature of the Argentine economy. It survived the removal of Cavallo himself in July 1995. Even in the likely event of a Peronist defeat in 1999, none of the contending political parties has stated an intention to do away with it. In effect, the economic model constructed on the basis of the Convertibility Plan appears likely to remain roughly intact, even with the concerns about unemployment and welfare issues which arose towards the end of Menem's first term.<sup>59</sup> Hence, despite the negative growth in 1995 we can still speak of the 'consolidation' of reform in Argentina. Most analyses to date have attempted to show why the economic model, and the political coalitions constructed to support it, are likely to collapse.<sup>60</sup> However, contrary to these predictions, it appears that the consolidation of Menem's reform agenda is not merely a short-term phenomenon but rather a genuine institutionalisation of a particular orientation, from which significant deviation would be costly. Pressure for a revision of the social effects of the model,

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<sup>58</sup> United Nations: *Economic Survey of Latin America and the Caribbean 1994-1995*, pg 133.

<sup>59</sup> Figures reached 21% in December 1995, and hovered around 18% for most of 1996.

<sup>60</sup> For example, Pamela K. Starr: "Government Coalitions and the Viability of Currency Boards: Argentina under the Cavallo Plan", Paper presented at the 37th Annual Convention of the International Studies Association, San Diego, California, 16-20 April 1996.

nevertheless, is likely to increase, and the question is how the model can be adapted to accommodate these pressures. Whether or not the Menem coalition disintegrates with electoral defeat in 1999, the general orientation of economic policy is likely to remain absolutely intact in its fundamental lineaments. It is the contention of the thesis that the reasons lie primarily in new dimensions of international influence.

## **Conclusion**

The economic achievement of the Menem administration, therefore, can be seen as one of breaking the spiral of crisis that had dominated the Argentine economy throughout the post-war period. The government succeeded in implementing a far-reaching restructuring package in accordance with a market-oriented set of neoliberal economic policies which aimed to achieve unilateral liberalisation and the full insertion of Argentina into the international economy. More concretely, the government was able to eliminate the inflation regime, as well as the 'culture of inflation', that had been the principal impediment to economic growth and macroeconomic stability for over 40 years. In addition, a semblance of order returned to the fiscal situation, the regulatory role of the state was completely dismantled, and with it the huge public sector built up throughout the preceding period. These observations do not deny the importance of elements of political opposition, nor to discount the significant social problems that such a model generated and is likely to continue to generate.

The chronological sequence of reform, moreover, demonstrates that the early 1989-91 period bore many of the hallmarks that may have suggested a similar fate for the Menem experiment as for most post-war attempts at reform. The Convertibility Plan of 1991, however, dislodged the impending crisis and institutionalised the neoliberal agenda to the extent that the economic orientation became consolidated by the middle of the decade (despite the negative growth generated by the Mexican crisis in 1995). Given that the failure of post-war reform efforts and the recurrence of crisis can be traced largely to political factors and the nature of political society in Argentina, the political dimensions of reform under Menem are inevitably significant. The next chapter deals with the ways in which Menem reconfigured the

political landscape in order to neutralise the veto power traditionally exercised by labour and the military and to incorporate capitalist interests (particularly big business) into the mainstream of the decision-making process. However, the chapter will further demonstrate that a simple analysis of political structures under Menem cannot account for the reversal of the typical patterns in Argentine political economy, giving greater importance to the question of how such consolidated reform became possible in the 1990s after decades of failure.

## Chapter 4

### Depoliticising Argentina?: Power Structures and Political Reform

Apart from the economic restructuring programme outlined in the previous chapter, the Menem government is associated with a fundamental change in the structure of political interests and the conduct of politics in Argentina. Its political strategy of the Menem government fundamentally altered the nature of both state and society, as well as the interaction between them, and changed the political context in which economic reform was implemented in the 1990s. If, as Chapter 2 argued, the prevalence of crisis in the post-war period can be traced to political pressures on the policy-making system, Menem's political reform can be seen as an important attempt to eliminate the crisis-generating nature of Argentine politics.

The transformation of political power has two inter-connected dimensions. The first relates to a reorganisation of political interests, to the extent that traditional power structures have been re-drawn through a politically astute combination of co-optation and alienation. The traditional ally and support base of Peronism (labour) has been systematically disarticulated, while its traditional enemies (business and the military) have been incorporated (through processes of strengthening and weakening, respectively) into the new scheme of political power in Menem's Argentina. At the same time, the new economic and political models have emphasised the primacy of the 'technocrats' in policy-making circles which serve as a link to external economic agents. The second dimension refers to a significant increase in the insulation of the state from societal interests and, within the structures of the state itself, the consolidation of a highly presidentialist style of government. In policy-making terms, this is characterised by a marginalisation of the legislative branch, reinforced by a process which aimed to blur the distinctions between judicial and presidential interests.

Given the international and domestic conditions of the late 1980s, it is not surprising that the government should have been able to implement such strategies and to manipulate political interests. The observations made in the Introduction about the politics of crisis and hyperinflation readily explain the demobilisation of political society, and become even more persuasive in the context of the condition

of corporatist interests in the 1980s, as outlined below. However, these explanations would predict the resurgence of political pressures on the system as hyperinflation was eliminated. It is evident that the dismantling of their influence did not become apparent until after 1991: the analysis in this chapter demonstrates the relatively high levels of opposition that emerged in the first couple of years of the Menem government. On the other hand, at no point in the 1989-95 period can we talk of the ‘disappearance’ of the interests that dominated the post-war period. As such, the usual explanations of Menem’s success which focus on changes in the political landscape do not stand easily as a sole explanation of how *sustained* reform became possible.

The aim of this chapter, then, is to examine the nature of political reform in Argentina with particular attention to the chronological unfolding of the process. It demonstrates that the process of political reform needs to be explained with reference to the concrete policies pursued by Menem rather than just the ‘contextual’ situation of crisis in the 1980s. Second, it adds substance to the central paradox addressed by the thesis: that, contrary to historically established patterns, political pressures diminished as economic reform was deepened and consolidated. The first section offers a brief overview of the nature of interests in Argentine society, building on the analysis offered in Chapter 2. The following sections consider the three dimensions of political restructuring under Menem: the disarticulation of the traditional veto powers (labour and the military), the alliance with business and the technocrats, and the anti-institutionalist inclinations of the Menem government.

### **Interests in Argentine Society and the Decline of Corporatism**

At the start of the Menem government in 1989, the political system was still dominated by a system of corporatism by which powerful societal interests were incorporated into the political system and through which relations between state and society were regulated. As Chapter 2 suggested, the high incidence of military coups and the resulting political instability created a situation in which levels of political representation were significantly reduced. This reduction in

representation, and hence in possibilities for participation in the political system, gave rise to the legitimisation of corporatism as the basis for the organisation of political interests, in that the state became easily colonised (or hijacked) by powerful interest groups. The result was that, apart from enjoying an immensely high level of influence vis-à-vis the state and government, corporatist interests had a very high degree of social 'legitimacy'. These conditions together account for the type of impact that such interests exerted on the political system.

By the time of the transition to democracy in 1983, the corporatist system was looking decidedly fragile as a result of the policies of the military government. The demise of the military regime signified also the demise of corporatism in Argentina, and this break with traditional corporatist structures can be seen clearly in the strained relations between most of the powerful interests (the military, business and labour) and the Alfonsín government throughout the 1980s. The failure of the Alfonsín government to successfully manage and channel societal interests, and particularly the growing political opposition that most of these represented, is an important part of the explanation for the failure of economic reform, which ended in the hyperinflation of 1988-9 and profound political crisis. Nevertheless, state-society relations throughout the 1980s remained tinged with corporatist colours, and similarly the early months of the Menem government exhibited some signs of corporatist-style policies of incorporation. This was particularly the case, for example, in the domination of the Economy Ministry by officials from the multinational Bunge & Born. Although the system of corporatism was dragged down with the military in 1982-3, then, traditional corporatist structures remained relatively intact through the 1980s.

One possible way of formulating this is to argue that corporatist societal interests survived past their natural death in the 1980s, and that the process of reorganisation in the 1990s resembled pulling dead leaves off a twig. Those interests that the Menem government needed to court for the purposes of furthering the economic project were strengthened in any case by the 'logic' of the international changes that were taking place, reflected in the behaviour of the markets and in the relationship with the international financial institutions. The influence of the external environment can also be seen in the shift in the role of the

military, which can be explained at least in part by the simple disappearance of significant military threat in much of the world with the end of the Cold War and the change in the nature of international relations. It could be argued, therefore, that the internal political context of withering corporatist links, reinforced by the trends induced 'inevitably' as a result of international change, favoured the establishment of the new political model without the government having to try especially hard.

Nevertheless, this overstates the ease with which the Menem government was able to implement this type of transformation in Argentina. The reorganisation of interests stemmed from very specific policies on the part of the government based strongly on personal contacts between the President and the leaders of these societal groups. In essence, this was a process of cooptation rather than elimination, but the aim of cooptation ranged from neutralisation (in the case of labour and the military) to empowerment (in the case of business). The approach that emphasises government and presidential strategies is also strengthened by the analysis of institutional development under Menem. One of the characteristics of the late 1980s was the persistence of conflict between Congress and the executive branch. Therefore, it cannot be argued, as in the case of labour and business, that this was a case of pulling dead leaves off a twig. The reorganisation of political interests in Argentina aimed for the deliberate construction of a new political alliance and a new structure of political power which would facilitate the consolidation of the economic policy agenda, as well as a strengthening of state and presidential power for this (and its own) purpose.

### **The Disempowerment of Veto Powers: Labour and the Military**

#### *Labour and the Trade Unions*

In the light of these observations, the weakening of the labour sector worked on a number of levels. The first concerns the effects of economic reform on political and economic actors: the types of neo-liberal economic policies pursued by the Menem government inevitably entailed the dissolution of the corporatist ties between the state and the unions. As the number of state employees was drastically

reduced as a result of the privatisation process, the membership of the unions similarly diminished, and with this their position of bargaining strength. This was preceded by a large number of redundancies, particularly in companies such as YPF, that entailed significant financial packages as incentives. More generally, changes in the structure of the economy and the move away from development models based on industrialisation involved changes in the nature of the labour market. As a result unions in the services and commercial sectors became significantly more influential than the 'traditional' unions representing industrial areas of economic activity. As such, the weakening of the unions can be explained in part with reference to the effects of economic change in Argentina.

There were also structural features of the union movement which played an important part in determining its strengths or weaknesses during a time of radical reform. The first was the undemocratic nature of union management: bosses were essentially a reflection of the political system rather than representative of members' interests.<sup>1</sup> In addition, the labour movement by the start of the 1980s had been significantly battered by the effects of the military's free-market economic experiment and by the 'dirty war', in which workers were associated with Peronism and therefore viewed as enemies of the nation. Another useful explanation for Menem's elimination of the veto power of the unions would lie in international changes at the end of the 1980s, characterised by the collapse of socialism and the end of the Cold War. As one commentator put it, "we were surprised by history".<sup>2</sup> Put together with the new ideological climate created by Thatcher and Reagan through the 1980s, the international context becomes an important part of the story of Argentine labour under the Menem government. In effect, union leaders perhaps came to the pragmatic decision that Peronism needed to adapt to changing international and national realities, much like the PSOE in Spain around the same time.

However, these factors only offer a *context* for the changes in the labour sector and its relationship to the government and the PJ. A more accurate picture would take into account specific policy measures taken by Menem. The support of the labour sector in the 1989 election was demonstrated by its decision to suspend

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<sup>1</sup> Interview with Jonathan Friedland (Wall Street Journal) Buenos Aires, 27 May 1997.

<sup>2</sup> Interview with Julio Godio, Buenos Aires, 26 May 1997.

all forms of industrial action in order not to jeopardise Menem's electoral chances. As a result, and also in order to avert opposition to the new pro-business economic model, Menem appointed pro-government leaders from the 'Group of 15' to the Labour Ministry, two of which (Jorge Triaca and José Rodríguez) were members of Menem's first cabinet.<sup>3</sup> This did not prevent the emergence of industrial action in the autumn in protest at the government's privatisation plans, particularly from the railway and postal workers.<sup>4</sup>

Most subsequent labour policies were intended to reduce the influence of the unions and to eliminate their stranglehold over the policy-making process, propelled by evident public hostility to the unions.<sup>5</sup> These measures included legislation to restrict the right to strike, applied to sectors providing government-sponsored services such as public transport, hospitals, water, gas, electricity, telecommunications and education. This legislation was implemented by decree (number 16.939/90) on 17 October 1990 following the telephone workers' strike of 6 September, but did not prevent railroad workers' action in February 1991 in response to the adjustment package outlined by Cavallo. On both of these occasions, furthermore, the government deployed military units in order to protect the "freedom and security of the community"<sup>6</sup>, as well as threats to sack striking workers. Further action was staged in 1992 and 1993 by workers in the aeronautical sectors.

The effects of these restrictive policies were supplemented by internal movements which culminated in the split of the CGT into the pro-Menem 'San Martín' and the hostile 'Azopardo' factions, headed by newly elected Secretary General of the CGT Guerino Andreoni and Saúl Ubaldini respectively. The leadership battle was won by Andreoni. The government, not surprisingly, was able

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<sup>3</sup> Carlos H. Acuña: "Politics and Economics in the Argentina of the Nineties (Or, why the future is no longer what it used to be)" in William C. Smith, Carlos H. Acuña & Eduardo Gamarra (eds.): *Democracy, Markets and Structural Reform in Latin America* (1994), pg 40; IRELA: "La Argentina de Carlos Menem: ¿Del Gobierno de la Crisis a la Crisis del Gobierno?", Dossier no. 33: Madrid, July 1991 (pg 18). Triaca was the first Labour Minister in the Menem government.

<sup>4</sup> "Unions angered by divestment plans", *Latin American Regional Reports - Southern Cone*, 12 October 1989.

<sup>5</sup> For example, three days after a spate of strike action by teachers, railway workers and telephone workers in April 1990, the government organised a mass rally at which the extremely high turnout was taken as evidence of public sentiment against the unions. See "Menem gets tough with state workers", *Latin American Regional Reports - Southern Cone*, 31 May 1990.

<sup>6</sup> *ibid.*, pg 18.

to further weaken the influence of the latter by befriending the leadership of the CGT-San Martín, and by implementing measures that sought to institutionalise the importance of the pro-Menem factions. For example, in August 1990 the CGT-San Martín was officially recognised as the only legal union in Argentina. In the meantime, the influence of Ubaldini and the hostile factions declined and their appeal became limited to the most radical elements of the union movement, even though Menem's attempts to remove Ubaldini by offering him various positions outside Argentina failed.<sup>7</sup> Nevertheless, the pro-Menem CGT still showed itself to be effective in pressing its wage demands in late 1989 and throughout 1990.

In the early 1990s, the government also managed to secure the 'support' of the labour sector by appealing to the financial self-interest of the leaders. This was achieved primarily through the management of the system of *Obras Sociales* (the health insurance system) which is financed through an obligatory 8% annual payroll contribution, and which involves for the unions an annual sum of some \$2.5 billion. A rather cynical but probably accurate view holds that only around 20% of this sum is spent on the provision of health care, and that the rest remains to be spent at the discretion of the union leaders.<sup>8</sup> Apart from the opportunities for siphoning off these funds for the purposes of personal gain, this would demonstrate that union leaders in Argentina might well be rich (probably as a result of the *Obras Sociales* system), but also extremely powerful.

The other dimension of the economic status of the unions relates to the financial difficulties in which the labour movement found itself at the end of the 1980s. The *Obras Sociales* were the financial basis of the labour sector, but the system suffered from a substantial deficit which was covered by the state through the National Health Administration (ANSSAL).<sup>9</sup> This has two principal implications: first, that the unions had less room for disagreement with the state or government as long as it remained in need of subsidies to cover the deficit, and second, that the government became able to exert significant leverage based precisely on this relationship of patronage. In any event, Decree 1,325 passed in

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<sup>7</sup> "Leadership battle splits the CGT", *Latin American Regional Reports - Southern Cone*, 16 November 1989.

<sup>8</sup> Interview with Jonathan Friedland.

<sup>9</sup> Interview with Claudio Lozano (Head of the CTA), Buenos Aires, 13 June 1997.

1991 prevented unions from collecting contributions under the *Obras Sociales* system, although control of ANSSAL and further subsidies were afforded to the pro-reform factions of the fragmented CGT.<sup>10</sup> Proposals in 1992 to privatise at least part of the health care provision within the system led to a general strike which prompted the government to postpone or cancel its plans to introduce competition from the private sector. The continuing debate can be attributed to the inability of the CGT leadership to implement its preferences within the union movement.<sup>11</sup>

To summarise, the affiliation between labour and the Menem government, which facilitated the process of reform outlined above and explains the relative absence of genuine opposition to the removal of the unions' influence, stems from three sources. The first is ideological: although there is considerable discontinuity between Menemism and Peronism, Menem is still identified as belonging to the Peronist political movement. As mentioned in Chapter 2, the opposition to Alfonsín can be explained at least in part by the simple fact that the UCR is a party of the middle classes, and there is evidence that throughout the 1980s the Peronists themselves fomented union opposition in order to further their own political attack on the government. The second is political, and refers to the labour sector's traditional dependence on the state, especially in terms of the political status of the unions. In this sense, reform 'from above' of the corporatist structures was made feasible because the state, by its very nature, was the puppet-master of the corporatist system itself. The third is economic, and relates to the subsidies which the Menem government offered to the unions, and to certain other deals which were designed to leave intact the financial basis of the labour movement in return for its acceptance of economic change. The crucial factors in explaining the crisis of the labour sector under Menem, therefore, relate to the lack or alternatively loss of economic benefits, and to the reform of state-society relationships which deprived the movement of the financial and political basis for its activism.

The weakening of the unions corresponds both to active policies on the part of the Menem government and to the responses of the labour movement itself

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<sup>10</sup> María Victoria Murillo: *From Populism to Neoliberalism: Labor Unions and Market-Oriented Reforms in Argentina, Mexico and Venezuela*, PhD thesis, Harvard University, 1997 (pp 118-9)

<sup>11</sup> *ibid.*, pg 119.

which created the political space for economic and political restructuring. The initial strategy of the CGT was one of negotiation, which allowed market-oriented and labour reforms to be implemented more quickly in Argentina than in, for example, Venezuela or Mexico.<sup>12</sup> Furthermore, the split of the CGT created a drop in the bargaining power of each faction, until the re-unification of the union in 1992. This created a vacuum in which it was made relatively easier for the Menem government to effect its policies of political re-alignment. However, the unions did manage to play a relatively significant role in negotiating the details of the reform policies, especially after the re-unification of the CGT in 1992 which was followed by the only general strike of the period in question. These negotiations included the concession of free wage bargaining in 1993, changes to the reform of the pension system, and labour flexibility.<sup>13</sup> On several occasions legislation was modified in response to the rejection of bills or initiatives by the main unions. The principal opposition to the government came from those sectors most affected by liberalisation, especially the textiles, metallurgical and automobile sectors. Opposition from the public sector arose as a result of the government's wage policies (involving particularly teachers and public employees) and as a result of privatisation (involving workers principally in the rail, steel and telecommunications sectors).<sup>14</sup>

From around 1994, union militancy increased quite significantly. This can be attributed to the debates on the direction of reform that arose as a result of the Tequila crisis and during the expansionary phase of Convertibility, particularly in light of high unemployment figures since 1993. In 1994 this was signalled by the 'Federal March' in July which was convened by the opposition factions of the union movement. From the time of Cavallo's departure from the Economy Ministry in 1996, the Menem government and its policies had lost the consensus generated in the early part of the decade, and the negotiations with the IMF in 1996 were unique in the degree of participation and debate that emanated from previously marginalised societal actors. Nevertheless, this renewed activism is not

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<sup>12</sup> ibid., pg 94.

<sup>13</sup> ibid., pp 107-112.

<sup>14</sup> María Victoria Murillo: "Union Politics, Market-Oriented Reforms and the Reshaping of Argentine Corporatism" in Douglas A. Chalmers et al (eds.): *The New Politics of Inequality in Latin America: Rethinking Participation and Representation* (1997), pg 82.

associated with the traditional unionism dominated by the CGT, but rather with opposition unions such as the Congress of Argentine Workers (CTA).<sup>15</sup> The agreement on labour reform between the government and the CGT in 1994, in the same month as the CTA-organised Federal March, can be seen as signifying the virtual incorporation of the latter into government circles and, therefore, the loss of its opposition or bargaining space.<sup>16</sup> It is significant that labour reforms are one of the areas in which the Menem government was never able entirely to impose its preferences, and that this issue continues to dominate the political agenda. Therefore, it is inaccurate to talk about the 'elimination' of the labour movement: the reform process led to an elimination of its veto power and a significant weakening of its bargaining position vis-à-vis the government, but not its disappearance.

### *The Armed Forces*

The military, by contrast, was more systematically and permanently disarticulated. As with the labour sector, Menem's approach to the Armed Forces was one of the 'smiling villain': although the military was weakened far more under Menem than under Alfonsín, relations with Menem were much better than with Alfonsín. As with labour also, Menem's strategy seems to have been a rather unlikely combination of co-optation and alienation, assisted by certain conjunctural factors. The first of these relates to a 'structural' change in military politics which resulted especially from the end of the Cold War. The collapse of the Soviet Union wiped out the *raison d'être* of those military establishments whose activities had been defined largely in terms of the struggle against communism, and the supposed 'triumph' of liberal democracy stipulated the subordination of military to civilian authorities. In this way, the new international environment made democratic rule a pre-condition for 'acceptance' into the club.

The second refers to the change in the social standing of the Armed Forces as a result of the Dirty War and the Falklands conflict. The fact that in the entire 1930-83 period there was no purely 'military' coup indicates the extent of the

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<sup>15</sup> The CTA was recognised as an official union in May 1997.

<sup>16</sup> Interview with Claudio Lozano.

social penetration of the Armed Forces in Argentina. In 1983, however, the military had brought itself into confrontation with the whole of society as a result of political failure (the dirty war), economic failure and military failure (the Falklands war). On the one hand the traditional alliance between the capitalist classes and the military broke down in the face of the military government's inability to control the burgeoning economic crisis. Similarly the Church's association with the right wing of the political spectrum faltered as it became more vociferous in its condemnation of repression and the security doctrine of the military junta. On the other hand, although the unions and left wing interests were most affected by the dirty war, the economic crisis affected all sectors without exception, including the military institution itself. In this sense, the case of the military fits well with the argument that corporatist interests in the 1980s were largely outliving their 'natural' life-span: by 1983, the Armed Forces were entirely discredited as both a political and a military institution, and their role in the 1980s was largely confined to fighting their corner on issues such as human rights and the military budget. By the early 1990s, the situation was compounded by the uprisings at the end of the 1980s, which served purely institutional interests rather than any political motivation, and the task of the Menem administration was greatly eased.

What was called for, then, was a change of image, which in the event came from within and without. From within, the process has been seen as one of the 'professionalisation' of the Armed Forces, to the extent that the Argentine military has taken pains to present itself as the model of the new professional outlook of the 'new' Latin American military. In a recent address to the British Royal United Services Institute for Defence Studies, the Chief of General Staff, Lieutenant General Martín Balza, stated that between 1991 and 1992 the Army conducted a "very objective assessment of the situation of the force" which led to a redefinition of the values and functions of the Army in accordance with that of the country in general. Talking about "new missions, new structures", he played on the 'professionalism' which can be seen in a new emphasis on military education (usually termed 'cultural modernisation'), the participation of women in the Armed Forces (which has not yet been implemented to any considerable extent) and, most importantly, the abolition of conscription in favour of the creation of voluntary

service which came into effect in 1995.<sup>17</sup> There has also been a ‘clean-up’ operation in the ranks of the Armed Forces, which is linked with a new drive to make meritocracy the defining feature of the promotions system.

This explanation, however, is problematic. There have been many instances of new ‘professionalism’ in both Argentina and other Latin American countries. The aspiration to create a genuinely professional military was shared by Generals Aramburu and Onganía in the 1950s and 1960s, although clearly neither achieved it. Furthermore, the idea of ‘professionalism’ has been used throughout the twentieth century by the military itself as a justification for intervention in politics. In its most recent incarnation, ‘professionalism’ is clearly taken to imply that the military has seen fit to remove itself from politics, but this is far more readily and convincingly explained by the removal of the *option* of intervention as a result of the Falklands fiasco. It is, therefore, more appropriate to see the ‘professionalism’ of the military as something of a justificatory rhetorical device used by the institution itself, which on this occasion refers to its retreat from politics. The argument about changes ‘from within’, however, stands if it is framed in terms of ‘depoliticisation’ and the acceptance of authority relations (that is, subordination to civilian political authority) rather than in the looser terms of ‘professionalism’ resurrected once more by the military itself.

From ‘without’, the impetus for change related to policies designed to reformulate the *role* of the military, although clearly, given the caveats mentioned in the last paragraph, this was to a large extent internalised by the Armed Forces. The 1988 Law of National Defence went some way towards establishing a new role for the military, in that it prohibited the participation of the Armed Forces in any domestic matters of internal security and limited their activities to the maintenance of security from external threats.<sup>18</sup> The military’s new role, therefore, was limited

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<sup>17</sup> “The Argentine Army in the 21st Century”, delivered to the Royal United Services Institute of Defence Studies, 6 November 1996 (reported in the Journal of the Institute). Although Balza cites 1991 as the turning point in this self-re-evaluation of the military institution, it could be argued that an inclination towards greater professionalism and the associated commitment to democracy predicated the early 1990s, as a result of the ‘identity crisis’ that the Armed Forces experienced after 1982.

<sup>18</sup> The La Tablada uprising of January 1989, however, gave impetus to the creation of a National Security Council (COSENA), which gave the military a legal means of intervening in internal conflicts (decree 327 passed by Alfonsín) - see Julio Villalonga: “Menem y las Fuerzas Armadas” in Atilio Borón et al: *El Menemato: Radiografía de Dos Años de Gobierno de Carlos Menem* (1991), pg 215. The Argentine military presently has two functions that may be seen as indirectly internal:

to foreign policy exercises, although the result of finding a new role for the military “in a country on the end of the world”<sup>19</sup> inevitably was perhaps more symbolic than genuinely influential in global terms.<sup>20</sup> Under Alfonsín the position of the military was somewhat paradoxical. On the one hand, it was almost completely marginalised from the foreign policy-making process, and therefore the role accorded to it by the Menem government, even though largely symbolic, was accepted as a sign of a changing climate of relations. Ironically, the military has been far more supportive of Menem’s foreign policy than either the press or the opposition.<sup>21</sup> On the other hand, under Alfonsín the military operated as a ‘state within a state’, making much of its own military links (independent of the government) with the Middle East, particularly Iraq. This adds further weight to the argument that the principal change in the orientation of the military under Menem relates to a process of depoliticisation and a greater acceptance of authority structures.

The most important component of the new role has been the presence of the Argentine forces in multilateral military and humanitarian efforts. The government decided to send two frigates to the Gulf War in September 1990 (decree 1971/90), and in 1991 there was an Argentine presence also in the United Nations missions UNIKOM (Iraq-Kuwait), MINURSO (Western Sahara) and UNTAC (Cambodia), as well as in the former Yugoslavia from May 1992 as part of UNPROFOR.<sup>22</sup> These all aimed to demonstrate the commitment of the Argentine government to the Western alliance and particularly the United States, as well as the reformed character of the Argentine Armed Forces. Protagonism in regional negotiations on

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(a) to provide logistical support in the anti-narcotics effort, although civilian forces are responsible for the overall effort, and (b) to provide disaster relief. See Wendy Hunter: “State and Soldier: Redefining the Military’s Role in Argentina, Brazil, and Chile”, United States Institute of Peace Peaceworks Series no. 10, October 1996 (pp 14-15).

<sup>19</sup> Interview with Carlos Escudé, Buenos Aires, 29 May 1997.

<sup>20</sup> In an interview with Rosendo Fraga (Buenos Aires, 2 June 1997), this view was expressed in more extreme terms, to the effect that Argentina’s insignificance as a global player made the new ‘foreign policy role’ virtually irrelevant. Given the participation of Argentine forces in the military and humanitarian ventures outlined in the next paragraphs, however, this interpretation appears to be over-stated.

<sup>21</sup> Interview with Carlos Escudé.

<sup>22</sup> Andrés Fontana: “Argentina and the Politics of International Security”, mimeo, Buenos Aires, 1997 (pg 1). Since the early 1990s, Argentine forces have also been active in various capacities in Honduras, Angola, El Salvador, Israel, Nicaragua, Mozambique, Cyprus and Haiti. See Deborah L. Norden: “Keeping the Peace, Outside and In: Argentina’s United Nations Missions”, *International Peacekeeping* 2, 3, Autumn 1995.

nuclear non-proliferation as well as demonstrated commitment to groups such as the Missile Technology Control Regime indicate that the military was keen to portray itself as fully integrated into the dominant model of military politics in the Western Hemisphere.<sup>23</sup>

The main key to Menem's success with the military, however, can be located in certain measures designed to secure the support of the military institution. First, the most important policy initiative related to his handling of the human rights issue, and specifically in the *indultos* (amnesties) that were granted to military officers. The roots of the Easter Rising of 1987 by the *carapintadas* lay principally in the failure of the *Punto Final* law passed in December 1986 to stem the tensions between the government and the military as a result of the human rights trials launched shortly after 1983. By 1987, these had resulted in long prison terms for Jorge Videla, Emilio Massera, Roberto Viola, Armando Lambruschini and Orlando Agosti.<sup>24</sup> On 6 October 1989 Menem passed amnesties (decrees 1002/89, 1003/89 and 1005/89) for 174 officers involved in the three uprisings of the late 1980s, as well as for 39 officers charged for misconduct during the period of the dictatorship (including those that ordered the invasion of the Falklands), and 64 left-wing guerrillas. The full amnesty of 29 December 1990 (decrees 2741/90, 2742/90, 2743/90, 2744/90, 2745/90 and 2746/90) included pardons for Videla and Viola, Martínez de Hoz and the former leader of the Montonero terrorist group, Mario Firmenich.<sup>25</sup> This was announced shortly after the final uprising of 3 December, of which the decisive failure was invaluable for securing popular acceptance of the government's military policy which had previously been seen as too conciliatory. Although Menem did not have to do very much on this occasion - the forces ranged against the rebels within the military institution were

<sup>23</sup> For details of these regional-based initiatives, see, for example, Fontana: op.cit., pp 14-16; Carlos H. Acuña & William C. Smith: "Política y 'Economía Militar' en el Cono Sur: Democracia, Producción de Armamentos y Carrera Armamentista en la Argentina, Brasil y Chile", *Desarrollo Económico* 34, 135, Oct-Dec 1994; Jackie Redick et al: "Nuclear Rapprochement: Argentina, Brazil and the Non-Proliferation Regime", *Washington Quarterly* 18, 1, 1995; Rut Diamant (ed.): "La Toma de Decisión en Asuntos de Seguridad: Algunas Experiencias Comparadas", Working Paper 39, UTDT, Buenos Aires, May 1997.

<sup>24</sup> David Pion-Berlin & Ernesto López: "Una Casa Dividida: Crisis, Fractura y Conflicto en el Ejército Argentino" in Pion-Berlin & López: *Democracia y Cuestión Militar* (1996) pg 103.

<sup>25</sup> Ernesto López: "Argentina 1991: Las Nuevas Oportunidades para el Control Civil" in David Pion-Berlin & Ernesto López: *Democracia y Cuestión Militar*, pp 189-90; IRELA: "La Argentina de Carlos Menem", pg 34.

considerable, largely as a result of the government's concessions to date - the government was able to claim with demonstrable certainty that it had eliminated the possibility of further instability in the military ranks.

The principal effect of the amnesty was to remove once and for all the *raison d'être* of the carapintada faction, which developed fundamentally as a response to the trials issue within the more general context of military re-evaluation. In effect, the amnesty "removed the flag with which the carapintadas achieved the internal consensus of the Armed Forces"<sup>26</sup>, even though by this time the internal consensus did not amount to much. Nevertheless, the final pardon put the seal on the government's subordination of the military. The clever political move can be seen in the fact that to issue an *indulto* only pardons the officers without any sort of intimation that they were not guilty. In addition, the implied subordination was disguised in the elaboration of a new foreign policy role for the Forces.

Second, although the cause and the Easter Rising of April 1987 provoked considerable sympathy throughout the ranks, the majority of military officers opposed the carapintadas as an alternative for activities of a more institutional character.<sup>27</sup> The subsequent uprising of December 1988 constituted the first time in 25 years that there was open hostility between two factions of the army - in this case, the senior ranks in opposition to the activities of the colonels - which culminated in the former obeying President Alfonsín's orders to fire on the rebels.<sup>28</sup> By the start of the Menem government, then, there were three competing factions within the Armed Forces: the "parallel army" of the carapintadas, the official Army of the 'liberals', and lastly the 'career soldiers' or 'professionals'.<sup>29</sup> Menem's strategy after assuming the presidency was to capitalise on these divisions, and thereby to favour the new 'professional' wing of the military over the (usually hard-line) old guard and the troublesome carapintadas.

One of the first such moves was the appointment of General Isidro Cáceres as Army Chief of Staff. Cáceres in 1988 was in charge of the troops that were

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<sup>26</sup> Interview with Rosendo Fraga.

<sup>27</sup> Fontana, pg 9.

<sup>28</sup> Pion-Berlin & López: "Una Casa Dividida", pg 121.

<sup>29</sup> *ibid.*, pp. 94-5 & 106.

ordered to repress the carapintada rebellion, and from that time was the primary conduit through which relations between the senior and junior ranks began to improve. Cáceres could be located very clearly in the ‘professional’ category mentioned above: this resulted not only in the mediation between the liberals and the rebels, but also in the elevation of the professional faction to positions of dominance within the military hierarchy.<sup>30</sup> The appointment of Cáceres, therefore, and his replacement after his death with another senior officer of similar persuasion (Martín Félix Bonnet, in turn succeeded by Martín Balza) corresponded to the imperative of eliminating factionalism within the Armed Forces, as well as Menem’s priority of re-organising the military into a professional force rather than a socio-political actor with substantial veto power over the political process.

The third characteristic of the government’s strategy before and immediately after it formally took office was to attempt to establish a relationship of confidence with the military, including the carapintadas, based apparently on early guarantees that corporatist structures would be maintained. The tone of the Peronist presidential campaign emphasised conciliation and pacification, in stark contrast to the hard line that the Radicals attempted to take on the amnesty issue.<sup>31</sup> Moreover, Menem’s favouring of the ‘professional’ wing ran counter to the overtures made during the election campaign to the carapintada faction. Before and after assuming the presidency, notable officials in Menem’s team as well as Menem himself responded to the continuing hostility from carapintada leader Colonel Seineldín, at this time under house arrest for his part in the 1988 uprising, by conducting regular meetings with him in order to try to elaborate certain understandings to mutual benefit.<sup>32</sup> In January 1989, for example, a working group on military issues was established, to be coordinated by Seineldín and in which César Arias (later appointed Under-Secretary for Defence) was to act as the government’s link. One account states that Seineldín himself acknowledged that from December 1988 he had 52 meetings with 17 officials from the PJ, which

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<sup>30</sup> *ibid.*, pg 124.

<sup>31</sup> Carlos H. Acuña & Catalina Smulovitz: “Militares en la Transición Argentina: Del Gobierno a la Subordinación Constitucional” in Carlos H. Acuña (ed.): *La Nueva Matriz Política Argentina* (1995), pg 178.

<sup>32</sup> Pion-Berlin & López: “Una Casa Dividida”, pp. 125-126 and *New York Times*, 22 December 1990.

aimed to “sketch out a military policy that would put an end to internal confrontations [within the military institution] and stimulate the restructuring of the Armed Forces”.<sup>33</sup> It appears, for example, that the appointment of Cáceres and of Italo Luder and Humberto Romero as Minister and Secretary of Defence respectively shortly after Menem took office were made on the recommendation of Seineldín during two meetings that took place with the President-elect himself.<sup>34</sup> Largely on the strength of these personal discussions, Menem passed the early amnesties of October 1989.

Nevertheless, these early conciliatory overtures were not maintained for long once Menem was installed in the Casa Rosada. In Autumn 1989, Cáceres began a thorough purging of the military ranks, by the end of which the carapintada faction was eliminated, contributing to the last-ditch protest of December 1990.<sup>35</sup> Subsequent military reforms reinforced the emphasis on the professionalisation of the Forces. A reduction of around 40% in personnel was announced in May 1991. The structure of the Armed Forces altered, as a logical consequence of reductions in expenditure and in entry at lower grades, from a pyramidal structure to one which bulges in the middle officer ranks and the upper ranks of the enlisted corps.<sup>36</sup> Cuts in military personnel and civilian personnel employed by the Ministry of Defence were seen to be essential to an overall ‘retrenchment’ that aimed to redress the expenditure imbalances that persisted in 1991/2.<sup>37</sup>

Furthermore, the privatisation of enterprises controlled by the military was virtually completed by the mid-1990s, although significant exceptions remained such as parts of Fabricaciones Militares and the San Francisco weapons factory (although these were by this time in the hands of the Ministry of Defence).<sup>38</sup> The dismantling of the Condor II missile project, which had been strongly backed by the Air Force, was in keeping with the re-definition of the role of the Armed Forces

<sup>33</sup> Simón Lázara: *El Asalto al Poder: Actores e Intereses en la Crisis Argentina del '89* (1997), pg 266.

<sup>34</sup> López: “Argentina 1991”, pg 183; Villalonga, pg 217. For reported details of the conversations between President-elect Menem and Seineldín, see Lázara, pp. 268-9.

<sup>35</sup> López: “Argentina 1991”, pg 185.

<sup>36</sup> World Bank: ‘Argentina: Public Finance Review: From Insolvency to Growth’, Report no. 10827-AR, 11 February 1993 (pg 96). However, although this adjustment may have helped the cause of ‘professionalisation’, it created an officer corps structure suited to a force twice the size of the Argentine force in the early 1990s. *Ibid.*, pg 100.

<sup>37</sup> *ibid.*, pp. 99-102.

<sup>38</sup> World Bank: *op.cit.*, pg 95.

towards external rather than national security. Other reforms implemented a significant reduction in military spending in the national budgets. Military expenditures in 1993 were still the largest category of discretionary expenditure, but comprised less than 2% of GDP in comparison with a figure two-thirds higher in the early 1980s.<sup>39</sup>

Therefore, it is inaccurate to talk about the ‘subordination’ of the ‘military’, just as it is misleading to refer to the ‘incorporation’ of ‘business’, as the next section will demonstrate. Certainly in the first couple of years of the Menem government the military flexed its muscles on several occasions, although by the December 1990 uprising Menem had managed to manipulate the chain of command in order to ensure the allegiance of the senior ranks. Rather, the process is multi-dimensional. One aspect of it is the combination of co-optation and weakening or alienation: for example, the military was simultaneously weakened as a political and economic actor and co-opted into the support network of the government through the achievement of its acquiescence in the restructuring programme. The other element in the process concerns the fostering of certain ‘factions’ within interest groupings to the expense of others. The ‘weakening’ of the military and labour refers only to certain hostile factions within these sectors, and furthermore refers to the elimination of the traditional veto power of these interests.

### **Incorporation of Interests: Business and the Technocrats**

#### *Business*

As with the labour sector and the Armed Forces, the shift in the political and economic positioning of the business sector must be attributed to a combination of the effects of economic change and the results of deliberate policies. In the case of business, the link between their increased affiliation with the government is clearly based on a coincidence of economic interests: the government’s economic policies favoured the business sector, and at the same time

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<sup>39</sup> World Bank: op.cit., pg 93.

relied on its support for their success. If the government was concerned to implement an economic strategy based on free markets, liberalisation and the expansion of private sector activity, then the incorporation of business sectors as key allies was indispensable. As with the case of labour also, deliberate measures taken by the government were reinforced by the effects of the economic policies pursued: privatisation is again a case in point. Therefore, it is possible to some extent to see the economic restructuring process as propping itself up after the early years, in that structural change induces shifts in the positioning of actors regardless of the conscious intentions of governments or the actors themselves. In this sense, the reduction of the public sector quite logically favours the expansion of the private sector but simultaneously reduces the influence and scope for activity of industrial sectors and workers' unions.

Business became the new oligarchy of the 1990s under the Menem government. The domination of the Economy Ministry between 1989 and 1991 by the large multinational Bunge & Born signalled Menem's intention to court business and eliminate the traditional anti-Peronist bias that might disrupt the smooth implementation of economic reforms. Throughout this period, Menem held weekly meetings with business leaders and consistently consulted them on the direction and content of economic policy. As such, the influence of organised business interests (particularly in the agricultural sector) was and is less important than influence which derives from personal relationships with Menem and, from 1991, with Cavallo.

The evolution of the new relationship between government and business was, however, not as trouble-free as this first reading might suggest. From the early months of the Menem administration, the government saw itself largely as substituting one group of pressures for another - that is, that the interests of business were suffocating its policy-making autonomy quite as effectively as labour had previously. This manifested itself primarily in problems of allocating the costs of the adjustment which, given the closeness of the affiliation established with the business sector, the government found itself unable to effect.<sup>40</sup> Two mechanisms were utilised for the purposes of creating a distance between the

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<sup>40</sup> Vicente Palermo & Marcos Novaro: *Política y Poder en el Gobierno de Menem* (1997), pp. 157-62.

government and business interests: the first was the replacement of Economy Minister Rapanelli (of Bunge & Born) with Erman González, who did not represent an economic or political interest but rather a general economic orientation. The second was a policy shift in the direction of increased monetary restriction which had the effect of making the state less permeable to the demands of business interests. In this way, fiscal orthodoxy became a political instrument of control.<sup>41</sup>

The persistence of inflation, and particularly the bursts of hyperinflation in November 1989 and early 1991, also created a climate of some caution in business circles. Although the neoliberal orientation of the economy was welcomed, opposition to particular policies remained: as outlined in Chapter 3, for example, exporters' groups vigorously opposed the stable exchange rate in late 1989, and expectations of economic crisis early in 1990 prompted state and business firms to take measures to defend their resources.<sup>42</sup> Through 1990, economic recession negatively affected business and industry, and agricultural interests were hurt by such policies as the increase in export taxes, leading to strike action in early 1991. The legendary alliance between Menem and business, therefore, was struck largely on the basis of the economic stability, low inflation and relatively healthy growth afforded by the Convertibility Plan.

However, to refer to 'business' as a homogenous interest group is equally misleading. Traditionally business divides into three sectors in Argentina. The first two are traditional agricultural producers and those that favoured ISI, the latter ranging from steel mills to small textiles producers. The third grouping might be called 'state contractors' and incorporates engineering and construction companies. It is this third group which has formed the basis of the 'new oligarchy' in Menem's Argentina.<sup>43</sup> The ISI-oriented sector was largely eliminated along with the development model with which it was associated. The traditional oligarchy was able to 'cash out', creating a generation of 'trust fund babies' that live off the family fortune.<sup>44</sup> Bunge & Born, although dominant within government structures,

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<sup>41</sup> *ibid.*, pp. 163-5.

<sup>42</sup> Acuña: "Politics and Economics", pg 41.

<sup>43</sup> Interview with Jonathan Friedland.

<sup>44</sup> Interview with Jonathan Friedland.

were excluded from the privatisation process due to regulations on conflicts of interests. As a result of this and of a series of bad decisions in the early 1990s (such as the decision to sell the now enormous Lafabril in Peru), the business interests of the corporation have not been significantly furthered since the start of the Menem administration.

Essentially, the new business oligarchy is composed of those sectors which recognised the opportunities for increasing asset values as a result of privatisation and economic reform, such as the Pérez Companc, Macri, Pescarmona and Soldati families, and enterprises such as Techint, Comercio La Plata, and IMPSAT. These companies characteristically struck up alliances with foreigners and purchased assets, to the extent that the asset base of Comercio La Plata, for example, increased five-fold over five years.<sup>45</sup> The ‘transnationalisation’ element in the Argentine economy therefore really took hold from the start of the 1990s, although these companies did have some significant international links before that time: Pérez Companc, for example, bought General Electric’s Latin American Construction Company in 1976, and then ventured into more non-traditional sectors in the 1980s, bringing Carrefour to Argentina and entering into joint ventures with NEC.<sup>46</sup> Even now, however, the only genuinely transnational companies in Argentina are to be found in the energy sector (such as YPF and Pérez Companc), although industrialists like Techint and IMPSAT are increasingly active internationally. Crucially, the expansion of the transnational activities of Argentine businesses was made possible by the privatisation process which produced the necessary asset size and cashflow, as well as partnership opportunities for joint ventures, which have become the defining characteristic of the transnational activities of the business sector. As a result, virtually without exception the most influential businesses in Argentina came to be dominated by consortiums consisting of local and foreign capital.

This should not be taken to mean, however, that the composition and domination of the business elite is confined to these families and their business

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<sup>45</sup> Interview with Jonathan Friedland.

<sup>46</sup> Interview with Jonathan Friedland. Another example is Bridas (the natural gas industry) which had genuine international interests from the 1970s, mainly in the form of joint ventures. See George Philip: *Oil and Politics in Latin America: Nationalist Movements and State Companies* (1982)

enterprises. Recent research on the business sector in Argentina suggests that the level of 'rotation' within the business elite is significantly high: of the 200 biggest companies in 1995 (measured according to annual revenues), 97 did not exist four years earlier, or alternatively ranked below the 200 mark. These two characteristics - the displacement of certain companies and the prevalence of new actors in the business arena - are taken to be indicative of the "new types of structuring and functioning of the economy".<sup>47</sup> The business profile in Argentina also shifted since around 1991, reflecting the decline of industrial companies and public enterprises and the rise of new consortiums of privatised public services and companies operating in the services sector. In other words, the profile of the business sector altered at the expense of firms in the industrial sectors and in favour of companies operating in the tertiary (services and commercial) sectors of the economy. The other rather obvious point is that the profile of the business sector was altered in any case simply as a result of privatisation and the consequent elimination of the huge bulk of public sector enterprises.

Put together, then, these changes resulted in a 'concentration' of both economic power and economic activity in Argentina. With respect to the first of these, the business circle which had access to the policy-making arena was extremely limited in its scope. With respect to the second, the process of concentration can also be seen as a process of polarisation, in which there were very clearly winners and losers in Argentine business, with very little space between the two. This can be seen in the figures for business performance during the 1995 economic crisis: the largest 200 firms increased their revenues by around 11.3% on the previous year and their aggregated utilities by 29.9%, while the level of activity in the Argentine economy fell by 4.4%. This demonstrates a marked discrepancy between the performance of the firms comprising the business elite (characterised by the concentration of activity and power noted above) and the performance of the economy as a whole.<sup>48</sup>

To conclude, the redefinition of the relationship between business and government under Carlos Menem brushed aside two of the most salient tensions

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<sup>47</sup> Daniel Azpiazu: "El Nuevo Perfil de la Elite Empresaria: Concentración del Poder Económico y Beneficios Extraordinarios", *Realidad Económica* 145, 1996, pg 27.

<sup>48</sup> Azpiazu, pg 30.

that have characterised Argentine politics in the post-war period. First, the traditional hostility between business and Peronism was overcome largely by the fact that the government became “more papal than the Pope himself” in terms of economic policy<sup>49</sup>, and that this was an alliance between business and Carlos Menem, rather than business and political Peronism. Therefore, to draw business sectors into the political and economic process was not exactly a difficult task: Menem could rely on the logic of the market and the economic rationale of the government’s policies which worked to the advantage of the private sector (and especially big business), reinforced by close personal links. In addition, the appointment of Cavallo created a legitimacy for the economic model than worked to increase the confidence of the business sector in the government’s commitment to liberalisation. As a result, the alliance between the government and business became one of the most solid features of the new political line-up.

Second, the political and economic history of Argentina suggests that there was an irreconcilable opposition between capitalism and democracy. As long as the episodes of democratic rule in the post-war period were seen to further the inclusion of the militant trades unions and other popular sectors, the interests of the capitalist classes were seen as fundamentally threatened by democracy. The military interventions, consequently, invariably were supported by capitalist interests and equated with the maintenance of stability and discipline as much as a ‘favourable’ economic inclination. Although the opposition to political democracy itself was effectively eliminated in the early 1980s, the experiences of the Alfonsín government demonstrated the persistence of tensions between government and business.<sup>50</sup> Opposition until the 1990s was based on both the political implications of such inclusionary styles of government for economic performance as well as the political constraints that representation placed on the execution of an economic policy acceptable to the business community. The Menem administration was

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<sup>49</sup> Interview with Gabriel Casaburi (Fundación Mediterránea), Buenos Aires, 29 May 1997.

<sup>50</sup> It should be remembered, however, that business did derive certain benefits in the 1980s from the democratic Alfonsín government, the most important of which were the electoral defeat of the Peronists and the policy of confronting the unions (although this was ultimately unsuccessful). Carlos H. Acuña: “Intereses Empresarios, Dictadura y Democracia en la Argentina Actual” in Acuña (ed.): *La Nueva Matriz*, pg 270.

clearly the first instance of a genuine coincidence of interests between a democratic government and business or capitalist classes in Argentina in the post-war period.

### *The Technocrats*

The dominance of policy circles by technocratic policy makers differs from the above categories of interests in that this was not an example of the co-optation or alienation of an existing interest in Argentine politics. Nevertheless, the courting of the technocrats corresponded closely with the strategy pursued by the Menem administration, which aimed essentially to reduce the scope for societal participation in or influence over state decisions, to isolate economic policy from the political arena of interest group activity (however residual), and to increase the centralisation and insulation of the state. The idea is that the installation of these 'technocrats' in senior government positions ensured the 'rational' formulation of technically appropriate economic policy, without the contaminating influence of political pressures.

In more specific terms, high levels of technocratic capacity in a government has the effect of reducing the debates about adjustment, with the implication that the government has at its disposal a greater range of policy instruments or options. This may perhaps be seen in combinations of orthodox and heterodox policies, as explained in the discussion of Argentina's responses to globalisation in the next chapter.<sup>51</sup> Although this does not preclude debates within the policy-making agencies of the state, and economic success is not guaranteed by the presence of technocrats in government (as proved by the Alfonsín administration), the situation of Argentina in the 1990s suggests that the economists gained the upper ground in both state and societal circles.

The dominance in the Economy Ministry of such individuals under Menem was not immediate, however. As noted above, for the first eighteen months or so of the Menem administration, the appointments to the Economy Ministry were taken from the world of business interests, which ensured that state institutions were far more permeable to sectoral interests and that they remained "spaces of interaction

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<sup>51</sup> Stephan Haggard & Robert R. Kaufman: "Estado y Reforma Económica: La Iniciación y Consolidación de Políticas de Mercado", *Desarrollo Económico* 35, 139, Oct-Dec 1995 (pg 359).

and negotiation".<sup>52</sup> The technocratic team that was formed under Menem from 1991 onwards was headed by Domingo Cavallo, Foreign Minister during the early part of the Menem administration. Cavallo was, in many ways, the archetypal technocrat. With a PhD in economics from Harvard, and having worked for the World Bank in the early 1980s<sup>53</sup>, he represented essentially the "acceptance of the Washington Consensus".<sup>54</sup> He took over the Economy Ministry with no political affiliation, with either the PJ or any other party. In this sense, he fits well with the 'apolitical' qualities that are normally attributed to technocrats in government positions. There is a suggestion, however, that his appointment was not entirely Menem's preference. Menem's apparent reluctance to put Cavallo in the Economy Ministry was probably brushed aside only as a result of US pressure in the context of the political and economic crisis of February 1991, in which Menem's survival was called into question.<sup>55</sup> Although it is true that the arrival of Cavallo in March 1991 made little difference to the neoliberal economic direction which had already been established by the Menem government<sup>56</sup>, as discussed in Chapter 3, his appointment marked the start of what we have identified as the 'consolidation' phase of reform.

Cavallo and his team were useful to the Menem government in a number of ways. First, their arrival was consistent with the foreign policy goal of increasing Argentina's alignment with the West, which depended largely on the success of the economic restructuring programme and the expansion of international economic relations. Cavallo and the technocratic team, by their nature, were able to contribute to external confidence in the Argentine government and the Argentine economy, and also to build on personal external links in order to contribute to the integration of Argentina into the mechanisms of the international economic environment. Second, Cavallo had close contacts with the business environment, consolidated largely through a business think-tank established by Cavallo (the Fundación Mediterránea) which conducted a research agenda premised on business interests and accordance with the ideal of a globalised international economy.<sup>57</sup> Third, his time as Foreign

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<sup>52</sup> Palermo & Novaro, pg 296.

<sup>53</sup> See Daniel Santoro: *El Hacedor: Una Biografía Política de Domingo Cavallo* (1994)

<sup>54</sup> Interview with Adolfo Canitrot, Buenos Aires, 28 July 1995.

<sup>55</sup> Interview with Adolfo Canitrot

<sup>56</sup> Palermo & Novaro, pg 296.

<sup>57</sup> Interviews with Gabriel Casaburi & Guillermo Mondino of the Fundación; Palermo & Novaro, pg 297.

Minister created a structure of political contacts, which acted to reinforce the legitimacy of the economic model and the new economic team. Moreover, however, if the central thrust of the Menem administration's foreign policy was in fact foreign economic policy, then the combination of influence offered by Cavallo would appear to have been invaluable.

This, then, was a mainstream, orthodox economic orientation embodied in the technocratic team that took over the relevant Ministries with Cavallo in early 1991. This was not, however, a technification of the state structure in its entirety. We have seen already that a trade unionist was appointed Labour Minister. Similarly, the Ministries of Health and Defence continued to be organised along traditional lines.<sup>58</sup> Nor was the technocratic element of the government entirely apolitical for the duration of the first Menem administration. One of Cavallo's major frustrations was the lack of support for the reform programme by the mid-1990s, despite the alliances that he had constructed over this time with a number of PJ and other party representatives in the political arena. The extent of these contacts can be seen in concerns over the appointment of Roque Fernández as Cavallo's successor, which were built on the observation that Fernández had no political base.

### **'Government by Decree' and the Weakening of Institutions**

Having examined the re-positioning of political interests, then, we can move to a more general assessment of the change in the nature of state power. The final part of the discussion relates to the weakening of political institutions in Latin America, most notably the legislative branch of government, which acted to further consolidate executive power. Taken together, these elements of Menem's strategy (in the general structural and conjunctural context of the early 1990s) comprised a weakening of traditional interests, the disarticulation of civil society, and the establishment of an anti-institutionalist, centralised and presidentialist style of democracy. The following chapters demonstrate the ways in which international

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<sup>58</sup> Palermo & Novaro, pg 299.

influences acted to reinforce these trends, on the one hand, and create the space in which they could be sustained and consolidated, on the other.

### *Executive-Congressional Relations*

Relations between the legislative and executive branches of government during the first years of the Menem government were characterised by the consolidation of executive power at the expense of congressional influence. This was achieved principally by resort to presidential powers of decree and veto, the frequency of which served to undermine the normal functioning of the legislative process in Argentina. Although there are constitutional provisions and precedents for this kind of decision-making, the first Menem can be distinguished from previous governments in two ways: first, by the para-constitutional interpretation of constitutional provisions, and second, by the frequency with which these powers are employed.

Presidential veto powers are included in Article 72 of the 1853 Constitution, which provides for both total *and* *partial* vetoes although, significantly, the latter is the result of a loophole rather than a concrete provision.<sup>59</sup> The constitutional reform of 1994 attempted to formalise this presidential prerogative. The contrast between the Alfonsín and Menem administrations is marked: Alfonsín vetoed 7.59% (49 laws) of the total legislation passed during his government, whereas Menem in the period of his first administration vetoed 13% (109 laws). The figures for partial vetoes are even more instructive: in the case of Alfonsín, 25% of laws he vetoed were subject to partial veto, while for Menem the figure stands at 56%.<sup>60</sup> Furthermore, the government has often circumvented the constitutional requirement that, in the event of a partial veto, the entire legislation is returned to congress for approval. Therefore, under Menem the pattern of presidential veto has been dominated by partial vetoes, which are not strictly constitutionally legal, and furthermore by the non-observance of formally or informally established practices.

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<sup>59</sup> Ana María Mustapic & Natalia Ferretti: "El Veto Presidencial Bajo Alfonsín y Menem (1983-1995)", mimeo, Buenos Aires, 1997 (pg 5).

<sup>60</sup> Mustapic & Ferretti, pp. 1-2

With respect to presidential decree powers, the 1853 Constitution also allows for three types: ‘regulatory’ decrees (referring to laws dictated by Congress), ‘autonomous’ decrees (in which the president rules on a matter reserved exclusively for the Executive by the Constitution) and, on a more informal basis, ‘delegated’ decree power (in which the Executive controls legislative matters delegated to it by the Congress, to which authority properly belongs).<sup>61</sup> The two most important instances of delegated authority are the LEE (23.697) and the Reform of the State (23.696) passed in August and September 1989. These allowed the president further authority to issue delegated decrees on certain policy matters (such as privatisation) within a specified period of time.<sup>62</sup> However, Menem’s use of decree powers relies on a format known as decrees of ‘necessity and urgency’, which are not part of the President’s constitutional powers of legislation. In this case, the executive appropriates powers constitutionally reserved for the Congress, justified by situations of crisis which demand extraordinary legislative solutions. As with the case of partial veto powers, the 1994 constitutional reform sought to integrate legal provision for decrees of necessity and urgency for exceptional situations in which normal legislative procedures cannot be followed. Between 1853 and July 1989, Argentine presidents had issued around 35 decrees, while between July 1989 and August 1994, Menem passed 336 ‘decrees of necessity and urgency’.<sup>63</sup> These related to a range of issue areas, including the decision to send Argentine warships to the Persian Gulf and the right to strike legislation of October 1990.

Menem’s use of constitutional and extra-constitutional presidential powers relates to the context of economic crisis. While the Alfonsín government responded largely to pressures on the legislative system which arose from the process of democratisation, Menem’s style of government departed from the argument that, given the nature and extent of the crisis, Congress was not technically equipped to deal with the present situation or alternatively that the time required for normal

<sup>61</sup> Delia Ferreira Rubio & Matteo Goretti: “Cuando el Presidente Gobierna Solo: Menem y los Decretos de Necesidad y Urgencia hasta la Reforma Constitucional (julio 1989-agosto 1994)”, *Desarrollo Económico* 36, 141, April-June 1996 (pg 449).

<sup>62</sup> See Mark P. Jones: “Evaluating Argentina’s Presidential Democracy, 1983-1995” in Scott Mainwaring and Matthew Soberg Shugart: *Presidentialism and Democracy in Latin America* (1997), pg 286.

<sup>63</sup> Rubio & Goretti, pg 444.

procedures could be ill-afforded: at the end of the previous session (to 30 September 1990), only 21% of the proposed laws submitted has been approved by the legislature, and 60% had not received the attention of the relevant parliamentary commission.<sup>64</sup> Furthermore, most of the vetoes and decrees issued by Menem related to economic issues, particularly privatisation (including ENTel and Aerolíneas Argentinas) and various areas of government spending.

The other tactic employed by the government was to favour an ‘all-or-nothing’ approach over a case-by-case approach to legislation, in which it sent to Congress a number of ‘omnibus’ laws that covered several issues at once: the LEE, Reform of the State law and the DEE are the most obvious examples. Passage of these laws, therefore, was intended to be the validation of the broad reform package, avoiding squabbles over its components. This fits in with the overall orientation of the Menem government which strove to create the impression of a coherent package which was more than the sum of its parts. The other advantage of the ‘all-or-nothing’ approach was that it dodged the risk of the legislation becoming bogged down in processes of revision by the legislature, and furthermore that it constrained the opportunities for the Congress to serve as a conduit for societal and party pressures.<sup>65</sup>

The impact of the exercise of such presidential powers is clearly detrimental to congressional influence and beneficial for the consolidation of political authority in the executive branch. Furthermore, the establishment of such a relationship reinforces the anti-institutional bias of the political model characterised by centralised power and personalist government. The above practices served consistently to undermine the authority and legitimacy of Congress by weakening, first of all, its capacity to fulfil its legislative functions and, second, the internal dynamics of legislative bargaining. There are three further observations that arise from the evolution of presidential-congressional relations. First, the PJ did not have a majority in Congress until 1995. The difficulties that a minority in the Chamber of Deputies posed for the legislative process created conditions in which the executive saw itself compelled to resort to decree and veto powers once the possibility of closing Congress had been eliminated, along with the short-lived

<sup>64</sup> IRELA: “La Argentina de Carlos Menem”, pg 8.

<sup>65</sup> Palermo & Novaro, pg 257.

idea of creating an alliance with the Radicals by offering Eduardo Angeloz a place in the Cabinet. However, from about 1994 the Congress has become much less quiescent and congressional opposition has increased significantly, necessitating a greater degree of negotiation. The record from 1995 onwards, furthermore, demonstrates that a congressional majority for the ruling party does not necessarily equal greater power. The paradox, therefore, is that Congress has more influence at precisely the time that it is structurally weakest, contrary to common perceptions among Radical party members that the influence of the opposition has steadily decreased since Menem came to power.<sup>66</sup>

Second, the first Menem government was characterised not only by the frequency of its recourse of semi-constitutional legislative mechanisms, but also by an increase in the level of conflict between Congress and the executive<sup>67</sup> demonstrated by the five instances of congressional ‘insistence’ (that is, when Congress insists on the original versions of laws subsequently amended by the executive, for which a two-thirds majority is required).<sup>68</sup> Therefore, it should not be assumed that the eclipse of congressional influence was assisted by congressional passivity, and the weakening of Congress should be seen in *relative* terms rather than as an absolute loss of power: Congress retains certain instruments and areas of influence and even, according to some analysts, exhibits a significant degree of stability and continuity.<sup>69</sup> On the other hand, throughout the period in question the Executive held all the cards in terms of the content of the reform package, while the role of Congress became largely reactionary. The process of reform was very clearly directed from the Executive branch.

The tensions between the executive and the legislature both increased with time and varied according to the issue area addressed by specific legislation. In the first couple of years of the government, therefore, the Executive had a largely free hand in a context dominated by macroeconomic issues such as privatisation, tax reform, economic liberalisation and government spending. Tensions increased on

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<sup>66</sup> This sort of opinion was voiced by a number of interviewees and friends from the Radical Party.

<sup>67</sup> Legislative relations during the 1980s, on the other hand, were characterised by conflict between the government and the opposition. Mustapic & Ferretti, pp 10-12.

<sup>68</sup> Two of these ‘insisted laws’ were requested by Menem himself in order to correct errors. Mustapic & Ferretti, pp. 15-18.

<sup>69</sup> Guillermo Molinelli: “Las Relaciones Presidente-Congreso en Argentina, ‘83-’95”, *Post Data* 2, Nov 1996 (pp. 78-9)

the one hand as a result of increasing disaffection with the Executive's attempts to marginalise Congress in the policy-making process and, on the other, when attention turned to issues such as labour reform and fiscal policies towards the provinces, and were exacerbated by the unwillingness of the Executive to modify its approach in response.<sup>70</sup> It is precisely in step with the increasing hostility from Congress that the government's resort to extra-constitutional mechanisms increased, with 1991 representing the peak of the use of decree powers. This is despite some attenuation of conflict as a result of the arrival of Domingo Cavallo in the Economy Ministry, who made numerous statements to the following effect:

To sanction laws is more difficult than to draft decrees of necessity and urgency. But the legitimacy achieved through these laws produces a greater judicial stability, because it creates awareness of far more solid and durable solutions, generating conditions conducive to attracting investment and consequently economic growth.<sup>71</sup>

Third, the erosion of congressional influence over the reform process does not coincide necessarily with a decline in its ability to protect its institutional identity.<sup>72</sup> This is an important distinction to make in the discussion of the re-drawing of political boundaries in Menem's Argentina. Palermo and Novaro argue that "although the opposition encountered serious difficulties in achieving any influence over the structural reform programme, the same was not the case in the defence of democratic constitutionality". This is demonstrated most effectively by reactions to the consideration given by the Menem government to closing Congress in the style of a palace coup, which was de-railed by media attention and the vocal opposition of various politicians including ex-president Alfonsín, as well as the lack of consensus on the issue within the government itself.<sup>73</sup> An 'anti-institutionalist bias' refers to the disarticulation of institutional interests, or in some cases their *re*-articulation in order to achieve or further the centralisation of power in the Executive and/or to ensure a consistency between the interests of the Executive and the inclinations of its 'backing group'. The balance between the

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<sup>70</sup> Palermo & Novaro, pp. 260-261.

<sup>71</sup> *La Nación*, 2 October 1991, quoted in Rubio & Goretti: pg 446.

<sup>72</sup> Molinelli, pg 79; Palermo & Novaro, pg 265.

<sup>73</sup> Palermo & Novaro, pg 264; Rubio & Goretti: pg 445.

positive and negative (re-articulation versus disarticulation) depends, as we have seen in the cases of political interests, on specific circumstances as well as on the specific institution or interest in question.

### *The Supreme Court of Justice and the Judiciary*

Although executive power became largely consolidated as the locus of political authority, the mechanisms by which this process was carried out required approval from the Supreme Court, and therefore it was essential for Menem to gain its support. The first attempt to achieve this was by trying to force the resignation of 'hostile elements' in the Court, and the failure of this tactic prompted Menem to seek congressional approval for the expansion of its members from five to nine.<sup>74</sup> This was approved by the Senate in September 1989 and by the Chamber of Deputies on 6 April 1990, despite the protestations of the Supreme Court itself and the vehement opposition of the UCR. Support for this measure was achieved with a certain degree of coercion: three days before the law was sanctioned, all the PJ deputies received a telegram concerning the special recommendations of the national government and the governing party relating to the "essential needs of the state", which re-stated the absolute urgency of sanctioning the legislation.<sup>75</sup> After various resignations, in the two months following congressional authorisation of the initiative Menem appointed six new Ministers to the Court, increasing the number to nine.

The fact that these were political appointments created a situation in which Menem had majority political support in the Court and therefore increased room for manoeuvre with decree legislation. By May 1990, therefore, the Supreme Court had been transformed into a staunchly Menemite institution with six of the nine justices appointed by the President (by virtue of strong attachments to the PJ or Menem himself), in contrast with the situation before the expansion of the Court, in which none of the four justices were appointed by the President.<sup>76</sup> The mechanisms of appointment are congruent with the general pattern of institutional

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<sup>74</sup> Rubio & Goretti, pg 447.

<sup>75</sup> Clarín, 4 April 1990.

<sup>76</sup> Jones, pg 284.

interaction identified above: political appointments to the Supreme Court are authorised by the Senate with no input from the Chamber of Deputies.<sup>77</sup> The upshot of the reform of the Supreme Court was the so-called Peralta decision of 1990, which authorised presidential resort to decrees of urgency and necessity, and further complicated the process of congressional appeal against such legislation, already made difficult by the PJ's majority in the Senate.<sup>78</sup>

Apart from the co-optation of the Supreme Court, Menem removed "by constitutionally questionable procedures" the Attorney General and members of the Audit Tribunal (which controls the allocation of public funds), the legal representation of the Treasury, the General Inspectorate of Justice and the National Office of the Public Prosecutor of Administrative Investigations.<sup>79</sup> Taken together, these institutional revisions created a situation in which judicial power and executive power in Argentina were much more closely linked than previously, and furthermore in which judicial power was far more politicised than was, perhaps, desirable. At the very least, this restructuring of the judiciary provided legal support for much of Menem's economic restructuring programme, assisted by the weakening of the legislature and the distancing of the national government from the provincial governments.

## **Conclusion**

Political restructuring was essential to the successful implementation of the government's economic reform strategies, as well as to the reconstruction of the state. Economic change, in turn, was part of the political project in that economic development was hampered in Argentina fundamentally by difficulties associated with the nature of interests in society. Therefore, the processes of political and economic reform are fundamentally linked, with both serving the interests of the other. The government's conception of political reform, however, was largely predicated on the need to eliminate the obstacles to economic reform and to the

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<sup>77</sup> Conversation with Ana María Mustapic, 22 May 1997.

<sup>78</sup> Jones, pg 286.

<sup>79</sup> Catalina Smulovitz: "Constitución y Poder Judicial en la Nueva Democracia Argentina: La Experiencia de las Instituciones" in Acuña (ed.): *La Nueva Matriz*, pg 79.

formulation and implementation of economic policy. This involved the disarticulation of traditional veto powers in Argentine political society (labour and the military), the co-optation of business, the technification of the Economy Ministry, and the weakening of political institutions that potentially could have disrupted either the political or the economic reform processes.

However, although the process of depoliticisation, relative to much of the post-war period, helps to explain the greater macroeconomic coherence of the Menem administration, it is both exaggerated and incomplete as an explanation for reform in the 1990s. First, the analysis has shown clearly that neither the neutralisation of particular interests (such as labour) nor the construction of close alliances with others (such as business) translated into an complete absence of opposition. Second, the period clearly divides into two periods, as demonstrated in this and the previous chapter. The demobilisation of political and institutional interests in the 1989-91 period can be quite readily explained with reference to the effects of hyperinflation. The fact that there was no significant or disruptive resurgence of interests after about 1992 shows that the 'logic' of Argentine politics was broken under Menem. What an emphasis on depoliticisation cannot explain, then, is why these interests did not re-emerge as the crisis situation was eased. Part of the explanation can be found, as suggested in this chapter, in the concrete policies pursued by the Menem government during this time, but this in turn sheds only limited light on the ways in which Menem was able to implement *and consolidate* this type of political reform.

As a result, it becomes necessary to look elsewhere for explanations of the consolidation of both political and economic reform in Argentina, rather than seeing each as an explanation of the other. The latter alternative quickly disintegrates into a circular argument that misses important questions about the dynamics of the reform process. In effect, the questions are the same for political reform as for economic reform: how can we account for the consolidation of this type of change, and what are the factors that facilitated this rupture with well-established patterns in the Argentine political economy? The 'why' question is easy to answer: the need for far-reaching reform in both the political and economic spheres was manifest by the end of the 1990s. The 'how' question is more difficult,

especially in relation to the 1991-95 period. The following chapters demonstrate that a convincing answer can be found in the analysis of the international dimensions of influence on the reform process, which, it is argued, act as an important mediating variable.

## Chapter 5

### Globalisation and State Power

Having established the nature of the political and economic reform strategies pursued by Menem, the following three chapters turn their attention to the three dimensions of international influence that, the thesis contends, have acted to reinforce and propel these processes towards consolidation. These influences determined the policy choices of the Menem government, but more importantly served to 'lock in' the political and economic reform it implemented. As outlined in the Introduction, the first is globalisation. The other two - conditionality and regionalisation - are conceptualised as being inherently inter-connected with globalisation and will be treated as the principal mechanisms by which the influence of globalisation is *transmitted* to developing countries and *translated* into concrete policy outcomes.

Globalisation in the international economy has been equated with the increasing redundancy of both states (in terms of actions and choices) and national boundaries. Latin American and other developing countries are probably the most vulnerable to this type of international change, and also the most conditioned by it, particularly if one draws a parallel between processes of globalisation and the dissemination of the neoliberal agenda. However, not discounting huge variations between Latin American countries, the process of policy-making is usually characterised by a high degree of centralisation and the mode of social organisation remains in most cases highly statist. The development project, furthermore, remains highly dependent on the institutionalisation of certain policies and structures by means of state and government action. Chapters 3 and 4 demonstrated that the reform process in Argentina in the 1990s conforms to both of these observations.

In the light of this apparent contradiction, it is the contention here that the effects of globalisation have created a 'paradox of state power'. On the one hand, as global finance and transnational actors are increasingly dominant in international economic activity, states are seen to be controlled and constrained by markets and

market-oriented imperatives. Both governments' room for manoeuvre and the range of policy options available in the context of globalisation are seen to be vastly reduced, making impossible talk of 'national' economic policy or autonomous processes of policy choice. This is the result of a fundamental shift in the structure of rewards and punishments in the international economy as a result of financial and productive globalisation. In this sense, globalisation increases the imperative of conformity with the new international policy agenda, and at the same time vastly increases the costs of non-conformity. This is 'locked in' further by such influences as the conditionality provisions attached to loans from international financial institutions, as demonstrated in Chapter 6.

On the other hand, this does not imply that states are irrelevant in the international economic or political arena. Nor does it imply that policy choice or government strategy are redundant concepts, or that policy-makers are 'Pavlovian dogs'<sup>1</sup> with reflex responses to an objective set of external conditions and incentives. Particularly in the case of countries such as Argentina which are concerned with *establishing* a functioning market economy and the economic structures necessary for attracting foreign investment, the role of the state and the importance of policy choice is paramount. The state is now concerned with the pursuit of competitiveness and the elaboration of strategies aimed at achieving credibility in the international arena. Although the traditional functions of the state are questioned by the effects of globalisation, then, and the traditional authority of the state is challenged by other forms and locations of authority, the role of the state in responding to and managing the impact of globalisation remains pivotal.

Thus, paradoxically, the state becomes simultaneously more and less powerful under the impact of globalisation. One way of formulating the issue is to argue that the state's autonomy in the international arena has diminished as a result of globalisation, while the state's autonomy in the domestic arena has increased. The reduction in the autonomy of the state at the international level acts to increase the policy-making capacity of the state at domestic level, even while the process of reform closes doors behind itself as a result of the 'rules of the game' in the globalised economic arena. As such, the power of the national state is increased

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<sup>1</sup> Diana Tussie: "Globalisation and Conditionality: Struggling to Make a Room of One's Own", mimeo, Buenos Aires, March 1997 (pg 2).

according to the criteria outlined in the Introduction - that is, in terms of the implementation capacities of the state and the extent of centralisation.

With respect to the specific case of Argentina, these arguments are used to demonstrate the role of international influences in creating the necessary conditions for the consolidation of Menem's political and economic reform agenda. It has been argued up to this point that there is a distinction to be made between the 'implementation' and 'consolidation' phases of reform. Although the observations in this chapter concerning policy choice can clearly be applied to both periods, the contention is that the consolidation of reform was facilitated by the described effects of globalisation and related international change on state autonomy. The process of neoliberal reform that was implemented in the 1989-91 period contributed to the progressive 'internationalisation' of the state, in which policy measures were 'locked in' and accorded a certain irreversibility as a result of this convergence with the process of globalisation. Once the reform process had been more fully developed with the implementation of Convertibility, the consolidation of reform was made possible by precisely these international mechanisms.

In effect, *the Argentine government very deliberately used international constraints to overcome domestic constraints*, the latter characterised in this case by the crisis of the late 1980s and the pattern of post-war political economy in which economic consistency was continually subordinated to political struggle. In other words, the government substituted one set of constraints (domestic political obligations) with another (international commitments and agreements). In terms of political reform, once the economic policy reforms had been 'locked in' at the international level, the potential leverage of societal interests was sharply reduced, and the establishment of a centralised, insulated model of state-society relations was facilitated. In other words, the changes associated with globalisation allowed for an increase in the autonomy of the Argentine state from the interest-based impediments to reform and growth. The 'consolidation' phase of reform can therefore be distinguished not according to the timing of the onset of globalisation, but rather by the ways in which domestic policy change facilitated engagement with globalisation and related processes, which in turn allowed for the consolidation of the new political and economic orientation.

The chronological issue is pivotal to an understanding of Argentine political economy in the 1990s. The consolidation of reform stemmed from a genuine convergence of interests between the Argentine state and the globalised international economy, or between the domestic and the international, from 1991 onwards. Evidently this sort of convergence was not available during the post-war period as a result of Argentina's choice of development orientation and a consistent disjunction between the Argentine economy and the condition of the international economy.<sup>2</sup> During the 1980s, domestic economic and political difficulties prevented an alliance with international economic agents, and significantly the causes of hyperinflation were domestic. In the 1989-91 period, the effects of hyperinflation, economic crisis, the government's populist credentials, and President Menem himself all acted to increase the autonomy of the state and allow for the implementation of reform. As such, the roots of this autonomy were domestic rather than international (relating to globalisation or conditionality, for example), and the 'logic' suggested by these circumstances would predict the decline of this autonomy along with the disappearance of the conditions which created it. As Chapter 4 demonstrated, furthermore, the consolidation of reform cannot be seen to stem from the destruction of the unions and other social forces. The sources of autonomy in the 1991-95 period came from a different quarter - international influences - and allowed for the institutionalisation or consolidation of Menem's political and economic restructuring.

This chapter will develop these ideas in the following way, using the conception of globalisation outlined in the Introduction. The first section outlines the main interpretations of the role of the national state within these processes of change and argues for a re-conceptualisation of the relationship between globalisation and the state. The second and third sections address the two 'legs' of the paradox of state power, contrasting the constraints on state autonomy as a result of conformity with the policy requirements of the globalised political economy with the increase in state power at the domestic level. The fourth section further refines the theoretical discussion of the relationship between globalisation and the

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<sup>2</sup> For a fuller exposition of this 'disjunction'. See Colin M. Lewis: "Cycles and Macroeconomic Policy since the 1930s" in Colin M. Lewis & Nissa Torrents (eds.): *Argentina in the Crisis Years (1983-1990): From Alfonsín to Menem* (1993).

state through a more detailed discussion of political and economic reform processes in Argentina.

## **Globalisation and the State**

One of the most salient questions generated by these observations, then, concerns the impact on the state of these types of international change. The debate is now well-established but remains highly divided. On the one hand, the evidence clearly points to the fact that the nation-state is a “structured field of action” which is poorly adapted to the task of government or governance in the context of globalisation. This has led many analysts to posit the need for a “paradigm shift” or “new political philosophy” of IR and IPE.<sup>3</sup> In some analyses this challenge to the former dominance of the national state in matters of national and international governance is formulated as the ‘retreat of the state’ or the ‘splintering of the state’ either simultaneously with or as a result of the ‘crystallisation of transnational structures’.

On the other hand, the state continues to be conceptualised with reference to the formulation of strategies that are fundamental to national competitiveness, and of mediation between the national and international levels of action and interaction (most clearly with regard to managing the more negative domestic effects of globalisation). Furthermore, the state is increasingly seen to be the main channel through which the maintenance of the global economy itself can be achieved. The literature critical of globalisation theory contends that the process of globalisation is exaggerated, that international economic activity remains dominated by exchange between well-defined nation-states, and that the sorts of indicators that are taken to suggest a fundamental change in the nature of international organisation and activity do not reflect anything that departs substantively from past situations.

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<sup>3</sup> Philip G. Cerny: keynote lecture to Warwick University ESRC Centre for the Study of Globalisation and Regionalisation conference on “Globalisation vs. Regionalisation: New Trends in World Politics”, December 10th-11th 1997.

### *The State: Obsolescence and Retreat?*

The emergence of a global economy has created the situation in which progressively international economic organisation is determined by market forces, which are beyond the control of national governments. Globalisation is, therefore, widely equated with the disappearance of national boundaries and the withering of the state, suggested by labels such as the “end of sovereignty” and the “borderless world”.<sup>4</sup> National boundaries are seen to be dissipated by the dominance of transnational actors and forces, and national economic strategies rendered increasingly irrelevant by the ‘hegemony’ of international finance and the apparent omnipotence of the market. The state thus is forced out of its traditional role as agent of economic organisation, in both the national and the international contexts. In a report prepared by analysts in the UNDP Human Development Office, for example, it is claimed that from a peak in the mid-century the state as an “economic entity” is presently in decline, and that globalisation in this respect is “the attack from above”. In a passage typical of this sort of view, the report claims that

Integration of states into something approximating a single, unified international economic system not only has increased their openness in a conventional sense, it also has weakened the ability of the state to impose its will on other economic actors, notably business firms with subsidiaries in a number of countries, employed persons with internationally marketable skills and investors with access to international capital markets .... International markets have eroded political sovereignty; the state increasingly is unable to act unilaterally on economic matters and achieve its objectives .... There is no turning back from the consequences of liberalisation, market processes and technological change .... Supranational forces have begun to reduce the state to impotence.<sup>5</sup>

A more rigorous approach to the issue of the impact on the state of globalisation is to examine the ways in which authority in the international political

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<sup>4</sup> Joseph Camilleri & Jim Falk: *The End of Sovereignty? The Politics of a Shrinking and Fragmenting World* (1992); Kenichi Ohmae: *The Borderless World: Power and Strategy in the Interlinked Economy* (1990).

<sup>5</sup> Keith Griffin & Azizur Rahman Khan: “Globalization and the Developing World: An Essay on the International Dimensions of Development in the Post-Cold War Era”, United Nations Development Programme, November 1992 (pp. 42-3).

economy is becoming increasingly dispersed among several actors, only one of which is the state as traditionally conceived. This is the essence of much of Susan Strange's recent work. Her argument is that "the impersonal forces of world markets, integrated over the post-war period more by private enterprise in finance, industry and trade than by the co-operative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong". Largely as a result of technological change, the authority of states has been displaced by the authority of the market, and markets are now "the masters over the governments of states" in a reversal of the "state-market balance of power".<sup>6</sup> In this way the ability of national governments to regulate or compensate is severely and increasingly limited.<sup>7</sup>

However, Strange, in contrast with some other globalisation 'theorists' such as Ohmae, does not contend that the state has 'disappeared' or become obsolete. Her argument centres on the notion of the *authority* of the state, and the way in which its dispersion, in her view, has rendered the state "hollow" or "defective" as an institution.<sup>8</sup> The state is less effective in the provision of fundamental matters which the market alone has never been capable of providing, such as personal security, stable money, a system of law and a variety of public goods such as water and drainage. Governments' failure to manage the national economy effectively should not be attributed to incompetence, but rather governments should be seen as "the victims of the market economy".<sup>9</sup>

This feeds into the 'transnationalisation' research agenda which perceives the international political economy to be increasingly dominated by 'non-state' actors. These are most obviously TNCs of varying descriptions, non-governmental organisations (NGOs) and transnational social movements, as well as such groupings as international terrorist networks, mafias, drugs cartels, and religious communities.<sup>10</sup> These groupings of identifiable 'actors' are accompanied by the

<sup>6</sup> Strange: *The Retreat of the State: The Diffusion of World Power in the World Economy* (1996), pg 4.

<sup>7</sup> *ibid.*, pg 78.

<sup>8</sup> Strange: "The Defective State", *Daedalus* 124, 2, 1995 (pg 57).

<sup>9</sup> *The Retreat of the State*, pg 14.

<sup>10</sup> See Thomas Risse-Kappen (ed.): *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (1995); Strange: *The Retreat of the State*; James H. Mittelman: *Globalisation: Critical Reflections* (1996).

archetypally transnational forces of international finance and banking, and a variety of inter- or supra-national institutions. The idea of transnationalisation (or transnationalism) is not new<sup>11</sup>, but nevertheless has assumed new dimensions with the expansion of the debate on globalisation. The value of these perspectives is hardly in dispute. The point at which these, and the other conceptions outlined above, run into some trouble is when the increasing visibility and importance of such actors and forces is assumed to *displace* or *invalidate* the national state, rather than to *modify* its role and position in the national and international settings.

In effect, the versions of globalisation theory that perceive a ‘withering away’ of the state, to whatever degree, feed into a current that may be labelled the ‘politics of anti-politics’. This can be found quite as much in the IR and political science academic literature as in the rhetoric of politicians and institutions throughout the world. In Latin America, the recent wave of liberalisation was often portrayed as the divorce of politics from economics: indeed, in its most conventional formulation, the advantages of liberalisation are seen to accrue principally from the removal of politics from the workings of the economy. In this way, the forces of the free market are seen to be freed from the political spanner which induces such evils as corruption, rent-seeking, protection and inefficiency. In the international context, this can be described as a version of “anti-political liberalism”.<sup>12</sup>

As the preceding chapters showed, this was an important motivation for reform under Menem. The economic difficulties experienced in Argentina in the post-war period have been widely attributed to the effects of excessive state regulation, which created a highly politicised economy incapable of functioning under the weight of political pressures. Apart from specific reforms aimed at reconfiguring the structure of political interests and state-society relations, the reform of the state was seen as essential both for increasing economic efficiency and for eliminating the arena in which societal pressures could be brought to bear.

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<sup>11</sup> One of the most well-known ‘transnationalisation’ analyses is Robert O. Keohane and Joseph S. Nye (eds.): *Transnational Relations and World Politics* (1971). See also Keohane & Nye: *Power and Interdependence* (1977) and James N. Rosenau: *The Study of Global Interdependence: Essays on the Transnationalisation of World Affairs* (1980).

<sup>12</sup> Paul Hirst & Grahame Thompson: *Globalization in Question: The International Economy and the Possibilities of Governance* (1996), pg 176.

As we have seen, privatisation, deregulation and administrative reforms were the most important elements in Menem's strategy, as well as the placing of policy-making responsibility in the hands of government technocrats. As a result, the bloated state sector was significantly dismantled and consequently ceased to perform the political and economic functions with which it had been charged from the 1940s. It is precisely these sorts of policies throughout the world, combined with the nature of globalisation, which have generated what has been called the 'phenomenon of state denial'.<sup>13</sup> Globalisation, however, is mistakenly seen as a process in which the state is 'retreating' or becoming irrelevant, overtaken by transnational and non-state forms of authority. We have already seen, furthermore, that particularly in the case of Latin American and other developing countries, the state cannot be wished away quite so easily.

### *The Argument for a Re-Conceptualisation*

Rather than obsolescence and retreat, the process is one of the reorientation of the national state, both institutionally and territorially defined. What is clear is that the condition and direction of the world economy in recent years poses a fundamentally new situation for governments that John Ruggie has termed "disembeddedness". This is seen to manifest itself in three ways. First, the ways in which policy-makers "visualise the basic contours of their world" have been fundamentally altered by the trends in the international economy associated with globalisation. The "mental maps of spaces and structures" which previously served as reference points for those involved in the business of government and governance are no longer completely valid and need to be modified to take account of new realities. Second, the nature of policy-making has changed so that "international as well as domestic economic policy targets are increasingly elusive because instrumentalities are no longer effective". Third, globalisation has eroded the "state-society compact" which sustained the post-war international economic order and its constituent policy environments. The nature of this 'compact' in Argentina was outlined in Chapter 2, and the details of its erosion under Menem

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<sup>13</sup> Linda Weiss: *The Myth of the Powerless State: Governing the Economy in a Global Era* (1998), pg 2.

described in Chapter 4. This issue is linked with the question of the ascendancy of the neoliberal ideology in the new global order, which is seen to be of increasing concern.<sup>14</sup>

To these sources of disembeddedness, we can add a further dimension: that the state is required to compete and co-exist with other, non-state forms of authority that globalisation is seen to have created and to perpetuate. Clearly globalisation has brought with it a “changing geography of power”<sup>15</sup>, in which state power is supplemented and challenged (but not necessarily replaced) by new dimensions of power such as electronic space, transnational social actors, ‘borderless’ firms, new international legal regimes and the world of highly mobile international capital. Therefore, the globalised international arena can be conceptualised as a site of competing forms of authority, which intersect and interact in both complementary and contradictory ways. The emergence of non-state forms of authority (in the shape of inter-governmental institutions such as the World Bank and the World Trade Organisation (WTO), NGOs like Greenpeace and Amnesty International, and transnational or multinational corporations such as IBM, Philips and Glaxo) co-exist *and overlap* with the more traditional conceptions of authority based in national state structures, rather than creating a zero-sum situation in which the advancement of the ‘global’ purportedly occurs only to the detriment of the ‘national’.

The role of the national state can therefore be approached in a number of different ways. Clearly globalisation has altered the ways in which states are able to exercise authority, and the dimensions of economic and social life over which they have meaningful control. Economic globalisation has produced a marked reduction in both the regulatory role and the regulatory capacity of states as a result of the processes of deregulation and liberalisation necessary for participation in the global economy. In this sense, it may be that the process of globalisation is producing a shift in the capacities of national states and in the nature of state power which

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<sup>14</sup> John Gerard Ruggie: “At Home Abroad, Abroad At Home: International Liberalisation and Domestic Stability in the New World Economy”, *Millennium: Journal of International Studies* 24, 3, 1995.

<sup>15</sup> Saskia Sassen: “Territory and Territoriality in the Global Economy”, paper presented to the conference on ‘Non-State Actors and Authority in the Global System’, Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, October 31st-November 1st 1997.

amounts frequently to a form of “governance without government”.<sup>16</sup> The point is that the *exclusive* authority of nation-states has been undermined by recent processes of global change, and that nation-states are currently engaged in redefining their role and functions in accordance with the demands or opportunities posed by globalisation and, furthermore, in response to the development of new forms of authority which are not directly linked to governments or states.<sup>17</sup> As Ruggie observes, the issue is not about the replacement of the national state by non-state actors or institutions, but rather about the changes in the nature of the states system that these are likely to produce.<sup>18</sup>

It is, therefore, misleading to see the forces of globalisation as completely ‘disembedded’ from the state. It may well be that these new economic actors (whether firms, institutions or global markets) rely fundamentally on the survival and perpetuation of the state, as this is the only remaining enforcement mechanism available.<sup>19</sup> At the very least, states are required to create the circumstances or conditions in which economic agents can act effectively. Furthermore, the state is still the only arena in which the norms and requirements of the global economy can be produced and maintained, and therefore economic agents are likely to be unwilling to remove it. In this sense, the perpetuation of the global economy relies on state strategy for the formulation and implementation of policies consistent with its orientation and requirements. Both the process of globalisation and the more concrete manifestations of it in the international economy rely on the national state to create and re-create the conditions in which it can flourish and become consolidated. The nation-state, therefore, remains the primary arena in which globalisation is produced, maintained and manifested. Globalisation “entails a transcending of exclusive national territoriality yet is implanted in national territories and institutions”.<sup>20</sup>

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<sup>16</sup> James N. Rosenau & Ernst-Otto Czempiel (eds.): *Governance without Government: Order and Change in World Politics* (1992).

<sup>17</sup> This refers principally to policy-making authority, and particularly to authority over financial markets and macroeconomic policy. See Jan Aarte Scholte: “Global Capitalism and the State”, *International Affairs* 73, 3, 1997.

<sup>18</sup> John Gerard Ruggie: “Territoriality and Beyond: Problematizing Modernity in International Relations”, *International Organisation* 47, 1, Winter 1993.

<sup>19</sup> Cerny: keynote lecture.

<sup>20</sup> Sassen, op.cit.

The new strategic and policy function of states may be best understood if we dispense with the assumption that a process which occurs in the territory of a national state is necessarily a national process.<sup>21</sup> Although statements of this sort are extremely common in the literature both on foreign policy and on transnationalisation / internationalisation / globalisation, the concept is important in the understanding of the relationship between globalisation and state power and between the global economy and the state. The processes and results of globalisation may be inherently transnational in nature, but there is no necessary incompatibility between this and the argument that these processes of transnationalisation or internationalisation remain effectively located in the territorial and (more importantly) institutional structure of the state. The latter should not be misrepresented as the antithesis of the international or the global, but rather as a form of authority which is increasingly (although still unevenly and often incompletely) re-oriented towards and inserted into the new processes and power structures associated with the globalised international environment. Simplifications to the effect of “a modern nation-state that is not in serious difficulty, let alone in crisis, is one in which the strength of the economy enables it largely to determine its own policy on investment”<sup>22</sup> ignore the significant changes in the state under the impact of global change which have contributed in various ways to its strengthening rather than to its weakening, as the following sections show. Similarly statements along the lines of “Globalisation: Can the State Strike Back?”<sup>23</sup> miss the point in assuming an *inherent* opposition between the national and the international or transnational forces and the nation-state.

This argument gains additional strength when placed in the context of legitimacy and, perhaps, in more normative conceptions of the functions of governance. It is not necessary to become embroiled in discussions on the impact of globalisation on accountability and democracy to argue that the transnational agents and structures that presently coexist or compete with states do not (and probably will not) possess the same legitimacy as the state, even though the

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<sup>21</sup> Sassen, *op.cit.*

<sup>22</sup> Geoffrey Hawthorn: “The Crises of Southern States”, *Political Studies* XLII, 1994.

<sup>23</sup> Vincent Cable: “Globalisation: Can the State Strike Back?”, *The World Today*, May 1996.

immediate normative appeal of the latter may be in decline or ‘crisis’.<sup>24</sup> On the other hand, this optimism is contested by neo-Gramscian analyses of current global trends, which observe what Stephen Gill has termed a “new constitutionalism”. According to this conception, the global system is dominated by “a legal and political strategy for separating economic forces and policies from broad political accountability, securing management of the economy in the hands of central bankers and technocrats responsive to transnational capital”.<sup>25</sup> Similarly for Robert Cox, although writing earlier than Gill’s more contemporary analyses, the “internationalisation of the state” - that is, “the global process whereby national policies and practices have been adjusted to the exigencies of the world economy of international production”<sup>26</sup> - is seen to “[give] precedence to certain state agencies - notably ministries of finance and prime ministers’ offices - which are key points in the adjustment of domestic to international economic policy”.<sup>27</sup> The main concern for this stream of analysis, therefore, is the ascendancy of the neo-liberal discourse in international relations, which is seen to be fundamentally tied to the process of globalisation. The “new constitutionalism” is about the “locking-in” of neo-liberal policies and the self-regulating market in ways which emphasise ‘rules-based’ or ‘disciplinary’ organisation in the global economy.<sup>28</sup> The question, therefore, is how political challenges to the dominance of de-politicised market forces can be accommodated.

The present analysis, therefore, sees the situation of the national state as one of re-orientation and re-definition, in line with both the demands or opportunities created by globalisation for policy-making and governance and the evolution of

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<sup>24</sup> John Dunn: “Introduction: Crisis of the Nation-State?”, and other articles in special edition of *Political Studies* XLVII, 1994.

<sup>25</sup> Stephen Gill: “Analysing New Forms of Authority: New Constitutionalism, Panopticism and Market Civilization”, paper presented to the conference on ‘Non-State Actors and Authority in the Global System’, Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, 31 October-1 November 1997.

<sup>26</sup> Robert W. Cox: *Production, Power and World Order: Social Forces in the Making of History* (1987), pg 253.

<sup>27</sup> Robert W. Cox: “Social Forces, States and World Orders: Beyond International Relations Theory”, *Millennium: Journal of International Studies* 10, 2, Summer 1981.

<sup>28</sup> Gill: “Analysing New Forms of Authority” and “Globalisation, Market Civilisation, and Disciplinary Neoliberalism”, *Millennium: Journal of International Studies* 24, 3, 1995. For other analyses of globalisation in the neo-Gramscian vein, see Peter Wilkin: “New Myths for the South: Globalisation and the Conflict between Private Power and Freedom”, *Third World Quarterly* 17, 2, 1996.

new forms of authority in the global setting. It does not share the view that the global economy is a ‘myth’, but it does subscribe to the idea that globalisation remains driven by national developments and maintained by national strategies.<sup>29</sup> The question of whether globalisation leads to a convergence of national institutional structures or policies is, however, more complicated. Zysman argues forcefully that “the national institutional foundations of the several market systems are neither washed away nor compressed into homogeneous convergence by growing international interconnections, or at least not yet.” His view is that “increasingly in the years to come, the politics of trade … will be about reconciling differently structured political economies that express different values … As border restrictions diminish, negotiations are increasingly about the domestic operation of markets and the arrangements of national institutions”.<sup>30</sup>

However, although the institutional structures of national states may well remain functionally oriented towards the requirements of the individual case, there are two ways in which this argument needs to be reformulated. The first is in terms of *policy* convergence. It is highly unlikely that states will cease to be individual and specific to the national setting, or that globalisation will contribute to a converged form of Kantian perpetual peace in the modern world. On the contrary, globalisation contributes as much to divergence as to convergence. Ian Clark’s explanation of twentieth-century international politics in terms of the opposing forces of globalisation and fragmentation is the best attempt to take account of the diverging forces in world order.<sup>31</sup> However, his understanding of globalisation conflates a number of different perspectives which together do not add up to an adequate conception of globalisation. What Clark means by the term ‘globalisation’, it appears, is in fact ‘integration’, and the analysis works far more effectively if the terms are thus altered. For our purposes, then, building on the ambiguities of Clark’s terminology, globalisation can be seen to contribute to *both* integration and fragmentation in international politics or the global environment: integration in terms of convergence on a particular policy model by those structures

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<sup>29</sup> John Zysman: “The Myth of a ‘Global’ Economy: Enduring National Foundations and Emerging Regional Realities”, *New Political Economy* 1, 2, 1996.

<sup>30</sup> Zysman: pp 180-1.

<sup>31</sup> *Globalisation and Fragmentation: International Relations in the Twentieth Century* (1997).

and agents that are driving the process of globalisation, and fragmentation in terms of the increasing sub-national conflicts, the tensions between ideas and ideologies and increasing levels of inequality, as well as in the above-mentioned context of institutional structures and national policy objectives.

There is a strong argument to be made in favour of the idea of convergence on a specific set of economic policy objectives, broadly encased in the ‘Washington Consensus’, but only with the clear understanding that states will pursue these within the constraints of domestic institutional structures. While it is possible to object to the orientation of the neo-classical economic model that has become prevalent in large swathes of the world, the consensus on development that has coincided with the end of the Cold War (and, possibly, been propelled by globalisation) is remarkable, as is the consequent consensus on the social institutions that go with this model.<sup>32</sup> This does not imply, however, that the Washington Consensus is uncontested, just as globalisation can be seen to generate as much divergence as convergence, and as much conflict as cooperation. The path towards the pursuit of these policy objectives, as well as the outcome of the policies themselves, remain deeply embedded in the historical and institutional structures of the state in question. The caveat, therefore, in arguments about policy convergence is that development trajectories still diverge and are likely to continue to do so, whether or not the government subscribes wholeheartedly to the policy model which dominates the globalisation process.

The second modification of Zysman’s arguments concerns *interests*, which is only implicit in the analysis he offers. National states increasingly appear to be converging on a kind of consensus centred around the necessity and desirability of consolidating and strengthening the global economy, although crucially this does not preclude serious discussions (and disagreements) on the ways in which the impacts of globalisation should be managed. There is a commonly-held conviction that those countries or actors that do not accept and participate in the new global environment will be left behind. Whether or not this is the case is not quite the point. What matters is that states and societies increasingly (although still not

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<sup>32</sup> Barry Gills & George Philip: “Editorial: Towards Convergence in Development Policy?: Challenging the ‘Washington Consensus’ and Restoring the Historicity of Divergent Development Trajectories”, *Third World Quarterly* 17, 4, 1996 (pg 587).

uniformly in the case of the latter) see their interests as being fundamentally linked to the global political economy to the extent that questioning is largely limited to the type of participation that should be pursued and the best ways of offsetting the negative repercussions of this participation, rather than whether to participate at all.

Having established the continuing centrality of the state, and coming back to the ‘phenomenon of state denial’, it is also the contention of the thesis that the process of globalisation and the ‘rolling back the state’ have acted to *strengthen* the state in Argentina and elsewhere in Latin America. Although the state has beaten its retreat from the Argentine economy, it is clear that the economic gains associated with the reform process (based on the ‘dismantling’ of the state) has greatly strengthened both its authority and its autonomy. Similarly, globalisation has acted to create the political and economic space for the successful installation of neoliberal reform and therefore to ‘rescue’ the state from the breakdown of the 1980s. The following sections develop these arguments in the context of the ‘paradox of state power’ outlined at the start of this chapter.

## **The Paradox of State Power**

### *Financial Globalisation and the Advantages of Conformity*

We have seen that there are important ways in which the ‘power’ of the state (in regulatory terms) has been reduced as a result of the autonomous functioning of international markets, and that the process of globalisation has implied a certain narrowing of available and feasible domestic and foreign policy options, especially for Latin American and other developing countries. This can be traced to a fundamental change in the structure of rewards and punishments in the international economy as a result of the primacy of investment flows and the internationalisation of economic activity. This is the primary means by which the influence of globalisation manifests itself at the national and policy levels.

This development in the international economy has been termed “embedded financial orthodoxy”<sup>33</sup> which has been regarded as the successor to the system of

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<sup>33</sup> See, for example, Philip G. Cerny: “The Infrastructure of the Infrastructure? Toward ‘Embedded Financial Orthodoxy’ in the International Political Economy” in Ronen P. Palan & Barry Gills

‘embedded liberalism’.<sup>34</sup> In this conception, finance has become the lifeblood of the international economy and, by extension, an essential nutrient for growth in the national and international context. The predominance or ‘hegemony’ of international capital is seen to have a structural autonomy which carries far greater weight than states and in effect controls state actions. This returns to the argument relating to the ‘transnationalisation’ of the international economy at the expense of state autonomy in policy making terms, creating a new international structure in which states and national boundaries are increasingly irrelevant.

It may well be that the new hegemonic power in the post-hegemonic era is global finance. Even non-Gramscian analysis can appreciate that finance has probably become, or is well on its way to becoming, the foundation of the global economic system, or “the infrastructure of the infrastructure”.<sup>35</sup> The rewards of liberalisation, both in economic terms and in terms of political capital, have become inestimable in comparison with the situation even a decade ago. International investment is increasingly directed and driven by risk assessment and credit rating, both of which are elaborated on the basis of orthodox economic criteria in keeping with the neoliberal orientation of the globalising political economy. In policy terms this is embodied in concepts such as the ‘Washington consensus’ and the policy prescriptions of international financial institutions. For developing countries, these emphasise the importance of trade and financial liberalisation, in which the establishment of a favourable and stable exchange rate is key. Over-valuation reduces the competitiveness of exports in the international marketplace and the relative competitiveness of the export sector domestically. Growth is seen to depend on eliminating the anti-export bias of former policies and on structural transformations in the economy that encourage productivity, driven principally by long-term investment.<sup>36</sup>

In this way, development has come to be equated with the policy prescriptions embodied in the Washington Consensus after half a century of

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(eds.): *Transcending the State-Global Divide: A Neostructuralist Agenda in International Relations* (1994).

<sup>34</sup> Ronen Palan & Jason Abbott with Phil Deans: *State Strategies in the Global Political Economy* (1996), pg 23.

<sup>35</sup> Cerny: “The Infrastructure”, pg 227.

<sup>36</sup> For a more extensive analysis, see Shigeru Otsubo: “Globalisation: A New Role for Developing Countries in an Integrating World”, World Bank, July 1996, especially summary point 20 & pg 6.

experimentation with development models that emphasised inward-looking strategies based on variations of the import substitution idea. Even institutions such as the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) that spent much of the post-war period emphasising ISI and closed regionalism have started to produce analysis consistent with the new international economic orthodoxy: titles of recent publications such as “Policies to Improve Linkages with the Global Economy”<sup>37</sup> suggest a fundamental acceptance of the proposition that the realistic options for pursuing growth and development are increasingly few. ECLAC, for example, states that “to make sustainable changes in production patterns with social equity, the economies of the region must improve their linkages with the international economy” through a comprehensive package of trade, exchange rate, export-promotion and “productive development and finance” policies.<sup>38</sup>

We have seen that reform in Argentina was driven by the need to establish stability and the ‘right’ policy framework for the attraction of foreign investment funds. This involved a move away from inward-looking or heterodox economic strategies towards full-scale economic liberalisation and the neoliberal restructuring of the national economy. The Convertibility Plan implemented in 1991 was pivotal in creating the exchange rate and macroeconomic conditions for precisely this purpose. Chapter 3 demonstrated the increase in Argentina’s dependence on foreign capital, and the mechanisms by which continued growth became premised on external capital flows: the Convertibility Law constrained the possibilities for financing the deficit and making payments on the foreign debt by means of monetary policy. However, we have also seen the huge increase in the availability of such funds to Argentina: by 1994, Argentina had become the third largest recipient of FDI flows world-wide. This can be attributed to the changes in the international financial system associated with globalisation in conjunction with the impact of domestic reform. Given the connections between growth and international finance in this context, the pursuit of policies which will sustain attractiveness to investors becomes increasingly important. These, then, are the

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<sup>37</sup> ECLAC, 1995.

<sup>38</sup> op.cit.: pp. 15-16.

‘rewards’ available in the globalised international economy for conformity with the dominant policy agenda.

In more general terms, the structural constraints on economic development outlined in Chapter 3 lend weight to the argument that globalisation offers genuine rewards for Argentina, perhaps more than some other Latin American and developing countries. The fact that Argentina is a net importer of capital for the purposes of sustaining relatively rapid growth makes participation in the processes of globalisation, as well as compliance with IMF conditionality (as the next chapter shows), of significant utility. Hence, in the Argentine case, ‘submission’ to the disciplines of globalisation becomes paramount in order both to produce and to sustain growth. The ‘rewards’ on offer, therefore, are both general and specific in nature and relate to long-term development objectives as well as short-term financing.

Conversely, and possibly more importantly, the costs of non-conformity with the new policy ‘consensus’ seem to be the principal incentive for compliance. It has increasingly been acknowledged, largely through bitter experience, that investment funds can flow out quite as quickly as they can flow in, and that gaining and maintaining international confidence has become the key to securing growth and solvency. The experience of the ‘Tequila’ crisis in Mexico and Argentina is one of the most recent demonstrations of this. As such, the behaviour of foreign capital in response to perceived risk in developing countries shows clearly that there is a very narrow range of options with which countries can manoeuvre. Newspaper headlines such as “Globalisation. It’s not a luxury anymore, it’s a necessity”<sup>39</sup> reinforce the idea that there is very little alternative to the adoption of policies that coincide with the demands of the international economy. Conveniently perhaps, this constitutes a powerful justification for the implementation of such policies which has been used routinely throughout Latin America in order to ‘sell’ often unpopular adjustment measures to sceptical electorates.

The theoretical problem arises with the empirical evidence which continues to demonstrate that despite the new rules of the game, national responses to globalisation are far from identical. This is by no means a system which is

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<sup>39</sup> *Wall Street Journal*, 26 September 1996.

operating in the automated manner that neo-classical economists may have liked to predict. In the report cited above, ECLAC goes on to state that “there are, of course, no universally accepted valid paradigms for improving international competitiveness; the experiences of East Asia show that, although there may be a common denominator in the general approach, different paths have been taken in terms of the details of policy implementation, instruments and institutions”.<sup>40</sup> The variations in national responses to the challenges of globalisation are rooted in distinct institutional structures and historical social configurations of states and societies. These fundamentally condition the ways in which policy is formulated and implemented, but also the political task of constructing an alternative ‘compact’ between state and society which will reflect changing international and domestic circumstances and requirements. In Philip Cerny’s terms, the common influence of globalisation is “multilayered and uncertain”,<sup>41</sup> and it is precisely the task of the nation-state to mediate this uncertainty. This, then, leads us to the second leg of the paradox of state power.

### *The ‘Competition State’*

It was argued above that the pursuit of growth and development have become linked to conformity with the policy prescriptions of the neoliberal agenda which informs such constructs as the ‘Washington consensus’. These are, in effect, the ‘rules’ by which the game is played. The ‘game’ itself, however, is about the pursuit of international competitiveness, and conformity with the rules ensures that the game is played to maximum effect. As a result of globalisation, then, there has been a fundamental change in the *nature* of competition between states, which now involves the re-organisation of the state away from its more traditional ‘welfare’ function towards a role that can be classified as the pursuit of national competitiveness. Echoing the observation made above about the importance of changing interests in conceptions of the state, “the very concept of the national interest is expanding to embrace the transnational dimension in new ways: the so-called competition state is itself obliged by the imperatives of global competition to

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<sup>40</sup> op.cit., pg 16.

<sup>41</sup> “The Infrastructure”, pg 233.

expand transnationalisation".<sup>42</sup> The idea of the competition state is characterised by two principal elements: (a) an overriding belief that national competitiveness is the means of achieving economic growth and improved living standards, and (b) a shift from principally demand-side to supply-side measures in governments' competitive policies.<sup>43</sup> In the terms used above, these would correspond to (a) the nature of the game itself, and (b) the (policy-based) rules by which the game is played.

In broader terms, the traditional bases of the interactions of states in the international arena - that is, competition for territory or control over territorially-bound natural resources - have been superseded by a new competitive 'game' in which the rewards are world market shares. The corollary of this observation is that "industrial policy and trade policy are becoming more important than defence and foreign policy". In this sense, interactions between states are still premised on the search for allies and alliances, but these will be commercial rather than military in nature.<sup>44</sup> Furthermore, allies are not solely other states, but rather are also multinational enterprises that are attractive for their ability to raise finance for both investment and the development of technology. This can be attributed to the burgeoning costs of participation in the competitive international game "whether we look at competition from other firms who are also striving for larger market shares, or whether we look at governments trying to make sure that the economies for whose performance they are held responsible stay up with the competition in wealth-creation coming from other economies".<sup>45</sup> This, then, explains the perceived necessity for policies which attract international investment as a means of competing in the international arena.

Although virtually without exception the activities of states have become tied to the pursuit of national competitiveness in the international arena, the nature and extent of the influence and role of the state itself remains an area of dispute. Strange and others, as we have seen, would claim that the state's authority has diminished or been dispersed, and therefore that the state is a hollow institution that is seriously compromised in its ability to perform its traditional, or indeed new,

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<sup>42</sup> Cerny: "The Infrastructure", pg

<sup>43</sup> Palan, Abbott & Deans: pg 4.

<sup>44</sup> Strange: "The Defective State", pgs 55 & 56.

<sup>45</sup> *The Retreat of the State*, pp. 9-10.

functions. Others argue that the state has assumed new dimensions and “new areas of control” as a result of the imperatives of competitiveness. Crucially, however, the argument that globalisation is associated with a dispersion of state power, especially in terms of the ‘loss of sovereignty’ to markets and to global and regional institutions, is not necessarily incompatible with a revitalisation of the state from a more ‘national’ perspective<sup>46</sup>, particularly in developing countries. In Argentina, although the power of the state was reduced in international terms (particularly with regard to policy-making autonomy), it increased in the domestic context as a result of a greater political and economic space for reform offered by currents of international change.

The Argentine state, therefore, has been strengthened both by this space for reform and also by the imperatives for state action that globalisation generates. Apart from the elaboration of competition strategies, the state has assumed new importance in the management of the impact of globalisation on the domestic political and economic arena. For example, James Rosenau argued in 1989 that:

Indeed, and ironically, the external linkages withering the state’s scope and authority in domestic affairs can also be a source of its widening competence in such matters. The shrinking economic, social and political distances that have transnationalised global affairs and made them ever more complex and interdependent have so greatly increased the vulnerability of domestic economies to external influences as to render domestic market forces decreasingly capable of sustaining stability and progress. So, in order to cope minimally with the internationalisation of their market and banking systems, states have had to develop institutions and adopt policies that extend their competence to intervene in the flow of goods, services and money at home. In so doing, however, those very same institutions and policies have become dependent on the course of events abroad whose vagaries they are designed to manage ... Stated differently, an inverse relationship between internal controls and external vulnerabilities appears to have emerged as a prime parameter within which the modern state must function.<sup>47</sup>

Rosenau goes on to conclude that the state is thus experiencing simultaneously a widening and a withering of its “competence”, and that therefore the focus of

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<sup>46</sup> Vincent Cable: “The Diminished Nation-State: A Study in the Loss of Economic Power”, *Daedalus* 124, 2, 1995 (pp 23-4).

<sup>47</sup> “The State in an Era of Cascading Politics: Wavering Concept, Widening Competence, Withering Colossus, or Weathering Change?” in James A. Caporaso (ed.): *The Elusive State: International and Comparative Perspectives* (1989), pp 34-5.

analysis must be the strategies of adaptation that states employ in order to respond to processes of change.<sup>48</sup> In this sense, then, the primary function of the state - to manage the market or, more accurately in the present situation, the effects of the operation of the free market - remains intact, but the demands of this function and the nature of the task have been fundamentally altered by the processes of international economic change. This was seen clearly in Argentine reactions to the Mexican crisis of late 1994, and more generally in its increased autonomy which permitted the consolidation of neoliberal reform. The following section outlines these points in more detail.

### **Globalisation, Reform and the 'Rescue' of the Argentine State**

To give some empirical substance to the theoretical discussion, then, the international processes which created a change in the nature of the game and its rules coincided in Argentina with wide-scale political and economic reform necessitated by situations of domestic crisis. The impetus for reform stemmed from a widespread perception of the complete breakdown of the state and its ability to manage the markets following the hyperinflation of the late 1980s. In a speech in the early 1990s, Erman González stated that reform was due to the limitations imposed by the market rather than to any ideological or other conviction on the part of the government.<sup>49</sup> In essence, his period in office marked the start of this new conception of the inability of the state to fulfil its traditional function of regulating and controlling the market, both in national and international terms. These perceptions echo the more theoretical arguments advanced in the 'retreat of the state' hypothesis, as well as the first leg of the paradox of state power.

In this sense, however, it may be that globalisation also provided precisely the conditions in which the state was able to publicly acknowledge the need to recompose itself. This can be seen in simple terms as an excuse for some of the less palatable aspects of adjustment (the 'blame it on the global' idea is long established in Latin America) or, in more sophisticated terms, as a means by which the state became able to redefine its relationship with society through economic and

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<sup>48</sup> *ibid.*, pp 36-44.

<sup>49</sup> Interview with Guillermo Mondino, 5 June 1997.

political reform. The devolution of some of the traditional aspects of state authority to transnational forces (whether international markets or financial institutions) can therefore be seen as directly in the interests of the state at the given time rather than as a measure that compromises these interests. Put differently, it is clear that the Argentine state was well served by the trends associated with globalisation that have led to a change in the nature of authority in the global system.

Therefore, in the context of the political and economic exhaustion of the Argentine state at the end of the 1980s, globalisation can be seen to have had a positive effect, at least in the short term. The term 'the rescue of the nation-state', borrowed from Alan Milward's analysis of the development of European integration, seems to be highly applicable.<sup>50</sup> Globalisation created the situation in which the state was able to pursue those reform strategies which would relieve the political and economic crisis in which it found itself embroiled. It did so both by creating an element of external legitimacy and an impression of external compulsion, and also by offering a new basis for political and economic strategy at a time when previous development models had been completely delegitimised. The 'rescue' argument, however, hinges on the removal of direct policy-making authority from the state to the global level and, as Chapter 7 demonstrates, to the regional level. In Milward's original formulation this referred to perceptions that certain policy issues could be addressed better at the regional than at the national level, given both the condition of the national arena in the post-war period and, in some cases, the nature of the issues in question. In the case of Argentina, both of these arguments apply. The national state was also in a condition of crisis (although clearly of a very different sort), and its capabilities significantly limited as a result. Similarly, globalisation has created the situation in which economic policy and development issues are far more effectively addressed through engagement with the international economy, as a result of the rewards / punishments structure discussed above.

Moreover, the resulting 'internationalisation' of the Argentine state in accordance with Cox's formulation mentioned earlier provided the conditions for

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<sup>50</sup> Alan S. Milward: *The European Rescue of the Nation-State* (1992). See also Alan S. Milward & Vibeke Sørensen: "Interdependence or Integration? A National Choice" in Milward et al: *The Frontier of National Sovereignty: History and Theory* (1993).

the consolidation (in the 1991/2-1995 period) of the neoliberal reform trajectory established in the first couple of years of the Menem government. Put differently, domestic necessities and the orientation of the global arena intersected in order to produce an environment of compatibility between national and international priorities. As such, the direction of reform and specific policy measures were accorded an 'irreversibility' as a result of their insertion into currents of international economic change. The Convertibility Plan is a clear example: Cavallo's suggestions in late 1991 and early 1992 of modifying the exchange rate system were effectively vetoed by the hostile reaction of the markets to this proposal.<sup>51</sup>

This, then, cements the central contention of the thesis: that the 'internationalisation of the state' as a result of globalisation and related forms of international influence created the possibilities for the consolidation of reform in the 1991/2-95 period. The timing of the debate on globalisation in Argentina further strengthens this argument. Until about 1993, the political and economic discourse in Argentina centred on crisis and reform, and specifically on the concept of economic internationalisation, rather than on globalisation as an identifiable process in the international economy and Argentina's participation in it. Although it is extremely difficult to define the moment of the 'onset' of globalisation, it appears that globalisation took hold in the international economy at least a few years before the debate took hold in Argentina. This in turn raises the questions of why and how globalisation as such became incorporated into political and economic thinking in Argentina at this specific juncture.

There are perhaps two convincing explanations for the triggering of the debate around 1993 rather than earlier.<sup>52</sup> The first can be identified as the European monetary crisis of 1992, which fed into an increasingly generalised perception of the inability of states to control markets and international capital. Apart from ideological currents which emphasised the free market over state intervention (particularly the neoliberal discourses of Reagan and Thatcher), the monetary crisis

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<sup>51</sup> Pablo Gerchunoff & José Luis Machinea: "Un Ensayo sobre la Política Económica después de la Estabilización" in Pablo Bustos (ed.): *Más Allá de la Estabilidad: Argentina en la Época de la Globalización y la Regionalización* (1995), pg 45.

<sup>52</sup> These points were suggested to me originally by Guillermo Mondino, and then discussed at length with others such as Diana Tussie.

highlighted the impossibility of regulation by states of international (and national) economic activity. We have seen that this was an important part of the rethinking of the relationship between state and market in Argentina, particularly in the 1989-91 period. The second related factor was the objective observation of the wave of FDI throughout the world, which not only reinforced these perceptions of international capital but also, through its emphasis on developing countries, incorporated a host of new actors into the global economy. As noted earlier, Argentina had become the third largest recipient of FDI world-wide in 1994, although the effects of the Tequila crisis in December 1994 and throughout 1995 substantially reversed this position. Significantly, foreign capital was attracted to Argentina mainly in connection with the processes of neoliberal reform, which gained genuine credibility after the Convertibility Plan. The early capital flows associated with the first privatisations were propelled from 1992 onwards by important agreements with the IMF and the negotiation of a Brady Plan debt reduction agreement in 1992/3.

In Argentina, then, the incorporation of globalisation into thinking and strategy was in some ways quite a sudden shift<sup>53</sup>, which assisted the process of structural reform that was *already* underway. In effect, globalisation created the conditions in which the strategy and reform programme of the Argentine government could successfully or feasibly be consolidated after the groundwork had been laid at the domestic level. This, as argued at the start of the chapter, was made feasible by domestic conditions which allowed for a (temporary) increase in the autonomy of the state and therefore augmentation of its reform capacity. From another perspective, the incorporation of globalisation into the *political* debate in Argentina can be traced to precisely the concerns raised by the Mexican crisis. This may reasonably be seen as the start of the real *debate* on globalisation, as the Tequila effect raised all sorts of doubts about the desirability of globalised markets with minimal function for the state.

However, neither the 'rescue' nor the 'internationalisation' of the state translated into the 'disappearance' of the state from the political and economic arena. Here we return to the 'paradox of state power'. It is contended here that the

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<sup>53</sup> Interview with Guillermo Mondino.

functions and capacities of the Argentine state were propelled through a process of redefinition by the exigencies of globalisation and international change according to changing perceptions of economic and political necessity. Although the removal of direct policy-making functions from the state to the international (and regional) levels is manifest, this created the conditions in which the state could re-invent and strengthen itself at the domestic level, through a recovery of legitimacy and coherence and through an increasing insulation from societal interests. Also, the Argentine state retained a significant degree of discretionary control over the sorts of policies that were pursued in the interests of national competitiveness.

This can be seen clearly in the sorts of policy measures that were adopted as responses to the perceived ‘loopholes’ of the globalised political economy. By 1994, it was generally thought that Argentina needed a mechanism for dealing with unfair trade practices. Before this date, as outlined in Chapter 3, several *ad hoc* measures were implemented (such as Cavallo’s application of compensatory rights against imports of footwear and clothing in 1993), but it was not until the National Commission for External Trade (CNCE) was established that an institutional structure was available for assessing and implementing such measures. Complaints to date have mainly been made against Brazil and China, with particular reference to dumping offences.<sup>54</sup> Quite apart from these functions, however, the CNCE was the first step in response to a perceived need to establish institutions for the purposes of both reinforcing and protecting Argentina’s full-scale participation in the globalised international economy. The ‘new institutionalism’ can be seen as modelled at least in part on the US system, most notably the Office of the US Trade Representative.<sup>55</sup> These institutional developments, however, came before the onslaught of the Mexican peso crisis, and respond to the evolution of domestic political currents as well as to international considerations.

It becomes clear, then, that Hirst and Thompson’s argument that “one key effect of the concept of globalisation has been to paralyse radical reforming national strategies, to see them as unviable in the face of the judgement and

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<sup>54</sup> See CNCE: *Informe Anual* 1995.

<sup>55</sup> Interview with Cristián Mira & Ana Miura of *La Nación* (External Trade Supplement), 9 June 1997.

sanction of international markets”<sup>56</sup> is grossly inaccurate, in that it assumes that radically reformist national policies go against the grain of economic globalisation. Hirst and Thompson’s arguments appear to apply only to those advanced countries in which a functioning market economy is already in place, and in which radical reforming national strategies would necessarily be in an opposite direction. In the case of Argentina and other Latin American and developing countries, the radical reform process has been oriented in recent years towards the *construction* of a functioning market economy, and for this reason has moved in a direction highly compatible with that of international markets. Markets determine (and narrow) the range of policy options available but that reform strategies are not *a priori* ‘unviable’. The economic policy revolution in Latin America is certainly ‘radical’, and driven and facilitated by globalisation.

### *Globalisation and Political Reform*

As Chapter 4 showed, a combination of the political conditions in Argentina at the end of the 1990s and the sorts of economic policies pursued in the context of liberalisation contributed to a re-ordering of political alliances, which both fed off and reinforced economic reform. The globalisation process created a situation in Argentina in which the increasing returns to power derived from the success of reform policies acted to *augment* the capacity of the state to consolidate its policy preferences. This situation in large part derived from the use of international constraints to overcome domestic constraints by national governments and, together with the effects of internal dynamics, facilitated a huge concentration of power in the executive and a centralised, ‘exclusionary’ style of government and policy-making. It is the notion of increasing returns to power that explains how the Argentine state was able not only to re-define its interests and capabilities in economic terms, but also significantly to increase the extent of its insulation from society. Therefore, globalisation has acted in specific ways (relating to the policy structures it promotes) and in more general or indirect ways (relating to its reinforcement of centralisation and state power) to propel and consolidate the

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<sup>56</sup> op.cit., pg 1.

processes of political reform instigated by the Menem government. We have seen that the autonomy necessary for the implementation of reform in 1989-91 was afforded by the impact of crisis and hyperinflation. The maintenance of autonomy for the purposes of consolidating reform was derived from the influences of globalisation. Furthermore, their impact acted to consolidate the changes in the Argentine landscape which resulted from a combination of the demobilising effects of the crisis and specific purposive policies on the part of the government.

We have seen that the crisis situation in Argentina of the late 1980s created significant pressures for neoliberal reform as an alternative to 'exhausted' and failed policy projects of previous years. In addition, government policy-makers were concerned about the collapse in international confidence and the negative effects on economic policy that such a withdrawal of international finance entailed. Therefore, the economic effects of globalisation acted to alter the constellation of interests and the nature of the support coalitions that the government needed to court in the interests of international competitiveness and credibility, which have become key for continued economic development.

The changes in the international economy and financial system associated with globalisation significantly increase the influence and power of the forces that favour liberalisation in the domestic (and international) setting.<sup>57</sup> As interdependence is deepened and expanded by globalisation, the preferences of certain actors become more decisive and also more congruent with the overall policy goals of the globalising political economy and reforming states (such as Argentina). As such, the weight and importance of actors with foreign ties is increased with the imperatives of constructing competitive transnational linkages, and the range of interests that are likely to benefit from the state's liberalisation policies expands.<sup>58</sup> The interests with foreign ties are likely, as in the case of Argentina, to be business and the private sector, technocratic policy-makers and financial agents. As a result, at the national level certain groups of actors are

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<sup>57</sup> Stephan Haggard & Sylvia Maxfield: "The Political Economy of Financial Liberalization in the Developing World" in Robert O. Keohane & Helen V. Milner (eds.): *Internationalization and Domestic Politics* (1996), pg 215.

<sup>58</sup> *ibid.*, pg 211.

privileged over others (business over labour being the most obvious example) as a result of changes in policy orientation associated with globalisation.

In this way, the conjunction of the influences of globalisation and the crisis of the late 1980s created a fundamental shift in the policy preferences of key interests in the state and society. In the Argentine context this entailed a coincidence of interests between the government and the interests that were identified with pressures for liberalisation. However, the imperative for the government to court and respond to these interests was reinforced by the dangers of not doing so. Globalisation acts to increase the mobility of capital and, as a result, the 'exit option' of the mobile capital asset holders in the domestic economy.<sup>59</sup> Having experienced the impact of capital flight in the late 1980s as a result of hyperinflation, and the threat of similar action in 1990/91, the Argentine government was particularly aware of the need to take serious account of the interests and preferences of these economic and financial agents. Therefore, pressures for reform stemmed both from government and state actors - this was essentially a process directed 'from above' - and from key economic interests. Although the coincidence of preferences was manifest, the shift in the relative weight of domestic actors as a result of international change contributed an additional incentive for both this coincidence of preferences and for liberalisation or reform more generally.

These, then, are some of the ways in which the direct impact of globalisation affected political alignments in Argentina and elsewhere. More indirect manifestations of this influence can be found in the reinforcing effects of international change on domestically-initiated political restructuring. These relate to the points made earlier about the international 'rescue' of the state, along with the particular type of reform in question. The eventual removal of direct policy-making responsibility from the state, either through its reform or its internationalisation, has significant implications for state-society relations. In effect, the state is relieved of its role as the principal arena for social and distributive conflict. A removal of authority from the state with respect to policy-making autonomy means a removal of the capacity for action of societal interests.

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<sup>59</sup> Helen V. Milner & Robert O. Keohane: "Internationalization and Domestic Politics: A Conclusion" in Keohane and Milner (eds.), pg 245.

As a result, a high degree of centralisation of power becomes possible, with the manifest effect of neutralising the principal sources of opposition which are deprived of an arena for pressing their interests and preferences. The effects of globalisation, or the international ‘rescue’, then, are associated with the reinforcement of the insulation of the state from societal interests as well as a recovery of the competence of the state in implementation terms. According to the conceptions outlined in the Introduction, this leads to an overall strengthening of state power and the establishment of an ‘exclusionary’ model of state-society relations. It can be hypothesised that in situations in which state power is relatively more centralised, or in which the state exhibits a high degree of control-oriented penetration into the social fabric of the country, the space for the development of non-state actors is likely to be significantly less than in a situation characterised by a high dispersion or permeability of state power.<sup>60</sup> According to Risso-Kappen’s formulation, Argentina in the early to mid-1990s (and many other Latin American countries) would fall in the category of “state-dominated” domestic structures, which are differentiated from “state-controlled” structures found in many Communist and authoritarian regimes, and from “stalemate”, “corporatist”, “society-dominated” and “fragile” domestic structures.<sup>61</sup>

In sum, globalisation appears to have the impact of weakening its opponents at both the international and national levels. In the case of Argentina, the corollary has been a reinforcement of changes in the nature and distribution of political power that reflect the roots of the crisis of the late 1980s. This could be conceptualised in semi-structuralist terms which would perceive a long-term trend towards the weakening of those *societal* forces that are opposed to the interests of global capital. The hyperinflation and other forms of economic crisis produced by the prevalence of these interests in policy-making circles (including the Alfonsín government in Argentina) in turn are destructive of interests hostile to globalisation. This, then, further explains the ‘paradox of state power’: it conflates the less autonomous state in international terms and the stronger state in domestic

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<sup>60</sup> This argument to some extent corresponds to the first hypothesis made by Risso-Kappen, to the effect that differences in domestic structures are likely to determine the impact and effectiveness of transnational coalitions. Op.cit., pg 6.

<sup>61</sup> Risso-Kappen: pp. 23-25.

terms into a single logic relating to a damaging dysfunction between local and international sources of capital. The achievement of the Menem government was to eliminate this dysfunction.

## Conclusion

This chapter has shown that the intersection of the processes of domestic reform and the increasingly visible manifestations of global change created a situation in the early 1990s in which the interests of the state were identified as being compatible with and linked to the 'interests' of the globalised political economy. The dynamics of this interaction determined the direction of reform in the 1989-91 period, but also, more importantly, created the conditions in which this reform could be consolidated from 1991/2 onwards. The 'rescue' of the state through its increasing internationalisation accorded an element of irreversibility to the economic policy orientation, and also contributed to the consolidation of a political model in which the autonomy of the state vis-à-vis society was enhanced. As such, the influence of globalisation simultaneously 'weakened' the state through the imposition of constraints on the government's policy-making latitude, but also strengthened it at the domestic level through the creation of a political and economic space for the *consolidation* of reform.

At the theoretical level, this chapter has argued that the idea of state versus globalisation is not a constructive dichotomy. It has built on the debate between ideas of the 'retreat' of the state versus the 'competition state' to demonstrate that there are significant ways in which this type of influence increases certain types of state autonomy. Similarly, globalisation may well be a process driven by economic factors and, arguably, one which relies on a degree of economic policy convergence, but it remains rooted in the political construct of the nation-state despite the development of new forms of non-territorial and non-state authority.

These observations prompt further questions relating to the concrete ways in which the influence of globalisation is transmitted to national arenas and translated into policy outcomes. In addition, the preliminary points made in this chapter about the converse relationship of influence - the role of the national state

in maintaining and consolidating the global order itself - require further analysis. These questions are addressed in relation to the second and third dimensions of international influence - conditionality and regionalisation - which are considered to be the main transmission mechanisms of globalisation as well as the main mechanisms by which the national and the international are brought into interaction. From the perspective of national reform efforts, furthermore, these are considered to be the principal means by which the political and economic changes are 'locked in' at the international and regional levels, thus creating the space for their consolidation.

## Chapter 6

### Globalisation, Conditionality and Reform

This chapter is concerned with the ways in which the influences of globalisation gave rise to specific sets of policy outcomes in Argentina, and the ways in which the influences of globalisation and conditionality are interconnected. It argues that the influence of globalisation is transmitted to developing countries principally through the mechanisms associated with the activities of the international financial institutions (IFIs)<sup>1</sup> and the conditionality packages associated with the financial assistance they offer. Conditionality is in many ways a concrete manifestation of the broader parameters of influence discussed in the previous chapter, and one of the principal means by which these international influences are incorporated into national policy-making agendas. As stated in the Introduction, therefore, the analysis aims to treat the identified dimensions of international influence as more than a simple contextual backdrop, and contribute a more specific conception of the concrete and dynamic ways in which these influences operate.

From a ‘national’ perspective, conditionality acts to reinforce or ‘lock in’ the policy orientation of national governments and to ensure the adoption of policy measures consistent with the ‘interests’ of the globalised political economy. As such, loans from the IFIs based on conditionality can be seen as an important part of the structure of rewards and punishments outlined in Chapter 5, which compel conformity with the neoliberal policy agenda. Furthermore, relations with the IFIs and compliance with conditionality constitute an essential dimension of the ‘internationalisation of the state’ by which, it is argued, the conditions were created for the consolidation of reform from 1991/2 to 1995. This is concrete example of the ways in which the government deliberately sought to make its reform measures irreversible: the possibilities for a significant policy shift are greatly reduced by commitments to international institutions or agents. Similarly, the internationalisation of the state acts to remove decision-making authority from

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<sup>1</sup> The term ‘IFIs’ is taken here to refer collectively to the multilateral development banks (World Bank and IDB) and the IMF.

national political agents to international financial agents and domestic technocrats with significant foreign ties. As such, conditionality lent an additional impetus to the process of political reform in Argentina by promoting various forms of state power.

The chronological perspective is again pivotal. It is certainly the case, as this chapter demonstrates, that the direction of reform in the first couple of years of the Menem administration was informed by the perceived need to curry favour with the international financial community. However, despite several stand-by loans in this time, relations between the Argentine government and the IFIs were only genuinely reactivated in 1992 with the negotiation of an Extended Fund Facility (EFF) agreement and the subsequent signing of the Brady Plan agreement with the commercial banks. This paved the way for a situation in which, as we have seen, it was as much in the interests of the government to lock its agenda into a series of international obligations as in the interests of the IFIs to demand this. Significantly, this sort of marriage of convenience had not been available until this time: tension between the IFIs and most Latin American countries during the 1980s meant that the option was not open to Alfonsín. It is the contention here that the coincidence under Menem of interests between the Argentine state and the agents of the international economy, *made possible by the process of globalisation*, generated the climate for better relations with the international financial community.

We can also return at this point to our two-fold classification of the problems of the post-war political economy of Argentina, the first of which was associated with (mis)management. We have seen that the consistent relegation of macroeconomic policy coherence stemmed principally from the prevalence of political struggle, which complicated the task of governance and economic management. At times of crisis, specifically, the IMF was called in to 'put out the fire' by imposing a set of relatively restrictive policy requirements and an additional compulsion for macroeconomic policy consistency. As soon as it left, however, the familiar political constraints emerged and hampered the possibilities for compliance. Relations with the IFIs in the 1990s were part of precisely this attempt to overcome the management problem in the Argentine political economy

by imposing the requirements of greater economic and fiscal discipline. It is also the case that, as a result of globalisation, the IFIs were a far more central and constant part of the development and reform process, rather than being 'called in' in situations of crisis. The increasing 'governance' dimensions of conditionality over the last five years or so also slot easily into this framework.

The chapter is organised as follows. The first two sections set out the broad theoretical backdrop against which an assessment of the Argentine experience can most usefully be made. The first outlines the theoretical propositions concerning the relationship between globalisation and conditionality. The second outlines the innovations which have characterised the lending operations of the IFIs in the 1990s, with particular emphasis on the concept of 'governance'. The following sections aim to build on these theoretical propositions and the threads of the thesis outlined above in order to offer an empirical analysis of the Argentine case. The third part of the chapter offers a general assessment of Argentina's experience with conditionality under the Menem government and a brief overview of Argentine relations with the International Monetary Fund (IMF), World Bank and Inter-American Development Bank (IDB) in this period, with an emphasis on the timing of the major agreements relative to the major policy initiatives outlined in Chapter 3. The fourth part draws out the specific implications of conditionality for economic and political reform in Argentina, and demonstrates the pivotal role it played in the consolidation of the political and economic orientation. Special attention is paid to the issues of state power and the 'internationalisation' of the state.

### **Dimensions of the Globalisation-Conditionality Nexus**

Conditionality is the primary conduit through which the influence of globalisation is transmitted to developing countries.<sup>2</sup> The terms of financial

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<sup>2</sup> Influence is exercised through a variety of informal channels (such as the Trilateral Commission or the Bilderberg conference) and official bodies (such as the OECD, Bank for International Settlements and IMF. See Robert W. Cox: "Global Restructuring: Making Sense of the Changing International Political Economy" in Richard Stubbs & Geoffrey R.D. Underhill (eds.): *Political Economy and the Changing Global Order* (1994), pg 49. In the case of Latin American (and other developing) countries, however, the contention is that the IFIs are the principal conduit for the transmission of the influences in question.

agreements between IFIs and developing countries are designed to propel appropriate policy reforms in countries participating in the international economy. These fall under the broad headings of liberalisation and deregulation. The aim of the IFIs in the late 1980s and the early 1990s was to ensure that countries adhered to the 'rules' of the globalisation 'game', described in the previous chapter as embodied in such policy constructs as the 'Washington consensus' and the neoliberal agenda that informs it.

The relationship between globalisation and conditionality, however, is more complex than the simple 'transmission link' argument suggests. Conditionality creates those conditions which are essential to the maintenance and consolidation of the process of globalisation and the changes associated with it. Globalisation is, in essence, dependent on the establishment of a global policy consensus which in turn lends itself to policy harmonisation. The operation of a 'globalised' international economy depends on the reinforcement of common 'rules' by which the participants play. This can be seen, for example, in the ways in which multilateral trade regulations attempt to create convergence in order to maintain an open and non-discriminatory international trade regime. Similarly, the globalising world economy brings with it a new development paradigm, according to which countries must engage in significant reform efforts if they are to achieve national development goals. The achievement of the policy convergence on which globalisation rests is, in the case of developing countries, principally the domain of the IFIs. Conditionality, therefore, is a significant means by which the process of globalisation is *sustained*, as well as a means by which the influence is transmitted.

These arguments share certain foundations with now familiar assertions regarding international cooperation and regime-building, most notably Keohane's theory of cooperation based on common interests between countries.<sup>3</sup> Similarly, recent analyses of governance in the globalising international environment argue that a degree of transnational domestic and foreign policy convergence is likely both to facilitate the *task* of governance and to generate changes in the *nature* of governance, on the assumption that "it is more difficult to form regimes or to anticipate governance at the international level if the internal operating principles

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<sup>3</sup> Robert O. Keohane: *After Hegemony: Cooperation and Discord in the World Political Economy* (1984).

of actors are radically different".<sup>4</sup> In the present discussion of globalisation, this would translate most clearly into some degree of economic policy harmonisation and, more fundamentally, a global convergence in economic thinking. These then contribute to the construction and maintenance of a new international order based on the 'globalisation' of a particular set of economic and political values.

The relationship between globalisation and conditionality, then, can be formulated in broader terms. Conditionality stands at and acts as the interface between the global and the national. It serves as a conduit for the influence of the global on the national, and at the same time creates the national conditions on which the maintenance of globalisation depends. It is not the case that globalisation and conditionality are simply 'twin' external pressures: the role of conditionality and the levels at which it operates are more complex. Although clearly for the countries concerned conditionality is an external force, in the context of globalisation and the evolution of the global economy conditionality becomes a nationally-rooted mechanism as well as an external pressure. The impact of conditionality acts not only on national policy but also on the development of the globalising international arena. The usual focus on the impact of conditionality in particular domestic settings, then, should be supplemented by an appreciation of the interaction between conditionality and the 'global' as a result of the changes in national environments influenced by the former.

Furthermore, globalisation has acted to feed the conditionality process by impacting on the perceptions of policy-makers and societies in the countries in question. Globalisation in recent years created an environment which signalled an express need for change as a prerequisite for participation. In this sense, as the previous chapter showed, globalisation created the conditions in which domestically-initiated reform processes (in turn encouraged by the activities of the IMF and World Bank) could progress and flourish. Globalisation, therefore, created an opportunity for reform but also, more importantly, the context in which unsavoury austerity measures could be sold to sceptical national electorates. The

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<sup>4</sup> Thomas J. Biersteker: "The 'Triumph' of Neoclassical Economics in the Developing World: Policy Convergence and Bases of Governance in the International Economic Order" in James N. Rosenau & Ernst-Otto Czempiel (eds.): *Governance without Government: Order and Change in World Politics* (1992), pg 104.

perception of the changing international environment created the assumption of a need for change on which governments and technocrats could capitalise in order to achieve domestic consensus for their reform projects.

This consensus in turn parted the seas for the IFIs which during the 1980s had struggled with hostility and non-compliance. If countries were concerned to implement these types of reform in any case, then the task of ‘complying with’ the preferences of the IFIs was fundamentally altered as interests converged on a common goal. At the same time, one of the major weaknesses of conditionality was redressed. The design of structural adjustment programmes in the 1980s was characterised by a failure to consider national differences in historical and institutional structures as well as political realities: for the purposes of policy all countries were considered to be the same.<sup>5</sup> Explanations for the failure of structural adjustment often focus on the issue of ‘ownership’ according to which the success of adjustment lending depends on perceptions that conditionality and reform are nationally-rooted processes rather than external impositions.<sup>6</sup> Previously, genuine commitment to structural adjustment was seen to be undermined or easily “negated” by conditionality.<sup>7</sup> The World Bank has subsequently come to the opinion that “the vital challenge is to build home-grown commitment mechanisms, rooted in domestic institutions”.<sup>8</sup>

In summary, the relationship between globalisation and conditionality is conceptualised as follows. On one level, globalisation and conditionality act in conjunction with each other in order to promote a significant degree of policy convergence. The relationship is two-way: on the one hand conditionality is the primary conduit through which the influences of globalisation are transmitted, and on the other conditionality creates the policy conditions in which globalisation can be sustained and furthered. Conditionality, therefore, is seen to stand at and act as the interface between the national and the global. On another level, globalisation

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<sup>5</sup> See comments on a lecture in 1992 by the Chief Economist of the European Bank for Reconstruction and Development (EBRD) in Stephen Gill: “Knowledge, Politics and Neoliberal Political Economy” in Stubbs & Underhill (eds.), pg 83.

<sup>6</sup> For a discussion of ‘ownership’ and its replacement with ‘dialogue’, see Daniel C. Milder: “Foreign Assistance: Catalyst for Domestic Coalition Building” in Jo Marie Griesgraber & Bernhard C. Gunter (eds.): *The World Bank: Lending on a Global Scale* (1996).

<sup>7</sup> Owodunni Teriba: “The Challenge of Africa’s Socioeconomic Development” in Griesgraber & Gunter (eds.), pg 6.

<sup>8</sup> World Bank: *World Development Report 1997: The State in a Changing World*, pg 60.

has assisted the conditionality process by creating a shift in the perceptions and assumptions of national policy-makers and electorates. This shift has two major implications: first, that globalisation created an opportunity for reform and the conditions in which reform became politically acceptable, and second, that globalisation contributed to the emergence of a coincidence of interests between national states and the agents of the international financial system which has allowed for the more effective operation of conditionality and adjustment.

### **The Changing Nature of Conditionality: The Concept of Governance**

In the 1990s there has been a fundamental change in the activities and orientation of the IFIs, which has been accompanied by a shift in perceptions of their operations both within the institutions themselves and in the countries with which they interact. A notable feature of this process of revision was seen in the increasingly cooperative rapprochement between the institutions themselves, after a period of tension in the 1980s. Although the activities of the World Bank and the IMF had consistently been closely integrated for much of the post-war period, with the exception of the late 1980s<sup>9</sup>, in the early 1990s a closer relationship was established also with the Inter-American Development Bank (IDB)<sup>10</sup> as the emphasis shifted away from structural adjustment towards developmental objectives.

The changes have taken two principal forms in the recent period. First, there has been a shift away from the inflexibility of structural adjustment loans to a more 'interactive' style of negotiation and cooperation. Recent research emphasises the significant leeway allowed by agreements with IFIs for autonomous government policy as well as politically-charged decision-making.<sup>11</sup> The IFIs

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<sup>9</sup> These differences were manifested most sharply in the case of the 1987 Trade Policy Loans to Argentina, in which the Bank acted unilaterally without consultation with the IMF for the first time. See Diana Tussie & Mirta Botzman: "Sweet Entanglement: Argentina and the World Bank 1985-9", *Development Policy Review* 8, 1990.

<sup>10</sup> Diana Tussie: *The Multilateral Development Banks: Volume 4: The Inter-American Development Bank* (1995), chapter 6. For a more general perspective on the evolving relationship between regional development banks and the World Bank, see Roy Culpepper: *The Multilateral Development Banks: Volume 5: Titans or Behemoths?* (1997), pp. 41-44 and chapter 5.

<sup>11</sup> Diana Tussie: "Globalisation and Conditionality: Struggling to Make a Room of One's Own", mimeo, Buenos Aires, March 1997.

concern themselves principally with establishing *negotiated targets* often associated with significant policy reform, but increasingly associated with more mainstream economic performance issues following the implementation of the bulk of major structural reforms in the early 1990s. Increasingly, therefore, the concern is no longer privatisation and trade liberalisation but rather with targets for the fiscal deficit and issues such as labour flexibilisation and the 'modernisation of the state'. This new agenda has been termed the 'second generation' of structural reforms.

The second and most important element of the new orientation of conditionality is the concern with a functioning civil society, the rule of law and respect for private property that are seen to be essential for economic efficiency.<sup>12</sup> This has given rise to changes emphasising greater attention to administrative, institutional and legal structures and practices *as integral parts* of the economic reform process. This is incarnated most visibly in the rubric of 'good governance' developed by the multilateral development banks (MDBs) in the early 1990s, which became the rallying cry of the revamped IFIs. These, according to the IMF's Interim Committee, should now concern themselves with advancing "good governance in all its aspects, including insuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption".<sup>13</sup> Although there is no explicit claim relating to the type of political regime that best serves these objectives, economic growth is seen as dependent on the *quality* of governance and this, predictably, is taken to be best enhanced by a system of political democracy.

One possible explanation for this shift can be found in the perceived failure of structural adjustment exercises in the late 1980s. As Latin American (and African) countries one by one relapsed into economic crisis and hyperinflation towards the end of the decade, the need became apparent for a redefinition of the activities of the IFIs in relation to developing countries, and a reassessment of received wisdom concerning the dynamics and causes of crisis in these countries.

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<sup>12</sup> Harold James: "Globalization and the Changing Character of the International Monetary Fund", paper presented to the conference on 'Non-State Actors and Authority in the Global System', Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, 31 October-1 November 1997.

<sup>13</sup> *ibid.*

This re-thinking of policy was prompted most specifically by the situation of African countries of the late 1980s, seen by the World Bank to be a “crisis of governance” rather than one of predominantly economic dimensions.<sup>14</sup> According to the Bank itself, the relatively healthy growth figures for developing countries from 1965 to 1980 concealed “deep-seated problems of governance” that only became exposed with the widespread economic crisis of the 1980s. The problems of structural adjustment lending, furthermore, were taken as indications of the importance of “further improvements in the institutional framework for development management”.<sup>15</sup>

More general clues concerning the roots of the re-orientation of the IFIs in the late 1980s can be found in several areas. Leftwich, for example, suggests four reasons for the resurgent equation of democracy with development.<sup>16</sup> The first is the goal of legitimising the concept of conditionality that suffered, as mentioned in the previous section, from low levels of commitment on the part of borrowing countries and from the failures of structural adjustment throughout the 1980s. The second is the hegemony of neo-conservative *political* ideas, which explicitly relate the concern with democracy to the over-arching concern with markets and economic growth: the former is seen to be a pre-requisite of the latter, and vice versa, as in traditional modernisation theory. This was assisted by the third explanatory factor, namely the collapse of communism and the new possibilities for ensuring the ascendancy of a single set of ideas that were seen to have achieved dominance on both a theoretical and on an empirical level with the end of the Cold War. Lastly, Leftwich refers to the impact of pro-democracy movements in various parts of the developing world (including Latin America).

However, we can contend that the most important reason for changes in the activities of the IFIs and the nature of conditionality relates to the changing nature of the international economic structure in which they are rooted. These changes

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<sup>14</sup> World Bank: *Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study* (1989). This was the first important publication to consider the question of governance in the lending strategies of the IFIs.

<sup>15</sup> World Bank: *Governance and Development* (1992), pg 4. For an ‘in-house’ analysis of the reasons for the poor results of recent Bank programmes and the re-orientation of Bank practices as a result, see Robert Picciotto & Rachel Weaving: “Un Nuevo Ciclo de los Proyectos en el Banco Mundial”, *Finanzas & Desarrollo*, World Bank, December 1994.

<sup>16</sup> Adrian Leftwich: “On the Primacy of Politics in Development” in Leftwich (ed.): *Democracy and Development: Theory and Practice* (1996), pp. 10-15.

stem mainly from the market processes of globalisation which, perhaps paradoxically, necessitate attention to the political and institutional contexts of national policy. Globalisation in this sense is as much a political phenomenon as a process of ‘marketisation’ of the international economy. According to this interpretation, then, the increasing politicisation of the IMF and related institutions, which formerly were constrained by provisions which precluded involvement in the political aspects of a country’s activities, can usefully be understood as an inevitable result of the new national and international imperatives thrown to the fore by globalisation.

The concept of governance, then, adds a new dimension to the discourse of policy-based lending. The World Bank clearly stands for the principles of the market economy and the ‘neutral’ state in which, according to liberal theory, competing conceptions of the public ‘good’ can be pursued. The governance dimension contributes the new belief in significant parts of the World Bank that such a neutral and effective state depends fundamentally on a “corresponding liberal public sphere” characterised by an increasingly empowered civil society and enhanced technical and institutional effectiveness (particularly with reference to the judiciary).<sup>17</sup> Clearly, the idea of governance is operationalised as a set of measures that are essential to the more general economic process, rather than as an explicit concern with political and institutional development.

In the interests of neutrality, the Articles of Agreement of both the IMF and the World Bank explicitly prohibit intervention in the political and social life of the countries with which they deal, and furthermore do not allow officials to take political factors into account in formulating policy packages and negotiating agreement. According to a recent memorandum issued by the General Council of the World Bank, the Bank is not permitted to be influenced by the political nature of a member country, to interfere in partisan politics, to act on behalf of an industrial member country to influence the political system or behaviour of a borrowing member, to be influenced by political factors that do not have direct

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<sup>17</sup> David Williams & Tom Youngs: “Governance, the World Bank and Liberal Theory”, *Political Studies* XLII, 1994 (pp. 93-4).

economic implications, or to be influenced by possible reactions by member countries to policies or judgements.<sup>18</sup>

In the new context of 'governance', this has been slightly modified. The same memorandum identifies governance issues as relevant when placed in the context of order and discipline in the *management* of national resources.<sup>19</sup> The IMF, similarly, recognises that while "it is legitimate to seek information about the political situation in member countries as an essential component in judging the prospects for policy implementation", its activities "should not be influenced by the nature of the political regime of a country, nor should it interfere in domestic or foreign politics of any member". In essence, "the IMF's involvement in governance should be limited to the economic aspects of governance", and good governance is seen as a means of ensuring market confidence, in turn essential for the maintenance of capital flows and investment.<sup>20</sup>

This attempt at maintaining the essentially apolitical nature of World Bank and IMF operations contrasts with the less constrained political options available to the IDB and other regional development banks (RDBs). The IDB enjoys a number of advantages in this respect. First, it has always had the image of a more 'benevolent' lending institution, particularly relative to the IMF and World Bank. Second, as a result of the fact that it is a regionally-rooted institution, it has appeared always to enjoy a greater degree of trust from member governments and regional societies, which was heightened also by its traditional emphasis on politically sensitive areas such as judicial and legislative processes. Third, it has not been associated with structural adjustment programmes or the more controversial packages peddled by the other IFIs.<sup>21</sup> As a result, the IDB has been

<sup>18</sup> Ibrahim F.I. Shihata: *The World Bank in a Changing World: Selected Essays* (1991), pp. 79-84; World Bank: *Governance and Development* (1992), pg 5; David Gillies: "Human Rights, Democracy and Good Governance: Stretching the World Bank's Policy Frontiers" in Griesgraber & Gunter (eds.): op.cit.. For an earlier critique of the neutrality issue in the context of structural adjustment, see Richard Swedberg: "The Doctrine of Economic Neutrality of the IMF and the World Bank", *Journal of Peace Research*, 23, 4, 1986.

<sup>19</sup> *Governance and Development*, pg 5.

<sup>20</sup> James: op.cit.

<sup>21</sup> Paul J. Nelson: "Transparencia, Fiscalización y Participación: La Implementación de los Nuevos Mandatos en el Banco Mundial y el Banco Interamericano de Desarrollo", Serie de Documentos e Informes de Investigación no. 199, FLACSO, Buenos Aires, June 1996, pp. 5-6.

able more explicitly to include a political agenda in its lending programme which enjoys a greater degree of legitimacy and acceptability.<sup>22</sup>

The World Bank, in contrast, having no regional identification and having found its new activities to be increasingly dominated by the regulation of policies adopted by governments (in areas such as the use of natural resources, dissemination of information and environmental assessments), has extended its 'apolitical' stance in parallel with the expansion and deepening of its conditionality.<sup>23</sup> The good governance school of thought has, however, given the lie to much of this rhetoric. Increasingly over the course of the 1990s, the World Bank and the IMF have made unprecedented incursions into sensitive political issue areas in the countries with which they presently interact. For Argentina and other developing countries, the 1990s have been characterised by the emergence of non-technical criteria for lending and performance assessment. Furthermore, it is precisely this new agenda that has revitalised the ailing IFIs themselves.<sup>24</sup>

The other clear effect of the expansion of the IFIs' agenda and scope of activity has been further to dim the distinctions between the global and the domestic and, more importantly, to reinforce the state's role as the transmission link between these two arenas of activity. On the one hand, the good governance rhetoric legitimises the IFIs' concern with political issues that are seen to underpin the new international order by presenting them as concepts and practices that are fundamental to economic performance and development. In this sense, the argument made earlier that the process of globalisation is very essentially political gains further strength. On the other hand, as the state is the primary point of contact between a borrowing country and the international organisation with which it is dealing, as well as the focus of negotiating activity, it acts as the main mechanism through which the country is brought into the fold of the globalisation ideology and its empirical manifestations. This feeds into the concept of the 'internationalisation' of the state.

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<sup>22</sup> Similarly, the EBRD has the promotion of liberal democracy written explicitly into its charter. See Geoffrey Hawthorn & Paul Seabright: "Governance, Democracy and Development: A Contractualist View" in Leftwich (ed.), pg 75.

<sup>23</sup> Nelson: *op.cit.*, pp. 5-6

<sup>24</sup> Diana Tussie: "Argentina's Big Bang Reform: The Interplay of MDBs and Domestic Actors", mimeo, Buenos Aires, October 1997 (pg 22).

## Argentina and Conditionality

The impact of conditionality in the national context, then, may be seen as two-fold: first, conditionality is concerned with state policies which may be rewarded by access to international financial resources; and second, it is concerned with creating “the institutional mechanisms for mobilising the necessary domestic consensus”<sup>25</sup> on which acceptance of and compliance with conditionality depends. The success of conditionality is determined first and foremost by the nature of the domestic setting into which it is inserted, and also by the ways in which policy-makers are able to use international agreements to manipulate domestic interests while at the same time using the changing domestic alignments of interests outlined in Chapter 4 to open up new possibilities for bargaining in the international arena.<sup>26</sup> This process is supplemented by the more direct forms of influence exercised by the MDBs in neutralising potential sources of opposition, which are described later in this chapter.

The success of reform in Argentina and elsewhere, then, was made possible by a conjunction of propitious circumstances: on the domestic level these were created by the economic and political crisis of 1988-9 that created the space for the types of political and economic reform outlined in Chapters 3 and 4; on the international level these were created by the process of globalisation and the changing structure of rewards and punishments associated with participation in the international economy (outlined in Chapter 5). The crisis of the state changed perceptions of state capacities to control markets and perform its traditional functions, and opened the way for the development of a new conception of the relationship between the state and the market consistent with the conceptions promoted by globalisation and the IFIs. This conjunction (and juncture) created a consensus in favour of reform which changed the nature of the interaction between the government and the IFIs on the one hand, and between national policy and conditionality, on the other.

It is clear that the political reforms introduced by Menem eased the task of ensuring acceptance of agreements with the IFIs. The fact that decision-making

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<sup>25</sup> Tussie: “Globalisation and Conditionality”, pg 5.

<sup>26</sup> *ibid.*, pg 4.

authority had been deliberately centralised in the executive branch and the presidential circle (to a much greater extent than under Alfonsín) facilitated the task of formulating and implementing appropriate reform policies. Reforms to legislative and judicial roles reinforced this concentration of policy making and agenda-setting power in the figure of the president and, circumstantially, in the technocratic team with which he associated himself. Similarly, the PJ's initial majority in the congress neutralised the impact of the opposition. Institutionally, therefore, the setting for the consolidation of reform policies associated with IFIs and conditionality was about as conducive as it possibly could be in Argentina.

The changing relationship with key domestic interests under the impact of political and economic reform affected the ways in which the relationship with the IFIs was modified, and also was a result of the imperative of mobilising domestic support for the agreed programmes. The neutralisation of labour and the incorporation of business, for example, created circumstances in which the government could effectively by-pass the sorts of social bargaining processes with which the previous administration had struggled. Together with legislation granting the executive enhanced decree and veto powers (described in Chapter 4), the process of implementing policies consistent with international agreements relied essentially on the mobilisation of consensus within the ruling party which, for a time, prevailed.

This is not to argue, however, that the government was able entirely to ignore the demands of domestic interests. The measures described in the previous chapter which appeared to go against the grain of liberalisation were implemented in order to offset some of the negative effects of the external environment, and to alleviate increasing political pressures in the run-up to important elections. These measures were particularly important in 1993 and 1994 as the debate of globalisation and its impact began to unfold in Argentina. Nevertheless, in the early years of the Menem administration the experience of economic crisis under the Alfonsín government had produced a dramatic shift in popular expectations, and created an environment in which there was both an awareness of the need for drastic change and a willingness to accept the new policy programme. The consensus, therefore, to an extent existed independently of the efforts of the

Menem government or the IFIs to create it. The role of the IFIs was largely to mobilise the resources necessary for its maintenance and consolidation once it was already underway.

Crucially also, however, a closer relationship with the IFIs was a deliberate part of Menem's strategy aimed at increasing domestic room for manoeuvre, especially after the creation of the initial space afforded by the crisis. In this way, it is possible to argue that conditionality not only acted as the primary conduit for the influences of globalisation but also *was chosen*, in the national setting, as the "transmission link of a new economic paradigm".<sup>27</sup> In the same way that the influence of globalisation and the associated rhetoric increased the latitude with which the government could implement its preferences in the domestic context, conditionality and the working relationship with the IFIs provided both another leg of support for the reform process and an added dimension of external legitimacy, based largely on protestations about necessity (given the domestic crisis) and inevitably (given the changing nature of the international environment). Most importantly, these factors allowed for the consolidation of the reform process from 1991/2 onwards.

These observations return to the theoretical propositions made about the relationship between globalisation and reform at the start of the chapter. On the one hand, conditionality had the effect of imposing (during the 1980s) or reinforcing (from the early 1990s) a set of policies consistent with the neoliberal orientation of the global economy and with the 'interests' of the globalisation process itself. On the other hand, globalisation created the circumstances in which an alliance with the agents of the international financial system were perceived by policy-makers to be beneficial for the purposes of creating the domestic consensus on which the success of the reform agenda depended. Therefore, conditionality acted to convey the principal influences of globalisation in policy terms, and also to sustain and consolidate the domestic processes of reform underway in Argentina at the time. Furthermore, however, conditionality has acted to reinforce the political reorganisation of the Argentine state and society in conjunction with the reforms instigated by the Menem administration and the impact of globalisation on state

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<sup>27</sup> Tussie: "Argentina's Big Bang Reform", pg 7.

capacities and political interests more generally. The chronological unfolding of relations with the IFIs demonstrates their centrality in the process of sustaining and consolidating reform, once the domestic crisis had allowed for its implementation.

### *Argentina and the International Monetary Fund*

At the time of Menem's election, Argentina did not have an existing agreement with the IMF and relations with the World Bank were tense as a result of the decision not to disburse the second tranche of the Trade Policy Loan (TPL). Although Argentina had met the targets for the second disbursement in terms of trade policy, serious difficulties in other areas of the liberalisation process were jeopardising progress more generally defined, and funds were withheld on the basis of macroeconomic policy failings despite satisfactory trade policy performance.<sup>28</sup> This came at the end of a difficult decade in relations between the IFIs and Argentina (as well as Latin American countries more generally). As mentioned in Chapter 2, the Alfonsín government had expected that relations with the IMF would have been dictated by a mutual concern for the survival of the democratic transition, and that this would have compelled special treatment for Argentina. When this was not forthcoming, the process of collaboration with the IMF in the series of adjustment plans was severely compromised, and led to a complete breakdown in the late 1980s.

In an Economic Policy Memorandum submitted to the IMF in September 1989, the government stated that it considered "the re-establishment of normal relations with Argentina's external creditors" to be of genuine importance, reminding the Fund at the same time that although "the government believes the policies described in this Memorandum are adequate for reaching the objectives of the economic programme ... [it should be remembered that] Argentina is coming

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<sup>28</sup> For a detailed analysis of the TPL experience, see Diana Tussie & Mirta Botzman: "Sweet Entanglement"; Tussie: "Globalisation and Conditionality". See also 'Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Loan in an Amount Equivalent to US\$500.0 million to the Argentine Republic for a Trade Policy and Export Diversification Loan', Report no. P-4483-AR, World Bank, 19 May 1987; 'Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Second Trade Policy Loan in an Amount Equivalent to US\$300.0 million to the Republic of Argentina', Report no. P-4858-AR, World Bank, 3 October 1988.

out of a period of hyperinflation and the strong restraint of inflationary movements is inevitably risky. Besides, the structural reforms contemplated by the government are very ambitious and include measures in areas that have few precedents".<sup>29</sup> The content of the Memorandum in question is a clear indication of the government's commitment to a set of policies in keeping with the neoliberal agenda espoused by the IFIs. Apart from the predictable issues of privatisation, inflation stabilisation and trade liberalisation, the government emphasised its plans in areas such as tax reform (for which a bill was expected to be passed by the end of 1989), public sector spending (including the establishment of a commission comprising the Economy and Finance Ministries to regulate the finances of public firms), and social policy.<sup>30</sup>

Argentina signed a stand-by agreement with the IMF in October 1989, which was notable for the depth of the fiscal adjustment package contained in the conditionality provisions.<sup>31</sup> The government's commitment to the agreed fiscal targets appeared to be reinforced with the ratification of the LEE and the Reform of the State laws in the previous August. However, the eruption of hyperinflation in late 1989 complicated the negotiations and led to revisions in the timetable and provisions of the agreement. The Letter of Intent that was approved in May 1990 contained even harsher restrictions than the original<sup>32</sup>, largely as a result of the heightened caution of the international financial community and the perceived need for a truly radical stabilisation and restructuring of the economy.

A second stand-by was agreed in June 1991 for the period 29 July 1991 to 30 June 1992.<sup>33</sup> It was envisaged that this loan agreement would be the precursor to an EFF or similar medium-term package. The conditions agreed for the stand-by

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<sup>29</sup> Economic Policy Memorandum to the International Monetary Fund, Republic of Argentina, September 1989.

<sup>30</sup> In the area of social policy the government planned to supplement the existing National Food Programme (PAN) with a programme to provide 'coupons' to certain groups, of which there would be around a million beneficiaries, financed by taxation on the large firms' 1988 sales revenues.

<sup>31</sup> Ricardo Echegaray: "Deuda Externa Argentina: Las Negociaciones a Partir del Gobierno Menem", *América Latina / Internacional* 7, 25, July-Sept 1990 (pg 355); "Argentina 'returns' to the world financial fold", *Latin American Regional Reports - Southern Cone*, 16 November 1989.

<sup>32</sup> Echegaray: op.cit., pg 356; "Argentina seeks to unblock IMF standby", *Latin American Regional Reports - Southern Cone*, 19 April 1990.

<sup>33</sup> The breakdown of the stand-by loan was as follows: SDR 195 million to 1 December 1991, SDR 390 million to 1 March 1992, SDR 585 million to 1 June 1992. Confidential letter from the Minister of Economy and the President of the Central Bank of Argentina to the International Monetary Fund, EBS/91/107, 28 June 1991.

involved targets specified for the following areas: (a) the combined deficit of non-financial public sector and the BCRA; (b) the cash deficit of the non-financial public sector; (c) treasury outlays; (d) the net domestic assets of the BCRA; (e) net international reserves; and (f) the external arrears and the external debt of the public sector. Under the agreement, the stand-by would be instantly nullified if Argentina was to intensify or impose new restrictions on payments and transfers for current international transactions, introduce any new multiple currency practice, conclude any new bilateral payments agreements that were inconsistent with Article VIII, or impose / intensify import restrictions for balance of payments reasons. A last proviso made by the Argentine government was a commitment to consult with the Fund on any new policy initiative. As a result of this agreement, the World Bank unblocked the second tranche of the 1988 TPL after waiving the condition of the lowering of import duties on manufactured goods.<sup>34</sup>

In the Economic Policy Memorandum relevant to the negotiations for the stand-by, several issue areas stand out.<sup>35</sup> The first concerns the reform of central government. In January 1991, budgetary authority was withdrawn for all government entities and all policy-making functions were consolidated in the Economy Ministry. In May 1991, the government approved plans for new administrative structures in which 97 out of 185 national directorates were disbanded. The Ministry of Public Works was incorporated into the Economy Ministry, making the latter's function of budget and management supervision even more important. Future plans for decisions affecting the Secretariat of the Presidency and the Ministries of Education, Defence and Justice were also mentioned. In the area of labour and employment policy, the government planned to be supported by World Bank funds in launching initiatives concerning employment reduction, revision of public sector salary structures, and the introduction of effective budgeting and expenditure controls. Decree number 2476 of November 1990 established a three year programme for reducing employment in national administrative bodies by around 122,000 positions, equivalent to more

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<sup>34</sup> *Latin American Regional Reports - Southern Cone*, 13 September 1990.

<sup>35</sup> Economic Policy Memorandum attached to the Confidential letter from the Minister of Economy and the President of the Central Bank of Argentina to the International Monetary Fund, EBS/91/107, 28 June 1991.

than 20% of the existing total. In January 1991, 21,000 contracted employees were made redundant, and by June 1991, this number had doubled.

#### *1992 Extended Fund Facility Agreement*

The 1992 financing plan was the most important loan agreement, and clearly the culmination of the above 'carrots' with which the IMF had encouraged neoliberal reform in the first couple of years of the Menem government. On 31 March 1992 the Board of Governors of the IMF approved an EFF package of SDR 2,149 million over three years. Significantly, and in line with earlier observations about increased cooperation between the various IFIs, the IMF on this occasion had a supporting cast in the World Bank and IDB. The former remained committed to agreements with Argentina to support public sector reform and the restructuring of state-owned enterprises (SOEs), and loans relating to the health and electrical energy sectors, financial sector reform, capital markets and SOEs were being negotiated at the time of the IMF agreement. The World Bank had committed \$3 billion in loans to Argentina over the five years prior to the IMF agreement, around 50% of which was provided as adjustment lending in support of trade liberalisation and reform of SOEs and the public sector. The remaining 50% had been granted in support of public investment, especially in the power sector and provincial and municipal infrastructure.<sup>36</sup>

The IDB, after a period of two years between 1987-1990 in which no new loans were authorised, had recently approved loans supporting public sector reform, reform of national electrical companies, and financing for micro-enterprises and credit lines for the financing of exports.<sup>37</sup> In 1991, the lending programme had been sharply expanded and loans for a total of \$879 million had been approved, 60% of which was aimed at restructuring federal government and strengthening the financial system at the provincial level.<sup>38</sup> Further plans existed to

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<sup>36</sup> Communication dated 23 June 1992 to the International Banking Community from Lewis T. Preston (President of the World Bank).

<sup>37</sup> Communication dated 18 June 1992 to the International Banking Community from Enrique V. Iglesias (President of the Inter-American Development Bank)

<sup>38</sup> Inter-American Development Bank, Plans and Programs Department, Programs Division I: *Argentina: Country Programming Paper*, March 1992 (pg 18).

promote private and social investment and to improve the fiscal situation of provincial governments, and loans were earmarked for the electrical sector and the environment. Furthermore, co-financing arrangements had been agreed between the Bank and the IDB for public sector reform.<sup>39</sup> For the IDB, policy in the 1992-4 period was intended to focus on the design and implementation of “structural economic policy reforms”, for the purposes of which the IDB intended to concentrate on sectoral loans in the short term.<sup>40</sup>

Argentina's financing needs for the 1992-4 period were expected to be met by the net capital inflows from multilateral creditors (including the IMF), debt relief and access to new credits from official bilateral creditors, private capital inflows (including those derived from repatriation and privatisation), interest savings from additional debt conversions in the context of privatisation and the planned financing package from the commercial banks. In effect, Argentina was seen to be seeking the support of the IMF, World Bank and IDB to support its own resources, and the international banking community was urged by the IMF to support the programme and restore normal relations with Argentina on this basis.<sup>41</sup>

The objectives for the 1992-4 plan were four-fold: to maintain domestic inflation at international levels, to sustain strong economic growth in order to re-establish external credibility, to normalise the external debt situation, and to conduct a process of liberalisation to dismantle the barriers imposed by years of excessive state regulation. These four goals would, according to the Economic Policy Memorandum associated with the agreement, be achieved by means of the following policy measures: a fiscal policy compatible with long-term fiscal solvency; a monetary policy that avoided Central Bank loans and remained constrained by the 1991 Convertibility Law; privatisation to reduce inefficiency and debt and to expand the role of the private sector; and the maintenance of Convertibility backed up by structural reforms and economic opening.<sup>42</sup>

<sup>39</sup> Communication dated 23 June 1992 to the International Banking Community from Domingo Cavallo (Economy Minister of the Republic of Argentina); IDB: *Argentina: Country Programming Paper*, March 1992 (pp. 18-19); Tussie: *The Inter-American Development Bank*, pg 74.

<sup>40</sup> IDB: *Argentina: Country Programming Paper*, March 1992 (pg 19). Significantly, although just about all loans in 1992 were policy-based, in 1993 the profile had shifted entirely to investment loans. See Tussie: *The Inter-American Development Bank*, pg 72.

<sup>41</sup> Communication dated 19 June 1992 to the International Banking Community from Michel Camdessus (Managing Director of the International Monetary Fund).

<sup>42</sup> *ibid.*

The EFF agreement involved explicit measures that affected political and economic actors in Argentina. Fewer conscriptions meant that the total number of members of the Armed Forces fell from 190,000 in 1984 to 117,000 in 1990 and 98,000 in 1991. Military spending was reduced from 3.3% of GDP in 1988 to 2.5% in 1990-1 due to reductions in equipment purchases and operating costs and strict control of salaries. New staff reductions were anticipated in the documents relating to loan negotiations with the IMF in early 1992, along with 30 out of 33 public enterprises controlled by the Ministry of Defence. Revenues from the latter were to be used to finance the restructuring of the Armed Forces, including the capitalisation of retirement programmes.<sup>43</sup> Similarly, in the case of labour, the DDE of 31 October 1991 introduced greater flexibility into labour markets and allowed for the decentralisation of negotiations concerning collective bargaining arrangements. The agreement with the IMF involved a commitment to continue the labour flexibilisation process for the period of the agreement.

The timing of the 1992 agreement is important. It followed the demonstration of the government's commitment to reform in the Convertibility Plan, and acted to reinforce the consensus with Argentina (at least in elite circles) of the necessity and desirability of maintaining its policy path. In this way, the 1992 agreement was the first step in the 'consolidation' phase of Argentine reform which aimed to ensure the continuation of the economic policy model. As such, the 1989-91 reforms were 'locked in' to a set of commitments with the IFIs, thus increasing the costs of a reversal of the overall orientation and particularly the Convertibility Plan itself. The negotiation of a medium-term commitment with the IMF led to a spate of other possibilities for the consolidation of reform, such as the Brady debt reduction deal, loans from the other IFIs and the reinvigorated flows of foreign investment to Argentina from this time. The fact that all of these developments, as well as the agreement itself, were premised on the economic policy measures encapsulated in the Convertibility Plan is clear evidence of the 'irreversibility' element mentioned above.

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<sup>43</sup> Economic Policy Memorandum to the International Monetary Fund, Republic of Argentina, April 1992.

## *The 1995 'Rescue' Package*

The existence of an IMF agreement, however, does not prevent the emergence of economic difficulties and the consequent need to renegotiate the terms of conditionality arrangements. The government's surprise decision in September 1994 not to draw on the final two disbursements of the EFF negotiated in 1992 came at a time when Argentina's ability to meet the fiscal targets for the third term was in doubt. There appear to have been a number of justifications for the decision. First, Cavallo was of the (probably mistaken) opinion that Argentina had reconstructed its credit in international capital markets to the extent that it no longer needed to avail itself of IMF funds which in any case were not the best on the market.<sup>44</sup> Second, by breaking with the IMF the government gained significantly more policy latitude, especially given the frequency of the IMF's monitoring operations. The government was reported to have claimed that it needed "greater freedom in economic decisions" and Cavallo stated that "we would like the IMF to continue to supervise the performance of our economy, but we do not want to go on sharing the decision-making process".<sup>45</sup> Third and most importantly, the very fact that the achievement of the targets was in question encouraged the government to 'jump before it was pushed', in that credibility would have been damaged far more if Argentina had been forced to negotiate a waiver with the IMF.

The trade off, therefore, was to seek alternative voluntary forms of finance in order to protect internal and external confidence in the viability of the Convertibility Plan. More fundamentally, a confidential Economy Ministry report is said to have stated that "it would be an important sign of Argentina's progress under this programme and of the success of re-integration into the international capital market if the last disbursements were not made".<sup>46</sup> Nevertheless, the government recognised explicitly that IMF agreements had an important 'trigger

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<sup>44</sup> *El Economista*, 30 September 1994.

<sup>45</sup> "Argentina refuses IMF loan instalments", *Latin American Regional Reports - Southern Cone*, 20 October 1994.

<sup>46</sup> *El Economista*, 30 September 1994.

effect' on the World Bank and IDB<sup>47</sup>: the approval of the IMF was absolutely necessary in order for the development banks to make financing available to Argentina and to ensure the continuation of the Brady Plan agreement.

In the event, the government's confidence in its ability to secure sufficient financing from alternative sources to the IMF lasted for a very short time. The Mexican peso crisis of December 1994 had a severe impact on Argentina's access to funds in the international capital markets throughout the following year, and Argentina was forced to return to its customary creditors. In March 1995 the government requested from the IMF an extension for a fourth year of the existing EFF and the disbursement of the remaining \$420 million on which Cavallo had declined to draw, as well as a waiver of the targets that had not been met in order to allow the remaining loan purchases to be made. The root of the difficulties, according to the Argentine government, lay in the area of public sector finances: the overall surplus was not achieved as a result of the slowing of fiscal revenues in the second semester and higher than projected spending, particularly in the social security system. Some of the shortfall was attributed to the disappointing reduction in tax evasion, and the impact of the Mexican crisis was seen to be fundamental.<sup>48</sup>

The proposals relating to fiscal policy included a 3% increase in VAT and an expansion of the VAT base and a number of commercial policies which included a temporary surcharge of 3% on imports, which rose to 10% for imports of capital goods and technology from outside Mercosur, and further increases on 69 articles exempt under the Mercosur agreement. New spending cuts were envisaged, particularly in public servants' salaries as part of a \$3.3 billion austerity programme.<sup>49</sup> Significantly, the measures did not include taxes on fuel, cigarettes or alcohol in the interests of the 14 May elections.<sup>50</sup> In addition, the government appeared keen to fit in with the non-technical orientation of the IMF by emphasising the importance of structural reforms, particularly in the labour

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<sup>47</sup> *El Economista*, 23 & 30 September 1994. This became particularly important after the Mexican crisis in view of the fact that the Bank and the IDB were principally engaged in offering financial assistance for the provincial restructuring, which was seen as crucial to addressing the fiscal difficulties exacerbated by the Tequila effect. See *El Economista*, 13 January 1995.

<sup>48</sup> Economic Policy Memorandum to Michel Camdessus and the International Monetary Fund from Roque Fernández and Domingo Cavallo, dated March 1995.

<sup>49</sup> Reuters, 10 March 1995.

<sup>50</sup> Reuters, 14 March 1995.

sector.<sup>51</sup> This cause was assisted by the congressional approval in March 1995 of a law giving greater flexibility to small and medium sized enterprises (of up to 40 employees) with respect to employment conditions and the hiring of temporary workers.

The \$11.1 billion financing plan included an IMF loan of \$2.8 billion (\$2.4 billion in new funds plus the outstanding \$420 million), with \$2 billion also from leading local businessmen and foreign banks, and a projected \$4.4 billion fiscal surplus that would be achieved in part through further austerity measures in the domestic economy.<sup>52</sup> The remainder came from loans from the MDBs. The World Bank and IDB at the time of the negotiations with the IMF were apparently 'actively' engaged in elaborating a programme for the privatisation of provincial banks and further provincial and municipal reforms, although these loans were made explicitly contingent on the prior signing of an IMF agreement.<sup>53</sup> On 4 May 1995 the board of the World Bank approved two loans totalling \$275 million for the privatisation of provincial banks and the streamlining of the public sector.

Fifteen out of the twenty provincial banks were to be privatised or closed, in the interests of redressing the negative effects and potential long term implications of the Mexican crisis. Banking reforms aimed to reduce the likelihood of financial collapse in the light of the vulnerability of Argentina's highly dollarised economy to swings in capital flows, and further structural reforms were seen as essential for maintaining the credibility of the economic programme after a hiatus in mid-1993 in which legislative approval and the implementation of certain reforms were deferred, and the reversal of the fiscal surplus in late 1994.<sup>54</sup>

Working on the assumption, therefore, that the fall-out from the Mexican crisis represented the first real test of the Convertibility Plan, the World Bank emphasised its own role in "supporting Government efforts to deepen the

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<sup>51</sup> Economic Policy Memorandum to Michel Camdessus and the International Monetary Fund from Roque Fernández and Domingo Cavallo, dated March 1995.

<sup>52</sup> Reuters, 14 March 1995 & 24 March 1995.

<sup>53</sup> *Latin America Weekly Report*, 16 March 1995. Note that Menem and the government were at the time rather more convinced that the World Bank money would be immediately forthcoming, and claimed more than a month before the IMF agreement that the Argentine financial situation was "totally under control".

<sup>54</sup> Memorandum of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Argentine Republic, Report no. 14278-AR, 10 April 1995 (pp. 9-10).

adjustment process, particularly in provincial reforms, banking reforms, and reforms to improve the competitiveness and institutional base of the Argentine economy". Provincial reform would be the most immediate priority, with the Provincial Reform Loan, Provincial Development Project II and the Municipal Development Project II, in addition to two loans for the reform of the banking sector (Provincial Bank Privatisation Loan and the Bank Reform Loan).<sup>55</sup>

### **Conditionality and Argentine Economic Reform**

The ways in which conditionality and the lending operations of the IFIs has influenced the direction of economic policy is relatively straightforward in practical terms and obvious from the above analysis. Throughout the 1980s and 1990s, the IFIs have espoused an orthodox set of economic prescriptions that are embodied in concepts such as the Washington Consensus. The reasons for the greater success of adjustment lending in the 1990s have already been discussed. Rather than rehearsing the familiar arguments concerning the orientation of macroeconomic policy, then, the economic impact of conditionality will be addressed in the context of the arguments concerning globalisation which are the main focus of the chapter.

Throughout the documentation produced by the various institutions relating to loans in the period under examination, the twin goals of credibility and competitiveness are the recurring themes. IDB documentation on Argentine lending operations in 1992, for example, makes particularly clear the arguments advanced in Chapter 5 and at the start of this chapter. Long-term growth was seen to hinge not only on improvements in key economic sectors in the domestic context but also, more fundamentally, on a set of external constraints that revolved around the issues of credibility. The most important of these was the consolidation of a stable macroeconomic framework, which was "key to restoring confidence and increasing private investment upon which renewed growth depends".<sup>56</sup> The consolidation of growth and competitiveness was seen to depend on continued structural reforms, especially at provincial level, in the financial sector (including social security), and in the labour sector. On a broader level, as we have seen,

<sup>55</sup> *ibid.*, pp. 17-18.

<sup>56</sup> IDB: *Argentina: Country Programming Paper*, March 1992 (pp. 9-11).

growth was seen to be absolutely dependent on improved access to foreign financial resources, the majority of which would be from private sources. Capital flows, in turn, depend on the maintenance of investor confidence in the government's ability to maintain stability and continue the restructuring of the economy.<sup>57</sup> In addition, "integration with regional and world economies" is seen as the fundamental means by which Argentina will be able to modernise its productive resources and become economically competitive in both the domestic and the external settings.<sup>58</sup>

Similarly, in the World Bank documentation relating to the 1995 loans, the re-establishment of credibility after the Mexican crisis is the dominant theme. The agreement of the EFF with the IMF was seen to be "in order to reassure domestic and international investors", for the purposes of which the restoration of a fiscal surplus and continued structural reforms were seen to be key, particularly in terms of the financial infrastructure (especially the provincial banking system), labour legislation, and civil service reforms to "reduce or stabilise personnel expenditures".<sup>59</sup> Structural reforms were presented in the light of the second theme: competitiveness, according to the Bank, "will depend on reforms in labor markets and health financing, continuing measures to deepen financial markets, and investments to exploit the opportunities presented by MERCOSUR", which would be supported by lending operations in conjunction with country dialogue and 'economic and sector work' (ESW). Particular emphasis would, according to Bank reports, be given to improving governance with lending for the purposes of legislative and judicial reform.<sup>60</sup>

An additional observation can be made on the basis of more recent relations with the IFIs. The Argentina government in late 1995 requested World Bank assistance in the export-led development strategy adopted for the next five years, specifically in re-orienting exporter support programmes.<sup>61</sup> Both internally and

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<sup>57</sup> *ibid.*, pg 10.

<sup>58</sup> *ibid.*, pp. 10-11.

<sup>59</sup> Memorandum of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Argentine Republic, Report no. 14278-AR, 10 April 1995 (pp. 10-15).

<sup>60</sup> *ibid.*, pp. 21-3.

<sup>61</sup> World Bank Staff Appraisal Report: *Argentina, Enterprise Export Development Project - Report no. 14959-AR, Public Sector Management and Private Sector Development Division, Latin America and Caribbean Regional Office, 2 November 1995* (pp. 14-15).

externally, the so-called ‘second reform of the state’ which involved the deepening of the reform process, was seen as essential in order to “generate the conditions of internal and external confidence to stimulate a process of real and financial investment that would bring Argentina out of the current recession”.<sup>62</sup> Effectively, financial support was available, but conditional on a credible programme that involved the deepening of existing reform processes.

These statements clearly illustrate the points made in Chapter 5 concerning the changing structures of rewards and punishments in the international economy (and the impact of this on economic policy options), as well as the closer coincidence of interests between the Argentine government (and those of other Latin American countries) and the international lending institutions. The effects manifested themselves in two principal ways. First, the processes of economic reform initiated by the Menem government were reinforced by the funds made available by the IFIs, by the credibility attached to the existence of an IMF agreement from the perspective of international investors, and by the conditionality packages negotiated between the government and representatives of the relevant organisations. Most specifically for our argument, however, economic reform in Argentina was *consolidated* by the impact of increasing engagement at the international level. The increasing ‘internationalisation’ of the state from the early 1990s onwards located an important element of policy-making responsibility at the international level, in this context through the locking of the policy orientation into a set of contractual obligations. As such, the state autonomy necessary for sustaining reform in the 1991/2-95 period was derived from a set of international commitments through which, voluntarily and intentionally, the Argentine government chose to constrain its own policy-making latitude.

These arguments, furthermore, clearly demonstrate the ways in which conditionality can be seen to stand at the interface between the global and the national. On the one hand the influence of globalisation is transmitted and concretised through the mechanism of conditionality, creating the impetus and imperative for economic reform. On the other hand, this impetus is at least equally generated at the domestic level, and the impact of conditionality is often one of

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<sup>62</sup> *El Economista*, 24 November 1995.

reinforcement rather than initiation. The principal effect, therefore, was to create and additional legitimising support for the domestic processes of economic restructuring. Second, the process of globalisation itself is facilitated by the degree of economic policy convergence occasioned by what may be termed the process of 'assisted reform' in Argentina and elsewhere. The degree of policy convergence generated by the coincidence of interests between the reform-oriented national state and the international financial institutions facilitates and sustains the process of economic change at the global level. This is particularly the case in developing countries that are engaged in the sorts of reform processes that would facilitate insertion into the global economy and the possibilities for reaping the 'rewards' of access to finance and investment. Given that the participation of developing countries in the mainstream of global economic activity has increased so significantly in recent years (as described in Chapter 5), the maintenance of policy convergence becomes even more pressing.

### **Governance, State Power and Political Reform**

There are a number of different ways in which the connection between conditionality and political reform operates. The most basic can be deduced from the above empirical analysis of the major financing agreements with the IFIs, in terms of the direct impact of conditionality on the economic status of certain groups of political actors. It is less clear whether this is an inevitable result of the types of economic orientation pursued, or rather a result of the broader political agenda of the IFIs or, more abstractly, the neoliberal economic agenda incarnated in the mechanisms of globalisation.

The above analysis mentions in the context of the loan agreements certain provisions relating to the military and labour. Reforms relating to the former were justified on two principal grounds. First, democratisation and demilitarisation necessitate and justify cuts in military spending, which by extension serve to diminish the importance and capabilities of the military institution. This also has a regional dimension expressed, for example, by Michel Camdessus:

In times when many countries in the region are negotiating agreements on economic and trade cooperation, when border

problems are being resolved in a spirit of cooperation, is it not logical to propose that this is the moment for the countries of Latin America, individually and collectively, also to reduce military spending?<sup>63</sup>

Second, the notion of cuts in military spending is explicitly linked to the concept of governance. The World Bank, for example, professed itself to be “interested in military expenditures because of their crowding-out effect on development spending”.<sup>64</sup> Similarly, the IMF presented cuts in military spending as a way to “permit a transfer of human and financial resources to activities that help development and reduce the problem of poverty”.<sup>65</sup>

The IFIs’ approach to labour has been entirely consistent with the neoliberal orientation of conditionality and reform processes, focusing on issues of labour flexibilisation which act to reduce the collective bargaining powers of the unions, eliminate centrally-imposed restrictions on hours, wages and working conditions, and locate decision-making authority at firm level rather than governmental level. However, as labour reform (unlike military reform) is not principally a matter of spending policy, conditionality has usually been limited to ensuring a commitment on the part of the government to continued structural reforms which increasingly over the course of the 1990s have been defined in terms of the labour sector.

Along with the emphasis entailed in economic reform on the business sector and financial agents, then, conditionality has acted to reinforce and ‘legitimise’ the Menem government’s restructuring of political interests in Argentina. This has been both an implicit reinforcement, in the sense that by writing such commitments into agreements with IFIs the government locks in its own position against societal and institutional opposition, and also more explicitly, in statements that effectively legitimise the type of democracy conducted by the Menem government. For example, Michel Camdessus stated in 1991 in the context of military spending that “transferring resources to more productive uses will require firm political leadership in many countries”.<sup>66</sup>

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<sup>63</sup> Address to UN ECLA, Santiago, Chile, 29 November 1991.

<sup>64</sup> *Governance and Development*, pg 46.

<sup>65</sup> Michel Camdessus: address to the Council on Foreign Relations, Washington D.C., 13 November 1991.

<sup>66</sup> *ibid.*

There is, however, another dimension to these considerations of political reform, which relates to the relationship between state power and civil society. This is particularly important for the line of argument presented in the thesis, particularly in the context of the 'paradox of state power'. The concern with the modernisation of the state was set out in the World Bank's 1997 *World Development Report*. The approach to the state in this report moved forward from the statist model of development that prevailed during the 1960s and 1970s and from the idea of the minimalist state of the 1980s towards one which emphasises the *effectiveness* of the state in the current international context.<sup>67</sup> The report argues that the lesson of such key developments as the collapse of the 'command-and-control' economies of the socialist bloc, the crisis of the welfare state, the role of the state in East Asian development and "the collapse of states and the explosion in humanitarian emergencies" in various parts of the world is that "state-dominated development has failed, but so will stateless development".<sup>68</sup> Therefore, there is an urgent need for "rethinking the state" and situating the present debate in terms of effectiveness.

The Bank's concern with the state mainly refers to the legal and administrative conditions necessary to ensure the continuation of the market-dominated development model in the current context of globalisation. In essence, this concerns the creation of a "benign policy environment" in order for countries "to benefit from competitive market forces".<sup>69</sup> One of the Report's main premises is that countries are involved in a "high-stakes race against time"<sup>70</sup> for the achievement of credibility, which is seen as the crux of the current situation. Apart from national policy measures (such as Argentina's Convertibility Law), agreements with the IMF and the World Bank are presented as an important means of achieving this credibility in the global arena. The Bank argues that:

In the short run, while weak domestic institutions are being reinforced, stronger ties with external actors - for example, through stabilization programs with the IMF - can help governments signal their commitment. In the long run, however ... the vital challenge is

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<sup>67</sup> op.cit., pp. 23-5.

<sup>68</sup> ibid., pgs 1 and 25.

<sup>69</sup> ibid., pp. 45-6.

<sup>70</sup> ibid., pg 51.

to build home-grown commitment mechanisms, rooted in domestic institutions.<sup>71</sup>

On the national level, then, the World Bank is concerned to “lock in good policies”, by two alternative mechanisms if the institutional setting is thought to be inadequate: either by moving responsibility for the implementation of such policies from governments to the private sector and civil society, or to “specify the content of policy in precise rules, and then lock in these rules using mechanisms that make it costly to reverse course.<sup>72</sup> These “instruments of restraint” include internal institutional arrangements (such as judicial independence and the ‘separation of powers’ idea) and external mechanisms (such as international agreements and binding conditionality agreements with the IFIs themselves).<sup>73</sup>

Such instruments can be seen to work in ways that involve a clear separation of the economic and the political, and therefore act to reduce the responsiveness of the state to social actors. The concentration of economic power in the hands of the private sector is seen by the Bank as one solution for poverty and social dislocations, and is clearly consistent with the argument that in the current market-dominated environment, authority is often exercised by agents that are not democratically accountable. The Bank’s suggestion of a devolution of implementation responsibility to civil society does not imply involvement in decision-making processes. According to one reading, then, the project of the international financial institutions is about the marginalisation of participatory democracy in an attempt to lock in the ‘new constitutionalism’ of “a political and legal strategy for separating economic forces and policies from broad political accountability”:

One way to understand many of the measures discussed by the World Bank is as part of a strategic effort to contain social and political conflict through limiting democracy and preventing a second Polyanian double movement ... Market civilisation tends to naturalise neo-liberalism through reinforcement of individualism and consumerist projects of desire. The World Bank is attempting systematically to co-opt and channel forces of civil society in a strategy of *trasformismo*: a tactic to legitimate the attenuation of

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<sup>71</sup> *ibid.*, pg 60.

<sup>72</sup> *ibid.*, pgs 5 and 50.

<sup>73</sup> *ibid.*, pp. 99-101.

democracy in economic policy by increasing participation in safely channelled areas.<sup>74</sup>

It may well be the case that as a result of the “greater weight and representation” of capital the democratisation process is being restrained.<sup>75</sup> In Argentina and other developing countries, the mechanism by which this occurs, aside from the concentration of economic power in the hands of non-accountable agents, is the coincidence of interests between the state and those institutions and individuals associated with international finance and business. In other words, Gill’s argument that the policies of the IFIs are creating a separation between the political and economic needs to be modified along the following lines: that the predominance of capital as a result (or manifestation) of globalisation in the international economy is accompanied (in the case of Argentina and similar countries) by an increasing coincidence of interests between the holders of economic power and the holders of political power, and therefore results in a separation from *civil society* rather than ‘the political’ more broadly defined.

This goes against some of the rhetoric of the institutions themselves. Much is made of the link between ‘social’ issues such as education and poverty alleviation, along with the role of national governments in promoting these ends, and democracy. The Managing Director of the IMF, Michel Camdessus, has been heard to state explicitly that the threads of the concept of ‘good’ growth (that is, growth which is sustainable and socially responsive) “come together in the demand for efficient management of the machinery of the state, which can only achieve its highest form and serve man’s highest aspirations when ‘economic democracy’ and ‘political democracy’ go hand in hand”.<sup>76</sup> The increasing attention to social actors in negotiations with the financial and development institutions has led to their increased involvement in the negotiations themselves. This is an important mechanism by which social actors that previously may have been hostile to the types of change that currently characterise the global arena and, more particularly,

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<sup>74</sup> Stephen Gill: “Analysing New Forms of Authority: New Constitutionalism, Panopticism and Market Civilization”, paper presented to the conference on ‘Non-State Actors and Authority in the Global System’, Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, 31 October-1 November 1997.

<sup>75</sup> *ibid.*

<sup>76</sup> Address to the UN ECLA, Santiago, Chile, 29 November 1991.

the consequent changes in the domestic context, are incorporated into the process. As with the strategies employed by Menem, this process of incorporation and inclusion does not necessarily mean greater influence, but rather a significant neutralisation of opposition. This, in turn, contributes to the construction of the convergence of ideas and policy on which, it is argued here, globalisation depends.

The new emphasis placed on the empowerment of civil society by the IFIs is therefore a selective concept that aims fundamentally to reinforce the structural reforms necessary to perpetuate the market economy model. The idea of reconstructing civil society steers away from “ethnic or other affective or community groups” towards contractual groupings such as professional associations, NGOs, trade unions and business organisations. As such, the IFIs are empowering precisely those groups in society that are likely to support and demand the sorts of technical reforms that are deemed desirable and necessary for the consolidation of a market economy and a ‘neutral’ state.<sup>77</sup> The development of the modern civil society is therefore seen to refer to the “narrative of capital” which replaces (and has replaced) the “narrative of community”, the nature of which, according to the IFIs’ conceptions, hinders the development process.<sup>78</sup>

This process of selective incorporation, furthermore, returns to the new ideas about ‘ownership’. In order for ownership to be a realistic prospect, there has to be a critical mass of support in the country in question. In other words, the concept depends on the existence of a group which is prepared to ‘own’ such agreements or processes. The most obvious of such groups in Argentina would be the technocratic policy-makers in government circles, reinforced by business sectors. The presence or absence of this type of ‘ownership structure’ perhaps accounts for the differential impact and outcome of conditionality across countries or regions. The incorporation of conditionality into the broader economic process in Argentina can be seen in this light as facilitated by the political restructuring process and the convergence of interests between the holders of economic and political power.

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<sup>77</sup> Williams & Young, pg 96.

<sup>78</sup> P. Chatterjee: ‘Response to Taylor’s ‘Modes of Civil Society’, *Public Culture* 3, 1990, quoted in Williams & Young, pg 96.

This is not to argue that the state has become synonymous with the market. As argued in Chapter 5, the state is still the locus of political power, in that it is the state (or more accurately the executive branch in the Argentine / Latin American case) that retains primary responsibility for the formulation and implementation of policy. The above arguments are intended to reflect that it is misleading to see the state and the market as competing entities. The impacts of globalisation and conditionality have created a separation between the state and civil society as well as between the economic and the 'political', and the external influences are no longer seen solely as hostile elements with which the state must contend. Alliance with international finance and the multilateral institutions is now a matter of policy choice. Although it is true that states have few realistic options aside from cooperation with the IFIs and conformity with the policy measures 'demanded' by the globalising international economy, it should not be assumed that there is a fundamental divergence of interests. As the previous discussion of globalisation demonstrated, the interests of the state in Latin America and elsewhere in the early 1990s came to be defined as closely linked to the interests of the global economy and those institutions assumed to serve it.

On a basic level, then, the conditionality attached to loans from the IFIs served to reinforce the exclusionary nature of Argentine politics under Menem, and to underwrite the reorganisation of political interests which entailed the subordination of labour and the military and the elevation of business to a position of significant influence. However, the introduction of the concept of good governance and the stated preoccupation of the MDBs with the empowerment of civil society complicate this interpretation. The apparent incompatibility between the rhetoric and the reality of the concern with democracy and civil society may well be in part a function of the nature of Latin American governments prevalent in the early to mid-1990s. The neo-populist orientations of presidents such as Menem and Fujimori in Peru clearly militated against the implementation of the World Bank's ideals at the time. For instance, its insistence on the 'reinvigoration' of the state and the establishment of a functioning and professional bureaucracy<sup>79</sup> sat uncomfortably with Menem's manipulation of national institutional and legal

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<sup>79</sup> *World Development Report 1997*, pg 166.

structures. Furthermore, traditional patterns of relations with regional governments characterised by highly centralised patterns of decision-making place significant hurdles in the way of the decentralisation policies advocated by the MDBs.<sup>80</sup>

The evolution of the activities of the IFIs in the mid-1990s nevertheless adds further weight to the argument that the impact of conditionality and globalisation in the first Menem administration acted consolidate the centralisation of power and the establishment of an ‘exclusionary’ type of democracy. Although issues of socio-economic inequality and participation remain far from satisfactorily redressed, the MDBs have concerned themselves with those domestic sectors excluded by the forces of globalisation and reform. In this respect, the activities of the MDBs can be seen to act as ‘policy catalysts’ in the areas of social reform.<sup>81</sup> Nevertheless, few of the programmes and loans involved appear to have had a direct impact on the course of government policy, in that the linkages were established between the MDBs and provincial governments rather than the central government apparatus. In this way, it may be that the MDBs were (and are) acting not as policy catalysts but rather as a stopgap for overcoming the shortcomings of the neoliberal model institutionalised in recent years. Up to the mid-1990s, there had been little significant change in government policy as a result of the MDBs emphasis on civil society.

On the other hand, the dynamic can be presented differently. By focusing on those sectors excluded from the mainstream of the present development model, the World Bank and IDB effectively focus on the most important sources of opposition to the continuation of the neoliberal pact. Therefore, in line with the arguments made above, the role of lending and the associated conditionality was (and is still) to bring excluded sectors into the prevailing economic and political environment, and thereby to neutralise opposition to it. The direct lines of communication established between MDBs and sectors of civil society or provincial banks did little to address the main issue: that is, the separation established in the first part of the decade between state and society. The concern of

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<sup>80</sup> Some of these may well be resolved in time, especially with new opposition elements such as the FREPASO party established in 1995 that base their political campaign on precisely the same issues of accountability and effectiveness as the World Bank’s documentary rhetoric.

<sup>81</sup> Tussie: “Globalisation and Conditionality”, pp. 10-11.

the MDBs with civil society to an extent excused the government from having to make significant changes in the orientation of policy by providing a cushion (or perhaps wall) against the main potential sources of damaging opposition.

Effectively the strategy of incorporation is all about the rewards of cooperation rather than hostility. As a result of the new availability of funds, "civil society sectors and provinces initially reluctant to globalisation and conditionality are tempted to accept new terms of modernisation".<sup>82</sup> In this way, the objectives of central governments and IFIs remain largely unaltered. As with the Menem government's strategy of political reform, there is a fine dividing line between incorporation and neutralisation. The question of poverty alleviation, furthermore, is seen as part of the same process of removing the potential threats to the economic and political model.

However, this should not be understood as a process of 'cooptation' as much as a process of 'consensus-building'. The success of the economic model in developing countries like Argentina depends ultimately on assessments of its performance on the part of the affected population. Despite the increasing alienation of the policy-making environment (or state) from the demands of electorates that can be observed in Argentina, the point stands that what is at stake is the institutionalisation of a new set of ideas about development. In the Latin American and African contexts especially, the early stages of institutionalising a new discourse of development was vastly assisted by the scale of economic and political crisis in the late 1980s and the perception that alternative models of development were exhausted. However, the role of the IFIs, as the primary transmission mechanisms for the influences of the globalisation process, were far more pivotal in the *consolidation* of reform in Argentina, and of the new development paradigm after the initial crisis conditions had faded.

## Conclusion

In sum, the above observations substantiate the basic claim of this chapter: that conditionality and the IFIs simultaneously serve the interests of the national

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<sup>82</sup> *ibid.*, pg 11.

and the international. Globalisation depends on the acceptance and institutionalisation of the current dominant discourse of development, and the policy convergence that this acceptance will generate. The conditionality packages of the IFIs act as the transmission belt for these ideas between the global and the national, and at the same time act to encourage and reinforce the sorts of policies that are consistent with the orientation of the international economy and essential for competitive participation in it. A further function, as we have seen, has been adopted along the way in the shape of attempts to offset potential deviations from this acceptance occasioned by political and economic exclusion. By channelling funds to the potentially or actually disaffected, the MDBs give governments the additional breathing space required to consolidate reform, while the IMF channels resources to the state in order to facilitate the process of reform from above.

As we have seen, the principal breathing space for early reform efforts in Argentina was provided by the government's own elimination of hyperinflation. The activities of the IFIs picked up speed only after the reform process had been implemented, and the comments therefore refer to additional impetus for the consolidation of already-established policy change. As such, it appears that the key function of the IFIs in Argentina was to maintain the consensus constructed around the reform process at a time when the emergence of opposition was most likely. The orientation of economic reform was 'locked in' to a set of binding agreements at the international level, as a result of which the discretionary control of the national state over the economy was significantly reduced. Here we can return to the 'paradox of state power': although the autonomy of the state was diminished as a result of these actions, its autonomy at the domestic level was increased, thereby facilitating the consolidation of reform in the post-implementation period. The 'internationalisation' of the state's policy-making functions, furthermore, enabled the consolidation of the political orientation of the government and strengthened the centralised and 'exclusionary' nature of Argentine politics under Menem.

## Chapter 7

### Regional Integration, State Power and Reform

The third identified dimension of external influence on Argentine reform is regional integration. Regionalism and regionalisation are usually conceptualised in the literature as policy outputs, and have been described earlier in the thesis as elements of the economic restructuring programme carried out in Argentina. The development of the regional market was fundamental to the resolution of the second bottleneck identified at the start of Chapter 3: the persistence of economic stagnation in the post-war period can be attributed primarily to a crisis in the export economy. This stemmed both from the inward orientation of Argentine development (and the consequent damage to the external sector) and also a lack of international markets for Argentine exports. As Tables 7.1 and 7.2 demonstrate below, the Southern Cone Common Market (Mercosur) provided opportunities for a significant expansion of exports and thus a basis for the liberalisation of the economy.

This chapter is not concerned, however, with the factors that explain the emergence of regionalism in the Southern Cone or elsewhere, and does not propose to examine the evolution of the Mercosur. These issues have been addressed more than adequately elsewhere and are not relevant to the present discussion.<sup>1</sup> Rather, it is concerned with the ways in which regionalism acts as a policy *input* as well as output, and the ways that regional integration impacted on the processes of political and economic change underway in Argentina from the start of the 1990s. To this end, regionalism is conceived as an important source of international influence, and to be closely related to globalisation. Therefore, the regional dimensions of change will be analysed from a more ‘outside-in’ perspective that aims to show how the

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<sup>1</sup> For a review of the literature on regionalism, see Andrew Hurrell: “Explaining the Resurgence of Regionalism in World Politics”, *Review of International Studies* 21, 4, 1995. For general accounts of the evolution of Mercosur, see, for example, Luigi Manzetti: “Argentine-Brazilian Economic Integration: An Early Appraisal”, *Latin American Research Review* XXV, 3, 1990 and “The Political Economy of Mercosur”, *Journal of Inter-American Studies and World Affairs* 35, 4, Winter 1993-4; Daniel Chudnovsky & Fernando Porta: “On Argentine-Brazilian Economic Integration”, *CEPAL Review* 39, December 1989; *The Economist*, 12 October 1996: “Remapping South America: A Survey of Mercosur”; Aldo Ferrer: “Mercosur: Trayectoria, Situación Actual y Perspectivas”, *Desarrollo Económico* 35, 140, January-March 1996.

nature of regionalism *both* reflects *and* reinforces processes of endogenously-rooted change in member countries. In other words, the approach employed in this chapter demonstrates how the policy outputs that give rise to the construction of a regional bloc feed back into the loop to become a policy input, or alternatively to create the context and conditions in which domestic processes of reform in Argentina could be sustained and consolidated. It aims, therefore, to complete the circle in the analysis of regional integration.

The focus of the chapter, therefore, will be on the influence and impact of regionalism on political and economic change in Argentina, and specifically on the relationship between certain types of regional integration and state power. It argues that regionalism in the Southern Cone has acted (and been designed) to 'lock in' a specific economic policy paradigm and to consolidate changes in the nature of political power in Argentina. In this sense, the processes associated with the three strands of international influence - globalisation, conditionality and regionalisation - have combined to facilitate and consolidate processes of economic and political change in Argentina. Most importantly, however, these international influences have been used very deliberately for precisely this purpose by the Argentine government. This is easiest to see in the case of regionalisation as the process is constructed through the purposive policies of the member states, and also in the case of conditionality, in terms of the *deliberate* pursuit of closer links with the international financial institutions.

It is also argued that regional integration has acted to *strengthen* the state, contrary to arguments which suggest a diminution of state power as a result of the devolution or 'pooling' of sovereignty to the regional level. These arguments, therefore, build on those made throughout the thesis concerning the 'rescue' and 'internationalisation' of the state and the 'paradox of state power'. We have seen that the imperatives of participation in the globalisation process (in terms of maintaining competitiveness and credibility for the purposes of attracting foreign capital flows) and conditionality agreements with the IFIs had the effect of reinforcing the orientation of the political and economic models in Argentina. By similar mechanisms, policy measures implemented in the context of interstate agreements acquire an element of irreversibility, and are 'locked in' far more

tightly as a result: once policy measures such as tariff liberalisation are established at the regional level, national governments' direct control over policy is sharply diminished. Authority is thus removed not only from the state but also from societal influence. Moreover, regionalism acts to shore up a degree of support and consensus from domestic actors that may be achieved otherwise only with considerable difficulty. The advantages of economic change are more readily perceived through the benefits of increased access to neighbouring markets, and political opposition is offset by the regional rather than national focus of economic activity.

Furthermore, the highly statist and governmental nature of regionalism in the Southern Cone had the aim and effect of reinforcing the concentration of political power in the state and the exclusionary style of decision-making characterised, in the Argentine and most other Latin American cases, by a high concentration of authority in the executive branch. Regional integration in Mercosur is highly governmental and elite-dominated in both its institutional structures and in the practical forms of participation in the process. As a result, it fits plausibly with liberal intergovernmentalist theories of integration developed with reference to European integration, which hold that integration will be the result of bargaining between governments that are responsive to specifically national interests and preferences. As such, the type of regional integration in which Argentina is involved reinforced the 'exclusionary' nature of the policy-making process and allowed for a consolidation of a centralised political system.

Once again, the chronological perspective is pivotal for an understanding of these dynamics. The Mercosur was established formally in 1991 after a period of increasing cooperation between Argentina and Brazil. Although the timing had little to do with economic policy measures such as Convertibility and more to do with democratisation in the region, the development of the Mercosur from 1991 coincided with what we have identified as the 'consolidation' phase of Argentine reform. The possibility for the re-emergence of economic crisis, then, which might have been predicted from post-war patterns, was offset by the rapid expansion of the export base as a result of the regional integration initiative. Furthermore, as we have seen above, the 'internationalisation' or perhaps 'regionalisation' of the state

in this context acted to consolidate the economic and political orientation from 1991 onwards.

The structure of the chapter is as follows. The first three sections develop the first layer of the argument outlined above. The first offers a conceptualisation of regionalism and its relationship to globalisation, with particular attention to the different ways in which both act to implant and consolidate a neoliberal policy agenda. The second gives empirical substance to these arguments through a discussion of policy change in Argentina. The third embellishes these arguments with a further application of 'rescue' hypothesis to the case of Argentina. The following sections develop the second layer of the argument. The fourth and fifth sections analyse respectively the institutional structures of the Mercosur and the pattern of Argentine actors' participation in the regional integration process. The sixth draws on theories of European integration to argue that Mercosur corresponds strongly to intergovernmentalist models of integration, which also shed further light on the relationship between regionalisation and state power in Argentina. The seventh section adds the final dimension to the argument with a brief consideration of the impact of regionalisation on the military and the broader question of democratisation. The final section offers some conclusions on the linkages between regionalisation, state power and reform processes in Argentina.

**Table 7.1: Mercosur Trade (in millions of US\$)**

	1990	1991	1992	1993	1994	1995	1996	Δ90-6
Intra-Mercosur Exports	4.12	5.10	7.21	10.02	12.04	14.38	16.90	
Growth Rate		23.6	41.4	39.0	20.2	19.4	17.5	309.5
Total exports from Mercosur countries	46.43	46.21	50.48	54.04	62.12	70.40	75.85	
Growth Rate		-0.5	9.3	7.1	15.0	13.3	7.7	63.4
Intra-Mercosur exports / Total exports (%)	8.9	11.0	14.3	18.6	19.4	20.4	22.3	

Source: Argentine Embassy in Brazil (from CPC, Buenos Aires)

**Table 7.2: Evolution of the Structure of Mercosur Exports to the World (in percentages)**

	1990	1991	1992	1993	1994	1995	1996
Intra-Mercosur	8.9	11.0	14.3	18.6	19.4	20.4	22.3
European Union	31.1	32.0	30.3	26.8	27.0	25.6	24.3
United States	20.7	16.9	17.1	17.6	17.5	15.3	14.6
Rest of LAIA	7.1	9.0	18.6	10.3	9.9	9.7	9.5
Rest of the World	32.2	31.1	19.4	26.8	26.2	29.0	29.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Argentine Embassy in Brazil (from CPC, Buenos Aires)

## Globalisation, Regionalisation and the State

The regionalisation of the world economy, and particularly the pace of this process, are not in dispute. According to the WTO, for example, 109 regional agreements were notified to the GATT between 1948 and the end of 1994, and around 30% of these were signed between 1990 and 1994.<sup>2</sup> The debate centres largely on the relationship between the twin processes of globalisation and regionalisation which, although neither is a novel development, are seen both to characterise the contemporary international political economy and to have assumed a much greater dynamism and significance over the last ten or fifteen years.

The debate, on a simple level, divides into two camps. The first sees globalisation and regionalisation as complementary and parallel developments in the international system, which are mutually reinforcing and inherently connected. According to this conception, regionalisation “intersects with globalisation and one cannot be understood in the absence of the other”.<sup>3</sup> The alternative position holds that regionalisation and globalisation are contradictory forces that pull in opposite directions. Regionalisation is the antithesis of the integrative project of globalisation, and becomes a response to the detrimental national effects of the

<sup>2</sup> *The Economist*, 16 September 1995.

<sup>3</sup> Richard Higgott: “Globalisation and Governance: Accommodating Regionalisation and Localisation”, mimeo, University of Warwick, February 1997 (pg 16).

globalisation of economic activity. Therefore, regionalisation is seen as a protective mechanism used by states that works against the consolidation of a globalised international economy.

On the one hand, then, regionalisation may be seen as a ‘building block’ for globalisation, especially if the latter is equated with the development of multilateralism in the international economy. According to this position, regionalisation becomes a form of “limited globalisation”.<sup>4</sup> If liberalisation and the lowering of tariff barriers to trade are more easily accomplished at regional level, the formation of regional blocs contributes to the opening of international trade and therefore to the maintenance of the principles of globalisation / multilateralism. Viewed from a ‘macro’ perspective, then, the sum of regional blocs constitutes a basis for the globalised international economy.

In a related vein, regionalisation may be seen as the principal mechanism by which globalisation is made ‘administratively’ manageable. Multilateral trade negotiations are increasingly less feasible given the number of participants<sup>5</sup>: if regions participate in the multilateral system as blocs, the logistics of international negotiations become significantly more manageable. Similarly, the process of multilateral liberalisation is facilitated if timetables and conditions are negotiated (at least in the first instance) at the regional level, as policy harmonisation becomes inevitably more viable given the reduced range of interests to be coordinated and the greater likelihood of a coincidence of policy preferences between the members of a regional arrangement. More concretely, however, free trade agreements between countries depart from the principle that barriers to trade should be equalised and then eliminated, in contrast to the reciprocal bargaining orientation of the GATT negotiations.<sup>6</sup>

In essence, regionalisation has the advantage over multilateralism of counteracting asymmetries of negotiating power or influence, both by narrowing

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<sup>4</sup> Marjan Svetlicic & H.W. Singer (eds.): *The World Economy: Challenges of Globalization and Regionalization* (1996), pg 23.

<sup>5</sup> Diana Tussie: “In the Whirlwind of Globalisation and Multilateralism: The Case of Emerging Regionalism in Latin America” in William D. Coleman & Geoffrey R.D. Underhill (eds.): *Regionalism and Global Economic Integration: Europe, Asia and the Americas* (1998), pg 92.

<sup>6</sup> Gary Hufbauer & Anup Malani: “The World Trade Regime: GATT, Regional Cooperation, Bilateral Confrontation” in Peter Gourevitch & Pablo Guerrieri (eds.): *New Challenges to International Cooperation: Adjustment of Firms, Policies and Organizations to Global Competition* (1993), pg 295.

the scope of particular negotiations, and by increasing the negotiating strength and coherence of regional units in the multilateral arena. One of the principal aims of regionalism among developing countries, for instance, is the enhancement of bargaining power vis-à-vis the stronger countries in the international arena. In addition, regionalism capitalises on perceived or actual affinities between member countries (especially in terms of economic structures), which lowers the costs of adjustment as well as producing policy decisions likely to be congruent with and responsive to national circumstances and priorities.

These arguments can be embellished with a recognition of the more specific advantages that 'bloc bargaining' can offer in the international economy. Regional arrangements may be seen to permit the more efficient handling of market access issues for developing countries, in that the dominant trading powers are required to open their markets more selectively than would be the case in the context of the multilateral trading system.<sup>7</sup> Therefore, apart from increasing the bargaining leverage of member states, the formation of regional blocs and their use as a negotiating platform may be seen to offer more concentrated advantages for developing countries in their interactions with the major powers in the international economy.

Arguments that regionalisation and globalisation have become inherently compatible are significantly strengthened by the nature of contemporary regionalism. The concept of 'open regionalism' modifies the distinction between globalisation and regionalisation<sup>8</sup>, in that, at least rhetorically, regional blocs are not concerned with the creation of barriers to international economic activity.<sup>9</sup> Although this assertion does not take into account the uneven trajectory of most processes of regionalisation, nor the tendency for instances of 'hard regionalism' to occur in areas supposedly committed to 'open regionalism'<sup>10</sup>, it is nevertheless the

<sup>7</sup> Manuel R. Agosín & Diana Tussie: "Globalisation, Regionalisation and New Dilemmas in Trade Policy for Development", UNCTAD Reprint Series no. 74 (from *World Competition* 15, 4, June 1992), pg 47.

<sup>8</sup> Helge Hveem: "The Limits of Globalization and the Potential of Regionalism", paper presented to the conference on 'Non-State Actors and Authority in the Global System', Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, October 31st-November 1st 1997.

<sup>9</sup> See Juan Alberto Fuentes: "El Regionalismo Abierto y la Integración Económica", *Revista de la CEPAL* 53, August 1994.

<sup>10</sup> See comments on the EAEC, for example, in Richard Higgott & Richard Stubbs: "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific", *Review of International Political Economy* 2, 3, Summer 1995.

case that regionalisation is not generally perceived to be a mechanism through which to oppose globalisation, nor as a process that is inherently antithetical to global integration. The case of the Mercosur also demonstrates that the increase in regional exports was accompanied by an increase in access to extra-regional markets, thus strengthening the prospects for global economic integration. If, therefore, open regionalism is the norm, both in rhetoric and in reality, it is at least possible in practical terms that contemporary processes of regionalisation and globalisation are compatible.

On the other hand, the ‘stumbling block’ hypothesis holds that regionalisation is a mechanism employed by national states that see themselves compelled to erect defences against the detrimental effects of the economic processes involved in globalisation, most obviously with the protection of local industry. In this sense, regionalisation is a reactive process that privileges national priorities over global trends. This observation is often linked to a vision of globalisation and regionalisation as responding to centrifugal and centripetal forces respectively.<sup>11</sup> Alternatively, regionalisation is seen to have become the most dynamic process underway in the international arena, while globalisation effectively reached a “plateau” in the early 1980s.<sup>12</sup> In both cases the expansion of one is seen to be inimical to the expansion or development of the other.

A less stark characterisation might present regionalisation as a ‘bottom-up’ process of change, with globalisation (and multilateralism) as a ‘top-down process’, the limitations of which may be seen as at least part of the explanation for the dynamism of regionalism.<sup>13</sup> Heightened tendencies towards the formation of regional blocs may be attributed in part to frustration at the slow pace of GATT negotiations in the 1980s and also the relatively cumbersome evolution of multilateralism in the international economy.<sup>14</sup> In this respect, regionalisation may

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<sup>11</sup> Charles Oman: *Globalisation and Regionalisation: The Challenge for Developing Countries* (OECD, 1994), pp. 33-6; Svetlicic & Singer (eds.), pg 20.

<sup>12</sup> Paul Taylor: *International Organization in the Modern World: The Regional and Global Process* (1993), pg 1. This would appear to be primarily the case when globalisation is equated with multilateralism. See Oman, pp. 30-32. For an analysis of the relative underdevelopment of multilateralism, see Tussie: “In the Whirlwind”.

<sup>13</sup> Tussie: “In the Whirlwind”, pg 92.

<sup>14</sup> See, for example, Tussie: “In the Whirlwind”, and Hufbauer & Malani, pp. 294-5.

be seen as a response to the shortcomings of globalisation, but not necessarily as a force that pulls in the opposite direction.

In some accounts, furthermore, the process of regionalisation is used to question the significance of globalisation or the existence of a truly global economy.<sup>15</sup> The assumption is that regionalisation has emerged as the dominant form of economic (and at times) political organisation, and that it can make no sense to talk about a globalised international environment when the facts manifestly suggest the contrary. The appeal of such a position evidently lies in the greater ‘palpability’ of regionalisation as opposed to globalisation: both are processes of international change but the manifestations of regionalisation appear far more concrete than those of globalisation. Regionalisation, for example, is often constructed on the basis of treaties and trade agreements, there is a network of formal and informal institutions associated with the development of regional integration, the member states of regional arrangements frequently participate as a unified bloc in international negotiations, and policy is driven largely by intergovernmental decisions. With the exception of multilateral trade negotiations, globalisation exhibits none of these palpable manifestations.

This position is attractive for those that uphold the primacy of the state in the contemporary international order. Although, as Chapter 5 showed, globalisation is driven largely by state actions and state decisions, regional integration is far more obviously a statist process, even though a statist approach to the study of it sometimes fails to capture the more complex reality. The level of abstraction at which the study of regionalism and regionalisation is conducted, therefore, is far lower than that which is often necessary for the analysis of globalisation. The effects of globalisation are often far clearer than the concrete processes by which they are produced.

To pull some of these strands together, in the literature that sees regionalisation as a parallel trend to globalisation, the former is assessed broadly in three ways.<sup>16</sup> The first sees regionalisation to represent the extension of the present

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<sup>15</sup> John Zysman: “The Myth of a ‘Global’ Economy: Enduring National Foundations and Emerging Regional Realities”, *New Political Economy* 1, 2, 1996.

<sup>16</sup> Ronen Palan & Jason Abbott with Phil Deans: *State Strategies in the Global Political Economy* (1996), pp. 58-9.

multilateral trading system, in that the regionalisation of international trade furthers the process of liberalisation and trade creation in the international economy. The second interpretation of regionalisation is essentially political, and holds that regionalisation is a political strategy intended to improve member states' competitive position in the world economy. This relies on ideas of the competition state analysed in Chapter 5. If the globalisation game is all about national competitiveness, the formation of regional blocs is seen as a political means of pursuing this goal. Third, regionalisation is interpreted as a structural response to some of the problems of globalisation, in that it provides the institutional conditions for the expansion of capital. In this way, regionalisation is not perceived to be a negative response that aims to counteract the processes of globalisation, but rather as a means of making national and regional conditions suitable for responding to the opportunities offered by the globalised international political economy.

Nevertheless, it may well be the case that globalisation is a “stronger structural force” than regionalisation, which “enhances the trend towards regionalism to the extent that it diminishes the prospects of individualistic state responses to international competition and encourages collective responses”.<sup>17</sup> Globalisation, therefore, sets the parameters of the possibilities for political and economic action and establishes the boundaries of what is ‘acceptable’ or ‘feasible’ in the international environment it currently dominates. Regionalisation is a much more concrete phenomenon, regardless of whether it is seen as a response to globalisation, a parallel process, or a completely independent structural trend.

This chapter argues that regionalisation in the Southern Cone responds to the new sets of imperatives created by the process of globalisation in the international economy. Chapter 5 showed that globalisation has changed the rules of the game to the extent that participation in the international economy now depends on the pursuit of national competitiveness and the achievement of credibility. The establishment of close cooperative relations with IFIs and compliance with macroeconomic targets agreed under conditionality arrangements were identified in Chapter 6 as being one of the principal mechanisms by which

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<sup>17</sup> Higgott: “Globalisation and Governance”, pg 20.

credibility may be enhanced. The aim of regionalisation, similarly, is to further the credibility (and therefore competitiveness) of member states by ‘locking in’, in the same way as conditionality, a particular set of economic policies and ideas.

Therefore, regionalisation is seen to be concerned with the implantation of the neoliberal policy agenda favoured and necessitated by globalisation. In this sense, regionalisation becomes the project of dominant (state) actors who perceive the national interests to be tied to participation in the globalisation of the international system. The compatibility argument is therefore strengthened by the proposition that “regionalising elites are also globalising elites”<sup>18</sup>, especially in cases such as South American countries where states and governmental actors are the major driving force behind regional integration initiatives. This contributes an agency-centred perspective to the broader discussion of the relationship between the structural processes of globalisation and regionalisation, and returns to Stephen Gill’s points mentioned in Chapters 5 and 6 on the relationship between globalising policy elites and disciplinary neoliberalism.

### **Regional Integration and Policy Change in Argentina**

Having established, therefore, the linkages between globalisation and regionalisation, whether we choose to see these as parallel or contradictory processes, we can begin to construct more specific arguments relating to the Southern Cone region of Latin America and the case of Argentina. The adoption of ‘open regionalism’ is a direct reflection of the preponderance of global imperatives. These combine with the processes of economic restructuring and unilateral liberalisation pursued to varying degrees in the member countries, the most vigorous of which is probably found in Argentina. Clearly the construction of regional integration is an attempt on the part of the member countries to improve their competitive positions in the globalised international economy both individually and as a bloc.

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<sup>18</sup> Ben Rosamond: “Globalisation, Change and European Integration”, paper presented to the Fifth Biennial International Conference of the European Community Studies Association, Seattle, 29 May- 1 June 1997.

One of the most important effects of globalisation has been to create a situation in which “successful implementation of domestic policy adjustment increasingly required inter-state negotiated bargains”.<sup>19</sup> This policy adjustment in turn was occasioned by the changing structures of rewards and punishments in the international economy as a result of the same process of globalisation (as argued in Chapter 5). As a result, therefore, the political advantages of locating domestic adjustment processes in the external environment are most easily achieved at the regional level, and the incentives to regionalisation are thus enhanced. It may well be that globalisation (rather than regionalisation) was the highest priority for Argentina and other Latin American countries, and regionalisation therefore a means to an end. There is certainly a suggestion that Economy Minister Cavallo himself was never particularly interested in regional integration for its own sake, despite a recognition of the importance of the Brazilian market, but rather far more concerned with the challenges of international opening.<sup>20</sup>

In the case of Argentina, the impetus for trade liberalisation had already been established in part by the TPLs agreed with the World Bank in 1987/88 (as outlined in the previous chapter). This was reinforced by the economic crisis of 1988/9, the recurrent hyperinflation until 1991, and then the orientation of the technocratic economic team that took over under Cavallo. In effect, the process of unilateral opening was reinforced *from 1991* with a timetable for tariff reductions agreed in the regional forum. Chapter 3 argued that trade policy from this time was kept on an ‘even keel’ by such regional commitments. Article 5 of the Treaty of Asunción, which formally established the Mercosur in March 1991, aimed to achieve “progressive, linear and automatic tariff reductions accompanied across the board by the elimination of non-tariff restrictions or equivalent measures ... with a view to arriving at a zero tariff and no non-tariff restrictions for the entire tariff area by 31 December 1994”.<sup>21</sup> The initial schedule for tariff reductions is shown in Table 7.3 below.<sup>22</sup> In addition to the programme of tariff reduction, the Treaty provided for the

<sup>19</sup> Richard Higgott: “Economic Co-operation in the Asia Pacific: A Theoretical Comparison with the European Union”, *Journal of European Public Policy* 2, 3, September 1995 (pg 363).

<sup>20</sup> Interview with Javier Villanueva, Buenos Aires, 24 July 1995.

<sup>21</sup> GATT: *Argentina 1992: Trade Policy Review* (May 1992), Vol 1, pg 62.

<sup>22</sup> *ibid.*, pg 66. Significantly, the agreement allowed for a significant number of products to be exempt from the liberalization scheme: 324, 394, 439 and 960 for Brazil, Argentina, Paraguay and Uruguay respectively. These exemptions were subject to a separate timetable of tariff reductions, which reflected

establishment of a common external tariff (CET) in the interests of external competitiveness, and the introduction of equal tax treatment for products from all member countries with respect to local products.<sup>23</sup>

**Table 7.3: Mercosur: Timetable for Tariff Reductions**

30 June 1991	31 Dec 1991	30 June 1992	31 Dec 1992	30 June 1993	31 Dec 1993	30 June 1994	31 Dec 1994
47%	54%	61%	68%	75%	82%	89%	100%

Source: GATT: *Argentina 1992: Trade Policy Review*, Vol. 1.

The tariff reduction programme was implemented as planned despite fears throughout 1993 that the timetable would have to be revised, and despite minor changes to Argentine trade policy in the aftermath of the 1994/5 Mexican crisis (see Chapters 3 and 5). The CET was agreed at a summit in Montevideo in December 1992. Under the agreement, most products were subject to a maximum tariff of 20%, with the exception of a relatively short list of goods that operated with a maximum of 35% to be gradually reduced between the years 1995 and 2001.<sup>24</sup> The customs union that took effect on 1 January 1995 was seen as 'almost' full<sup>25</sup>: it was agreed that between 5-10% of total trade between the four countries would remain protected by national tariffs until 1999 in order to lessen the initial impact on uncompetitive industries. In addition, a further 10% of total trade composed of 'sensitive' or 'strategic' products would only adopt the CET in 2001 (or 2006 for telecommunications and information technology products).<sup>26</sup>

A brief analysis of the effects of integration on trade liberalisation and investment flows demonstrates the ways in which domestic reform efforts were 'locked in' at the regional level. In Argentina the average tariff rate in mid-1994

the differential treatment accorded to smaller member countries: Argentina and Brazil were required to implement annual reductions of 20% from 31 December 1990, Uruguay and Paraguay 10% reductions in 1990 and 1991, and 20% thereafter. (Ibid., pp. 67-8).

<sup>23</sup> Report of the Argentine Government to the GATT Trade Policy Review of Argentina, 4-5 March 1992. Printed in GATT: *Argentina 1992*, Vol. 2, pg 33.

<sup>24</sup> *Latin American Regional Reports - Southern Cone*, 4 February 1993.

<sup>25</sup> *Latin American Regional Reports - Southern Cone*, 29 December 1994.

<sup>26</sup> For an account of the controversies and difficulties surrounding the establishment of the customs union in 1995, see *El Economista*, 16 December 1994.

before the implementation of the CET was 18.98% (including the statistical surcharge). The average CET by the end of the first Menem administration a year later was 12.1%.<sup>27</sup> Similarly, regional integration had important effects relating to the attraction of investment from both inside and outside the Mercosur network. Intra-regional investment flows were augmented by such mechanisms as agreements on representation, distribution and productive complementarity, joint ventures, participation in the capital structures of existing firms, the creation of affiliated companies and the formation of 'strategic alliances'.<sup>28</sup> Foreign direct investment in the region, on the other hand, had more to do with domestic privatisation processes than regional integration, as Chapter 3 showed, but nevertheless there has been a marked increase in the establishment of local operations by giant transnationals, particularly in the automobile, food and drink, petrochemical and textiles sectors.<sup>29</sup>

On a political level, therefore, the simultaneous and mutually reinforcing nature of the processes of unilateral and regional liberalisation gave rise to a valuable mechanism by which the Argentine government could strengthen support coalitions for its policy agenda and thus facilitate the consolidation of reform. Sectoral resistance to the adjustment occasioned by such policy shifts was offset by the perceived benefits to be derived from increased access to regional markets, and therefore from integration more generally.<sup>30</sup> In this sense, then, Mercosur may be seen as having attenuated the post-implementation difficulties of opening the domestic economy. This reduction in the adjustment costs of structural reform (as opposed to initial stabilisation) was supplemented from around 1993 by the extra cushion provided by abundant inflows of foreign capital, in turn prompted by the IMF and Brady Plan agreements.

Hence it may well be the case that most developing countries that seek integration do so for reasons of domestic discipline<sup>31</sup>, particularly when there is the need, as in Argentina and most other Latin American countries at the time, to

<sup>27</sup> Roberto Bouzas: "Mercosur and Preferential Trade Liberalisation in South America: Record, Issues and Prospects", Serie de Documentos e Informes de Investigación no. 176, FLACSO Buenos Aires, February 1995 (pg 17).

<sup>28</sup> Inter-American Development Bank / Institute for the Integration of Latin America and the Caribbean (BID / INTAL): *Informe Mercosur*, no. 1, July-December 1996 (pg 12).

<sup>29</sup> *ibid.*, pg 13.

<sup>30</sup> Roberto Bouzas: "La Agenda Económica del Mercosur: Desafíos de Política a Corto y Mediano Plazo", *Integración & Comercio* (BID / INTAL), Jan-April 1996 (pg 68).

<sup>31</sup> Interview with Alfredo Morelli (National Director of Mercosur), Buenos Aires, 19 July 1995.

consolidate a sea change in economic policy and the development paradigm that informs it. Integration, therefore, is about the enhancement of national competitiveness in the globalised international economy and about the maximisation of the effectiveness of domestic economic strategies, in addition to its association with a particular set of neoliberal policies. However, the arguments about the ‘locking in’ of a certain set of policies refer only to a specific set of international and domestic circumstances around the start of the 1990s, rather than to any general link between integration and neoliberalism. It should be remembered, in this light, that integration was originally conceived in Argentina as a project of industrial promotion with a heavy sectoral emphasis, rather than as a project of opening or liberalisation.<sup>32</sup>

On a broader theoretical level, policy coordination has two major purposes.<sup>33</sup> The first is the “accommodation of economic interdependence through reciprocal market liberalization”. This coincides with explanations of regionalisation as a mechanism for responding to globalisation and increasing levels of national and regional competitiveness in the globalised international economy. The second is policy harmonisation “in order to assure the continued provision of public goods for which the state is domestically responsible”. This again links with the arguments made earlier in this chapter and in Chapter 5 regarding the impact of globalisation on the capabilities of the national state.

Significantly, “where economic interdependence links jurisdictions, divergent national policies may undermine each other’s effectiveness. Coordinated (or common) policies may therefore result in greater *de facto* control over domestic policy outcomes than unilateral efforts”. When placed in the context of crisis and subsequent reform of both the state and the economy, these considerations lead directly to the idea that regionalisation acts to ‘rescue’ the state, which can be used to add clarity to the arguments developed in this section.

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<sup>32</sup> Interviews with Jorge Hugo Herrera Vegas (Undersecretary for Latin American Integration), Buenos Aires, 17 July 1995 and Alfredo Morelli.

<sup>33</sup> Andrew Moravcsik: “Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach”, *Journal of Common Market Studies* 31, 1993 (pp. 486-7).

## *The Regional 'Rescue' of the Argentine State*

For our purposes, then, the most important element of the relationship between globalisation and regionalisation concerns the role of the state, and the ways in which each process responds to and impacts on the position of the state in the contemporary international environment. In some ways, analyses of both globalisation and regionalisation throw up similar conclusions in that in each the role of the state is transformed under the impact of international change. The difference is that globalisation may be seen to produce these transformations by necessitating the redefinition of the relationship between state and market (and therefore the redefinition of governments' functions of management), while regionalisation may be seen as a response to the decreasing capacities of the national state, particularly in terms of economic policy-making. This responds to an assumption in the contemporary context of globalisation that the state is no longer the optimal unit for the pursuit of economic growth and prosperity.

It has already been suggested in Chapter 5 that one of the principal effects of globalisation is a reduction in the policy-making autonomy of states from the perspective of the international environment. Although this is counterbalanced by the opening up of space in the domestic context for increased policy-making latitude and a consequent increase in state power, the fact that the range of available policy instruments has diminished as a result of globalisation in the international political economy is largely uncontested, and it is plausible to imagine that policy-makers will be concerned to protect this type of autonomy vis-à-vis the international system to the greatest extent possible. Some of the specific measures implemented by the Argentine government for precisely this purpose have been outlined in Chapters 3 and 5. One of the principal mechanisms by which the decline of policy autonomy can be arrested, however, lies in regionalisation.<sup>34</sup>

The broad conclusion to be drawn from the above is that in some ways regionalisation may be seen as the intermediary stage in the relationship between the globalised international economy and states<sup>35</sup>, which is favoured as a

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<sup>34</sup> Higgott: "Globalisation and Governance".

<sup>35</sup> Richard Higgott: "Globalisation, Regionalism and Identity in East Asia: Lessons from Recent Economic Experience", mimeo, Warwick University, February 1998 (pg 6).

mechanism by which states can recover a degree of the policy autonomy lost (or sacrificed) to globalisation. Although regionalisation may well be a response to the declining capacities of the national state for ensuring economic development in the current international environment, regionalisation consolidates the 'internationalisation' of the state which constitutes one of the core concepts of the thesis. From a dynamic perspective, the more policy-making functions are located in the regional context, at least in terms of the points of reference, the more the locus of decision-making authority is removed from the nation-state towards the regional or international arena. This is the case even in those arrangements that do not feature supranational institutions with discrete policy-making capacities and agendas (like the European Commission). One of the principal ways in which the Mercosur has influenced policy-making in Southern Cone countries has been precisely, as we have seen, to lock in a certain set of policy options and a particular set of ideas about development from which member states deviate only with difficulty.

In some ways, then, the construction of regional blocs can be seen as an attempt to transcend the limits of the beleaguered state, along the lines of Milward's 'rescue' idea. This demonstrates that to a large extent the same forces that drive globalisation may be seen also to drive regionalisation, especially when the discussion is placed in the context of changes in the nature of national states. If globalisation is assumed to diminish the economic policy-making authority of the state, the advantages of international policy coordination are often increasingly apparent to policy-makers. Clearly the most feasible method of regaining the authority lost to globalisation, therefore, lies in the construction of regional blocs and perhaps in the 'pooling' of policy-making sovereignty.

Ideas about 'pooling' at the regional level, however, fall into the same trap as arguments that equate globalisation with the disappearance of national boundaries or the obsolescence of the nation-state. Much depends on whether the relationship between regionalisation and the national state is approached from a global or regional perspective. From a global perspective, regionalism becomes a form of interdependence and transnationalisation, which implies the dissolution of the state or, at least, the transcendence of state boundaries. On the other hand, from

a regional (and indeed national) perspective, the formation of a regional bloc is concerned with various dimensions of state-building, such as the construction of institutions and the development of forms of “identitive community”.<sup>36</sup>

The simple fact of membership of a regional grouping of countries (regardless of the extent of institutionalisation) does not automatically imply a loss of ‘statehood’, or the disappearance of states’ ability to define and pursue the national interest in policy-making terms.<sup>37</sup> On a basic level, a coincidence of interests (in this case between a group of countries) does not mean the abandonment of policy objectives for any or all of the member states of a regional grouping. Similarly, in all the regional arrangements currently in operation (particularly the newer blocs) a central question refers to how regional priorities can be made compatible with the pursuit of more narrowly national interests, in cases when these diverge. There is no assumption, therefore, that international cooperation at global or regional level will correspond or lead to the elimination of conflict between states in any area of national and international activity.

The ‘rescue’ idea, therefore, can be used to argue that regionalism is often a mechanism of collective action that has the effect (and function) of *strengthening* the state - in the sense of enhancing the government’s capacity for implementing its policy preferences at national level - rather than fatally weakening the principles of sovereignty upon which it is constructed. The original statement of the argument holds that “without the process of integration the west European nation-state might well not have retained the allegiance and support of its citizens in the way that it has”, in that following a period of severe crisis the state was able to ‘reinvent’ itself partly through the development of the regional arena as a supplementary “political alternative to government from the national centre”.<sup>38</sup> Its advantages over what at the time was called ‘interdependence’, furthermore, lie in the fact that integration is “less easily reversed, more exclusive and more law-abiding”, all of which are

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<sup>36</sup> Taylor, pg 2.

<sup>37</sup> Similar arguments are made in *ibid.*, pp. 2-3.

<sup>38</sup> Alan Milward: *The European Rescue of the Nation-State* (1992), pgs 3 & 1.

important in the pursuit of national policy and compensate for any perceived losses of national sovereignty as a result.<sup>39</sup>

After its 'rescue' from the crisis of the 1980s, then, the resulting 'internationalisation' of the Argentine state facilitated the consolidation of the policy agenda and allowed for a process of sustained and durable reform. We see throughout the first Menem administration developments in domestic policy and in regional dynamics which contribute to the removal of policy-making authority from the national state to the regional level most directly, and in a different sense to the global level. If regionalisation is seen as an intermediary stage in the adaptation of the national to the global, the argument assumes even greater validity. Similarly, it is unlikely that the Argentine government would have been able to sustain support for the reform effort and the consensus surrounding the reform agenda after the initial crisis period without these advantages offered by the regional integration process.

Here we can return to the 'paradox of state power'. Although the policy autonomy of the Argentine state was reduced by the increasing location of decision-making functions and economic activity at both the regional and the global levels, paradoxically 'regionalisation' of policy-making authority and economic activity, in connection with the increasing hegemony of the globalisation process, contributed to a reinforcement of state power. A reduction in the policy autonomy of the state, along with policies directly intended to narrow the scope for government action, acted directly to increase the power of the state vis-à-vis societal actors and interests, in conjunction with the domestic reorganisation of political interests under Menem. Although (or because) authority was removed from the state, it was also removed from societal interests, and furthermore the state was no longer the principal site for the sort of political pressures that bedevilled the Alfonsín government in the 1980s. As a result, the state became able to consolidate its political and economic agenda to the extent that it no longer mattered whether it retained direct control over such policy-making functions subsequently.

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<sup>39</sup> Alan Milward & Vibeke Sørensen: "Interdependence or Integration? A National Choice" in Alan S. Milward, Frances M.B. Lynch, Federico Romero, Ruggero Ranieri & Vibeke Sørensen: *The Frontier of national Sovereignty: History and Theory 1945-1992* (1993), pg 19.

However, the picture is still more complex. The *nature* of regionalism in the Southern Cone is such that state power is reinforced and societal interests are marginalised by mechanisms other than the ‘rescue’ and ‘internationalisation’ of the state. This is the subject of the second layer of argument outlined in the introduction to this chapter, which addresses the institutional formation and the relative weight of state and societal agents in the process of regionalisation in Mercosur. Theories of European integration offer useful insights for the analysis of the ways in which these dynamics operate.

### **Regionalism, State Power and Societal Interests**

The ‘locking in’ of a particular economic model at the regional level, then, has been accompanied by a reinforcement of the dynamics of political change in Argentina as a result of the *type* of regionalism pursued in the Southern Cone. Although there is no inherent theoretical link between any particular type of regionalism and any particular form of domestic political organisation, we can argue that the process of integration in Mercosur influenced the processes of both economic and political reform in Argentina in the specific setting of the late 1980s / early 1990s. This influence, furthermore, adds to regionalisation the dimension of ‘policy input’ that was identified in the introduction to this chapter: apart from being a deliberate and purposive set of policy measures on the part of the government which had the very explicit goal of ‘locking in’ the new economic model, regionalisation can be seen (along with globalisation and conditionality) as a dimension of external *influence* on domestic change. The first task, then, is to identify the nature of regionalism in the Mercosur.

#### *States, Governments and Institutions*

Mercosur, unlike the European Union, does not have a supranational institutional structure. The latter is notable for its moves towards the transfer of political authority away from national governmental structures to specialist policy communities. In both the South American and Asian regions, states have been

much more reluctant to devolve such authority to either subnational or supranational level due to the much closer linkages in these regions between the public and private sectors. The observation, therefore, that “APEC has of necessity needed to develop a more flexible and accommodating architecture, which does not demand legalistic compliance”<sup>40</sup> appears to refer with equal validity to the Mercosur.

This is not to claim that the Mercosur is entirely without institutions, but rather that its institutional structure (illustrated in Figure 7.4) is entirely and strictly intergovernmental rather than supranational (in the European sense). The Treaty of Asunción established that the decision-making process would be entirely consensual, and created two inter-governmental bodies: the Common Market Council (CMC) and the Common Market Group (GMC).<sup>41</sup> The CMC is composed of the Foreign and (usually) Economy Ministers of each member country, with the function of providing political leadership for the process of integration. Presidency of the CMC rotates on a six-monthly basis between the member countries. The GMC is the executive agency of the CMC charged with the implementation and oversight of the Treaty of Asunción, the enforcement of CMC decisions and the establishment of the timetable for progress towards the common market.<sup>42</sup> The GMC is composed of a total of eight representatives from each of the member countries, which must include representatives from the Ministry of Foreign Relations (or equivalent), the Economy Ministry and the Central Bank. Like the CMC, the GMC is coordinated from the Foreign Ministries of the member countries.

The GMC provides the umbrella for a number of other institutional bodies: The Economic and Social Consultative Forum (FCES) composed of representatives from economic and social sectors (principally business), the Joint Parliamentary

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<sup>40</sup> Mark Beeson & Kanishka Jayasuriya: “The Politics of Regionalism: APEC and the EU in Comparative Perspective”, paper presented to the conference on ‘Non-State Actors and Authority in the Global System’, Warwick University ESRC Centre for the Study of Globalisation and Regionalisation, October 31st-November 1st 1997.

<sup>41</sup> Much of the institutional analysis that follows incorporates information collected at the office of the Joint Parliamentary Commission of the Mercosur (CPC) in Buenos Aires. Much of this is in the form of internal documentation and reports, supplemented by conversations and interviews with officials between April and July 1997. Official documentation can be found in the CPC’s *Informe I* (September 1994).

<sup>42</sup> Bouzas: “Mercosur and Preferential Trade Liberalisation”, pg 4

Commission (CPC), the Administrative Secretariat (SAM) charged with the provision of services and operational support to the other bodies as well as documentation and the dissemination of information, and the Specialised Areas that work on structural issues (such as the Ad-Hoc Working Groups, Special Meetings and Working Sub-Groups).<sup>43</sup>

The CPC was created by Article 24 of the Treaty of Asunción, as is composed of 64 parliamentary representatives from both Chambers of Congress (16 from each member country), as well as an equal number of reserves (*suplentes*) designated by each National Parliament. Its function, according to its 'Constitution' and the Protocol of Ouro Preto, is to monitor the integration process and to inform the national Congresses of its progress. It also has a consultative function and is required to produce recommendations and proposals on the development of the common market and to create sub-commissions for the analysis of pertinent issues. It is involved in preparing the groundwork for regional legislative harmonisation and is responsible for facilitating the immediate implementation of regional directives in the domestic setting. The CPC is characterised by bipartisan participation, although for obvious reasons most of the Argentine participants have been from the ruling PJ party. At the national level in Argentina, furthermore, a bicameral Mercosur Commission was established in 1992 under the auspices of the CPC.<sup>44</sup> In addition, the Mercosur Trade Commission (CCM), established by the Protocol of Ouro Preto in December 1994 and operational since December 1995, is responsible for the implementation and progress of common trade policies agreed by the member countries, and likewise is composed of representatives from each under the general supervision of the GMC. The CCM in turn comprises ten Technical Committees, as illustrated in Figure 7.4.

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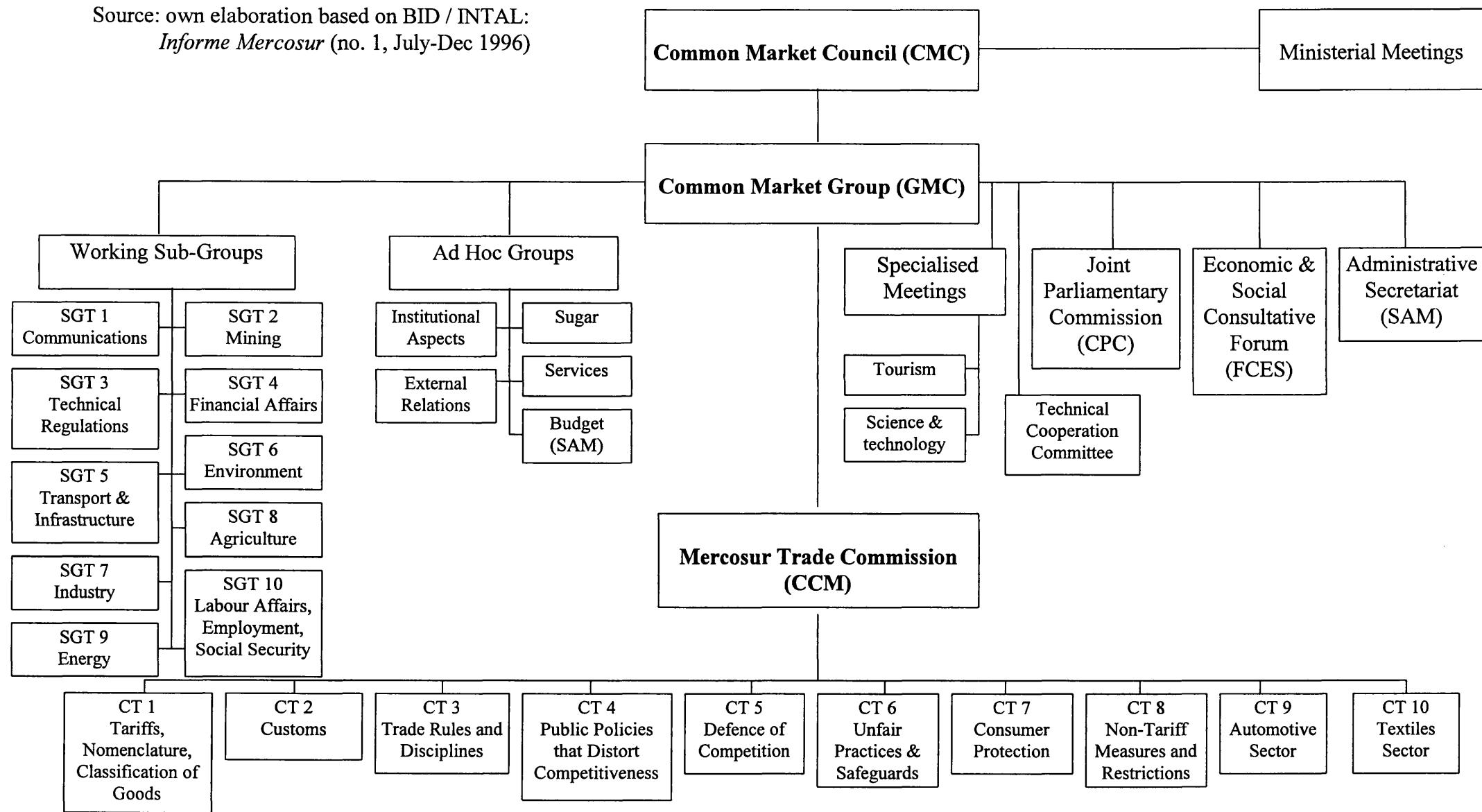
<sup>43</sup> BID / INTAL: *Informe Mercosur* (no. 1), pp. 45-6; Jorge Lucángeli: "Mercosur: Antecedentes, Logros y Perspectivas", *Pensamiento Iberoamericano* 26, July-December 1994 (pp. 161-4); information from the CPC, Buenos Aires.

<sup>44</sup> See official documentation in CPC: *Informe I*, pp. 91-4.

Figure 7.4

## Institutional Structure of Mercosur

Source: own elaboration based on BID / INTAL:  
*Informe Mercosur* (no. 1, July-Dec 1996)



### *Actors and Participation in the Integration Process*

It is perhaps useful to draw on a classification that divides the actors involved in the integration process into first- and second-level categories.<sup>45</sup> The first-level group comprises government and bureaucratic actors, political leaders and business representatives. The second-level group includes political parties, trade unions and social movements. The distribution of influence and authority reflects the internal reorganisation of political interests and shifts in the nature of political power in Argentina.

The most visible of the first-level actors are, obviously, the Presidents of the member countries, which have been described as motivated by personal leadership goals, a sense of economic opportunity, and the necessity for the projection of their international profiles.<sup>46</sup> Virtually without exception the major summits between Mercosur countries in the 1990s have been dominated by presidential meetings and negotiations. It is also possible that the notable coincidence of positions on integration between national presidents has reduced even further the need for formal institutionalisation in the Southern Cone.<sup>47</sup> The strength of presidential commitment is perhaps also reflected in the appearance of rather overblown and sentimental literary attempts at extolling the virtues of regional unification and Mercosur as the future of the “blessed continent” of Latin America.<sup>48</sup>

Apart from the small bureaucracy of ‘Mercocrats’ which makes up the SAM, the integration process in Mercosur is handled by groups of officials in the relevant ministries in each of the member countries.<sup>49</sup> Therefore, the technocratic teams remain located at national level rather than at supranational level as in the EU, and they remain politically accountable to their respective governments. The Ministries can be seen as responsive to three sets of domestic interests.<sup>50</sup> The first

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<sup>45</sup> This discussion draws on the classification developed in Mónica Hirst: “La Dimensión Política del Mercosur: Actores, Politización e Ideología”, Serie de Documentos e Informes de Investigación no. 198, FLACSO Buenos Aires, November 1995.

<sup>46</sup> Hirst: “La Dimensión Política” (1995), pg 10.

<sup>47</sup> *ibid.*, pg 10.

<sup>48</sup> Carlos Saúl Menem: *Integración Americana* (1991)

<sup>49</sup> Hirst: “La Dimensión Política” (1995), pg 4.

<sup>50</sup> *ibid.*, pp. 5-6.

comprises other state agencies, particularly those concerned with economic issues. The second comprises domestic interests that are positively or adversely affected by intergovernmental negotiations, particularly business interests. The third refers to provincial governments, and particularly with regard to the differentiation (in terms of the distribution of costs and benefits) between interior regions and those closest to the national borders.<sup>51</sup>

The business sector identified in the first-level grouping, as in the classification offered in Chapter 4, relates to big business that is typically transnationally active. Even in the early stages of regional cooperation with the Argentine-Brazilian Economic Integration Programme (ABEIP), the process of integration attracted participants from the Argentine business sector. The leadership of the principal giant corporations (Pérez Companc, Techint and Bunge & Born, for example) were declared to be firmly supportive of the process and willing to consider the creation of companies of dual nationality. In addition, business in both Argentina and Brazil submitted a list of 650 capital goods that they would have liked to be traded duty-free.<sup>52</sup> In the 1990s, however, this interest in regional and transnational networks increased further in conjunction with domestic policy change. As with the domestic reform dynamics, those firms that were already engaged in the process of unilateral liberalisation stood to gain most from regionalisation, and also, not surprisingly, were the least resistant to it.<sup>53</sup> An important part of the consolidation of business support stemmed from the demonstration of the government's commitment to the reform process involved in the regional integration initiative: the locking of economic liberalisation into a set of interstate agreements with medium-term provisions for tariff reductions and long-term plans for the establishment of a common market added credibility to the government's position.

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<sup>51</sup> See *El Economista*, 4 November 1994, for an optimistic account of the provincial impact of integration.

<sup>52</sup> David R. Dávila-Villers: "Competition and Co-operation in the River Plate: The Democratic Transition and Mercosur", *Bulletin of Latin American Research* 11, 3, 1992 (pg 272 & fn. 26).

<sup>53</sup> For an analysis of the different responses of different business sectors, see Andrés López, Gustavo Lugones & Fernando Porta: "Comercio y Competitividad en el Mercosur: Factores Macroeconómicos, Políticas Públicas y Estrategias Privadas", Documentos de Trabajo del CENIT no. 12, Buenos Aires, July 1993.

The coincidence of interests between big business and the state at the domestic level was complemented by a similar coincidence between the activities of big business groups and intergovernmental negotiations at regional level. The private sector was seen as crucial to the success of integration, and therefore representatives (particularly of big businesses) were often involved in talks or at least consulted beforehand.<sup>54</sup> Business interests, however, remain under-represented in the Mercosur, despite the formation of the FCES in 1994 and an agreement between the principal industrial organisations of the member countries (the UIA in the case of Argentina). The preference has remained for informal bargaining channels and lobbying activities as opposed to further institutionalisation at regional level that would give more formal expression to business interests.<sup>55</sup> Informal groupings coordinating the lobbying efforts of the business sector with economic interests in other Mercosur countries were established in Argentina in July 1995 and Brazil in 1994.<sup>56</sup>

As a result, business interests were articulated through the structures of the state, and business participated in the integration process through the channels of intergovernmental negotiations rather than on its own terms. The practical operation of Mercosur, therefore, acted to consolidate the relationship between the state and big business established by the Menem government. Together, therefore, these sets of inter-linked state, political and business interests constituted a nexus of influence at the regional level that acted to consolidate and reinforce both the intergovernmentalist style of integration and the relatively low levels of participation from other societal actors.

The second-level actors have been of clearly marginal importance. In the case of the parties and unions, particularly, this may be traced in large part to the condition in which they found themselves at the start of the 1990s, and further as a result of the policies pursued by the Menem government which neutralised the influence of both the labour sector and political institutions more generally.

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<sup>54</sup> Interview with Alejandro Nayfeld, (Mercosur Negotiator, Argentine Foreign Ministry 1991-2), Buenos Aires, 19 July 1995.

<sup>55</sup> Hirst: "La Dimensión Política" (1995), pg 9.

<sup>56</sup> The so-called Grupo Argentino and Grupo Brasil. Hirst: "La Dimensión Política", fn. 12. A similar organisation (the Grupo Cordillera) was established by Chilean business interests in Argentina.

Although there has been a certain amount of contact and coordination between the labour sectors of the member countries, like business the unions continue to operate principally through national governmental structures. Similarly, small firms were adversely affected by the processes of liberalisation and economic change that were consolidated at both the international / global and regional levels. Argentine firms encountered serious difficulties in competing effectively with Brazilian industries, exacerbating the broader gradual abandonment of industrial strategies in Argentina in the 1990s.<sup>57</sup> This, according to conventional logic, fits with the dynamics of comparative advantage. Political parties, on the other hand, apart from the lack of regional or transnational communication with counterparts in other countries, have never been divided on the issue of Mercosur or regional integration. In Argentina it is seen somewhat symbolically to be a bipartisan project that represents the only point of continuity between the democratic governments that have held power since 1983, and there is no party in the region that fails to see the strategic importance of Mercosur.<sup>58</sup> Therefore, the incentives or reasons for any sort of mobilisation are virtually non-existent.

#### *Mercosur and Intergovernmentalist Theories of Integration*

In sum, the above analyses of institutions and actors point clearly to the highly governmentalist or ‘statist’ nature of regional integration in Mercosur. The composition of the institutions, the nature of negotiations and the channels through which participation is driven clearly privilege governmental and state actors over societal interests. The representation of the latter, therefore, is likely to be influenced by the orientation of domestic governments and dictated largely by circumstances. As such, this would be a form of discretionary or selective representation that is not formalised through institutional or other structures.

In general terms, regional integration may be classified as both a *de facto* process of structural economic regionalisation and as a *de jure* process of

<sup>57</sup> Hirst: “La Dimensión Política” (1995), pg 14.

<sup>58</sup> Interview with Fernando Lahoz, President of the CPC, Buenos Aires 5 May 1997; Interview with Jorge Hugo Herrera Vegas; Mónica Hirst: “La Dimensión Política del Mercosur: Especificidades Nacionales, Aspectos Institucionales y Actores Sociales”, Serie de Documentos e Informes de Investigación no 148, FLACSO Buenos Aires, December 1993 (pg 44).

institutional economic cooperation.<sup>59</sup> The former is linked to the economic change created or driven by globalisation and refers essentially to structural, market-driven developments in international trade and investment flows. The latter is an agency-centred explanation that focuses on the construction of cooperative relationships between state actors in specific settings. In other words, these two classifications relate respectively to the private and public levels on which regionalisation operates.<sup>60</sup> Like in the Asia Pacific<sup>61</sup>, both of these conceptions of regionalism can be identified in the Southern Cone of Latin America. The combination of these perspectives leads into the debate between economics and politics in explaining regional dynamics in the international system.

The difference with the Asia Pacific, however, is that in the Southern Cone the process of *de jure* integration preceded the meaningful development of *de facto* structural integration between the member countries. Furthermore, *de facto* or market-driven integration has historically been far more dominant in Asia than in either Latin America or Europe. Although the process of *de facto* integration has assumed a dynamism of its own since those early stages, then, the principal channels for integration remain governmental, and the consensual decision-making style allows for an *ad hoc* process of intergovernmental cooperation that directs and controls any process of market-driven integration. As such, the Mercosur is clearly an example of what has been termed “regional interstate cooperation” which is elaborated in the following terms:

Unlike some brands of regional integration, such cooperative arrangements are very clearly statist, designed to protect and enhance the role of the state and the power of the government. They involve a reassertion and extension of state authority as part of a process by which states are increasingly willing to trade a degree of legal freedom of action for a greater degree of practical influence over the policies of other states and over the management of common problems.<sup>62</sup>

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<sup>59</sup> See, for example, Charles Oman: “Globalisation and Regionalisation”, pp. 34-6; Richard Higgott: “*De Facto* and *De Jure* Regionalism: The Double Discourse of Regionalism in the Asia Pacific”, *Global Society* 11, 2, 1997; Vincent Cable: “Overview” in Vincent Cable & David Henderson (eds.): *Trade Blocs? The Future of Regional Integration* (1994), pp. 5-6.

<sup>60</sup> Richard Higgott: “Globalisation, Regionalism and Identity in East Asia”.

<sup>61</sup> Higgott: “*De Facto*”.

<sup>62</sup> Andrew Hurrell: “Regionalism in Theoretical Perspective” in Louise Fawcett and Andrew Hurrell (eds.): *Regionalism in World Politics: Regional Organization and International Order* (1995), pg 42.

If, therefore, *de jure* integration is equated with explanations that highlight the role of the state and privilege agency over structure, the case for a state-centred explanation of the establishment (at least) of Mercosur is strengthened.

Furthermore, regionalism in the Southern Cone can be identified as driven by processes of bargaining among elites.<sup>63</sup> Negotiations generally are conducted between officials at the highest levels of the state bureaucracy, with some input (usually in the form of lobbying pressure) from business elites. Returning to the earlier contention that “regionalising elites are also globalising elites”, the dominance of the state in interstate forms of regionalism reinforces of a conception of regional integration which in this case has the effect of strengthening the state and excluding serious participation from non-state actors (or indeed from non-elites). A corollary observation is that this group of regionalising or globalising elites is relatively homogeneous, not only in terms of size but also in terms of interests: these are precisely those domestic state actors that either identify the national interests as being tied to the processes of globalisation or internationalisation, or those sectors of the business elite that share this ‘globalist’ orientation.

The application of ideas from the literature on European integration to Latin American regionalism becomes particularly instructive at this stage, and provides additional theoretical insights into the national political implications of regionalisation and the impact of integration on ideas about state power.<sup>64</sup> The Mercosur appears to fit particularly well with intergovernmentalist perspectives on integration which developed in response to the inadequacies of neofunctionalist theory in explaining and predicting the process of European integration. An elaboration on some of the ideas developed in this literature, and particularly of

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<sup>63</sup> For an interesting account of elite bargaining in European integration, see Wayne Sandholtz & John Zysman: “1992: Recasting the European Bargain”, *World Politics* XLII, 1, October 1989.

<sup>64</sup> For general accounts of European integration theory, see: Thomas Risse-Kappen: “Exploring the Nature of the Beast: International Relations Theory and Comparative Policy Analysis Meet the European Union”, *Journal of Common Market Studies* 34, 1, March 1996; Hurrell: “Regionalism in Theoretical Perspective”; Simon Hix: “The Study of the European Community: the Challenge to Comparative Politics”, *West European Politics* 17, 1, January 1994; Linda Cornett & James A. Caporaso: “‘And it Still Moves!’ State Interests and Social Forces in the European Community” in James N. Rosenau & Ernst-Otto Czempiel (eds.): *Governance Without Government: Order and Change in World Politics* (1992).

neofunctionalist, intergovernmentalist and ‘multilevel governance’ approaches, the above analysis of the nature of regionalism in the Southern Cone can be concretised and clarified further.

Neofunctionalist theory was essentially an incarnation of pluralism, in which the actions of a particular state are determined by pressures from a variety of societal and bureaucratic actors. In Haas’s famous conception, regional integration was concerned with “how and why states cease to be wholly sovereign, how and why they voluntarily mingle, merge and mix with their neighbours so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflict themselves”, or alternatively “the process whereby actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new centre whose institutions possess or demand jurisdiction over pre-existing national states”.<sup>65</sup> As such, integration was an inherently and fundamentally political process that involved the reconciliation of social diversities and the balancing of conflicting societal interests.<sup>66</sup> Ideas about transnationalism and transgovernmentalism made much of the transborder linkages between these categories of national actors and their counterparts abroad.<sup>67</sup>

The main contribution of neofunctionalism, however, lies in the concept of ‘spillover’ which envisaged regionalism as a process which assumes a momentum of its own. According to this conception, regional integration in certain sectors ‘spills over’ into others due to technical pressures and the integrated nature of modern industrial economies.<sup>68</sup> Furthermore, the idea of ‘political spillover’ (as opposed to ‘functional spillover’) predicts that political pressures for continued and expanded integration will accumulate within the states concerned, propelling forward the process of regional integration. Thus, the suggestion offered by the concept of ‘spillover’ that processes of regional integration will be self-sustaining rests on a form of economic determinism based on endogenous economic and political dynamics.<sup>69</sup>

<sup>65</sup> Ernst B. Haas: “The Study of Regional Integration: Reflections on the Joy and Anguish of Pre-Theorizing”, *International Organization* 24, 1970 (pg 610); *The Uniting of Europe: Political, Social and Economic Forces* (1958), pp. xv-xvi.

<sup>66</sup> Michael O’Neill: *The Politics of European Integration: A Reader* (1996), pg 38.

<sup>67</sup> Stephen George: *Politics and Policy in the European Union* (1996), pp. 36-37.

<sup>68</sup> George, pg 37.

<sup>69</sup> Moravcsik: “Preferences and Power”, pg 475.

Liberal intergovernmentalism is associated most clearly with Stanley Hoffman<sup>70</sup> and later Andrew Moravcsik<sup>71</sup>, and responds to three principal shortcomings of the neofunctionalist approach to integration: first, that theories of regional integration needed to take into account national responses to international interdependence; second, that the development of common policy responses deserved as much attention as institutional transfers of competence and authority; and third, that unicausal theories were inadequate in the study of European integration.<sup>72</sup> The (temporary) demise of neofunctionalism following the 1965 crisis in the European Community can be traced largely to its “underestimation of the residual power of nation-statehood”<sup>73</sup> and the enduring nature of distinctively national concerns that underpins contemporary regionalism.<sup>74</sup> As such, therefore, the early intergovernmentalist models offered by Hoffman were firmly rooted in the realist tradition of international relations theory, according to which states remain impermeable and relations between states determined by ‘collisions’ between them (along the lines of the ‘billiard ball’ analogy) in an anarchic environment.

The basic premise of the liberal intergovernmentalist approach was that the EC could be seen as an example of a successful international regime, in which states’ behaviour reflected “the rational actions of governments constrained at home by domestic social pressures and abroad by their strategic environment”.<sup>75</sup> The approach comprised three elements: (a) the assumption of rational state behaviour, (b) a liberal theory of national preference formation, and (c) an intergovernmentalist analysis of interstate negotiation.<sup>76</sup> The emphasis, ultimately, was on the state as the principal actor in the integration process. Integration was

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<sup>70</sup> For example: “Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe”, *Daedalus* 95, 1966; “Reflections on the Nation-State in Western Europe Today”, *Journal of Common Market Studies* 21, 1982

<sup>71</sup> For example: “Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community”, *International Organization* 45, 1991; “Preferences and Power”.

<sup>72</sup> Moravcsik: “Preferences and Power”, pp. 479-80; George, pg 51.

<sup>73</sup> O’Neill, pg 50.

<sup>74</sup> Neofunctionalism was also attacked for its neglect of the wider international environment and the role of leadership in determining policy outcomes.

<sup>75</sup> Moravcsik: “Preferences and Power”, pg 474.

<sup>76</sup> *ibid.*, pg 480.

seen as result of interstate bargains, in which national governments are the driving forces.

The assumption of rationality, however, is modified in Moravcsik's intergovernmentalism. The preferences of states are not seen to be fixed nor defined *a priori*, contrary to the assertions of realist and neo-realist theories of international relations and, consequently, to Hoffman's approach. Rather, state preferences are seen to be determined in the domestic arena and to "emerge through domestic political conflict as societal groups compete for political influence, national and transnational coalitions form, and new policy alternatives are recognized by governments".<sup>77</sup>

Like in the Asia Pacific region<sup>78</sup>, integration in the Southern Cone fits well with these theories of liberal intergovernmentalism, particularly in their stipulation that integration will be the result of a process of bargaining between national governments which will, importantly, respond to specifically national interests expressed at the domestic level. We have already seen that in practice the Argentine state acts as both the mediator between and the representative of (selected) broader societal interests in the context of intergovernmental negotiations. This may well be in part a result of the changes in state power that have occurred as a result of domestic policies pursued by Menem, but it is also the case that the particular model of regionalism that has developed in the Southern Cone is essentially state- and elite-dominated. The style is highly intergovernmental which militates against a more inclusionary process of integration in terms of broad-based and direct participation by non-state actors.

The alternative perspective on participation might be derived from the principal challenge in the European literature to intergovernmentalism - 'multilevel governance' theory - which sees the process of integration as controlled by actors other than national governments. Multilevel governance theory argues that, contrary to the assumption of the intergovernmentalist approach that collective decision-making compromises the control exercised by the national state over the integration process, decision-making authority in Europe rests with various actors

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<sup>77</sup> *ibid.*, pg 481.

<sup>78</sup> See Higgott: "Economic Co-operation in the Asia Pacific", esp. pp. 374-5

at different levels, and the political systems of member states cannot be seen as separate in the way that intergovernmentalists like Moravcsik would claim.<sup>79</sup>

Although Moravcsik's approach explicitly does not rest on a vision of the state as a unitary actor, the multilevel governance response thus disaggregates the nature of political actors in a given context to a much greater extent than intergovernmentalism, placing emphasis on transnational linkages between non-state actors and interests, and the role of supranational institutions in limiting the overall decision-making influence of national governments. Therefore, "the increasing importance of subnational levels of decision-making and their myriad connections with other levels" is a critical element in the debate that is neglected by an excessive concentration on national and supranational institutional formation.<sup>80</sup>

Multilevel governance, therefore, is defined as "a system of continuous negotiation between nested governments at several territorial tiers - supranational, national, regional, and local - as a result of a broad process of institutional creation and decisional reallocation that has pulled some previously centralized functions of the state up to the supranational level and some down to the local/regional level".<sup>81</sup> In this way, there has been a shift in the locus of political control in the European Union, and the sovereignty of individual states has become diluted as a result.<sup>82</sup>

We have seen, however, that in the case of Argentina and Mercosur the possibilities for such overlapping spheres of authority and participation are sharply reduced as a result of both the nature of the regionalism concerned and the institutional structures and political processes that reflect this general orientation towards state-dominated forms of organisation. The absence of supranational institutions militates against the location of substantive and autonomous decision-making authority at the regional level. Although we have argued that policy-making functions were effectively removed from the direct control of the state, this

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<sup>79</sup> George, pg 53.

<sup>80</sup> Gary Marks: "Structural Policy and Multilevel Governance in the EC" in Alan Cafruny & Glenda Rosenthal (eds.): *The State of the European Community* (Vol. 2: *The Maastricht Debates and Beyond*), (1993), pg 392.

<sup>81</sup> Marks, pg 392.

<sup>82</sup> Gary Marks, Liesbet Hooghe & Kermit Blank: "European Integration from the 1980s: State-Centric v. Multilevel Governance", *Journal of Common Market Studies* 34, 3, September 1996 (pg 342).

refers to the consolidation of an economic model through interstate agreements rather than to the devolution of decision-making functions to institutions with overarching supranational authority.

Similarly, the regional or local dimension does not work particularly well in the study of the Southern Cone. On the one hand, as argued in the Chapter 5, the development of civil society in Argentina or Latin America in the early 1990s was not particularly well-advanced, and transnational networks between non-state actors were therefore at best in embryonic form during much of the first Menem administration. On the other hand, the consolidation of state power in Argentina led to the situation, as we have seen, in which societal interests were represented in the integration process only in limited form and only after being filtered through government and state channels. Together with the weakening effects of globalisation on its opponents (including through such concrete mechanisms as conditionality) and problems in the early 1990s between the national and provincial governments, the idea of 'decisional reallocation' to the local level does not present itself as an accurate reflection of the process of regionalisation in which Argentina has been involved.

Therefore, both in our analysis and in the insights offered by liberal intergovernmentalism, to privilege the state in explanations of South American regionalism (and the participation of individual countries in it) does not appear to be misplaced on either the theoretical or the empirical level. Neither the supranational emphasis of neofunctionalism nor the 'decisional reallocation' processes identified by multilevel governance theory work on an empirical level to explain or describe regionalisation in Mercosur. The intergovernmentalist approach, on the other hand, reflects well the nature of regionalism and interstate cooperation in the Southern Cone. The analysis in preceding chapters has shown that the strengthening of state power in the domestic arena has not led to the disappearance of these interests but rather to a reorganisation of political power structures, and this chapter has demonstrated that the state does have to be responsive to certain sets of interests in its negotiations at the regional level. In this sense, governments may be seen to be acting out the archetypal two-level game

scenario<sup>83</sup>, in which international and domestic bargaining processes are closely interlinked and negotiators are responsive to the exigencies of both the international / regional and domestic settings.

Intergovernmentalist theories argue that regionalism can strengthen the state “since the regional integration of previously domestic issues tends to remove those issues from domestic controversy and into the arena of executive control”.<sup>84</sup> This reflects the arguments of this chapter that the regional ‘rescue’ of the state refers not to the development of supranational institutions (with mandates and authority that transcend the nation-state) but rather to economic mechanisms which consolidate certain types of economic policy by establishing an element of irreversibility through interstate agreements. Furthermore, intergovernmentalism accurately describes the negotiating processes by which these decisions are reached which, in the case of Argentina, reinforced and consolidated the Menem government’s redistribution of political power.

### *Regionalism, Democratisation and the Military*

The only remaining thread of the argument concerns the position of the military under the impact of regionalisation and the broader question of democratisation. Although the motivations for integration in the Southern Cone have become principally economic and market-oriented, particularly in the links with globalisation and competitiveness, its origins may be seen to have a significant political and security dimension that is closely linked to the democratic transition with which early cooperation efforts coincided. The preface to the Act of Integration and Cooperation signed on 29 July 1986, for example, established the process of cooperation to involve “a new impulse to Latin American integration and to the consolidation of peace, democracy, security and development in the

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<sup>83</sup> See Robert Putnam: “Diplomacy and Domestic Politics: The Logic of Two-Level Games”, *International Organization* 42, Summer 1988, and Peter B. Evans, Harold K. Jacobson & Robert D. Putnam (eds.): *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, Berkeley: University of California, 1993.

<sup>84</sup> Cord Jakobeit: “The Theoretical Dimensions of Regional Integration: Have the Motives for Developing Countries Changed?” in Heribert Dieter (ed.): *The Regionalization of the World Economy and Consequences for Southern Africa* (1997), pg 15.

region".<sup>85</sup> Along with agreements on nuclear cooperation and non-proliferation, and the harmonisation of regional security policies, it is clear that these developments contributed significantly to the demilitarisation efforts pursued concurrently in both countries.

Like most of the developments in political and economic change identified in the thesis, the pro-active / re-active dynamics work simultaneously. In this way, the security policies pursued in the regional context were both a result of the domestic processes of transition and demilitarisation and a means by which these were facilitated or reinforced. Similarly, regional policies are influenced by shifts in the foreign policies of the member countries in the 1990s and changes in international politics more generally.<sup>86</sup> In this way, then, the processes of transition in both Brazil and Argentina, and later in Uruguay and Paraguay, made the establishment of the Mercosur possible, but were also in turn reinforced by the construction of a regional political consensus.

In addition, with the end of the Cold War, the defence of democracy became an integral part of the international system, and it became important to be able to profess oneself to be democratic in order to participate in the international and regional arenas. Therefore, the Mercosur arrangement makes the maintenance of a democratic regime a pre-requisite for participation. In addition, the treaties negotiated with Spain and Italy in the early 1990s by the Menem government included clauses which stated that the agreements were dependent on the maintenance of democratic rule, which assumed a particular relevance given the series of military uprisings in the late 1980s and early 1990s. The regional reaction to the attempted coup in Paraguay in 1996 demonstrates that direct military intervention in politics has been complicated significantly by the establishment of integration in the Southern Cone.

Furthermore, regional integration bolstered a new orientation in thinking about the military and military issues, which ties in with the redefinition of the role

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<sup>85</sup> Dávila-Villers, pg 272

<sup>86</sup> For a synthesis of some of these arguments, see Mónica Hirst: "Security Policies, Democratization and Regional Integration in the Southern Cone" in *Democracia, Seguridad e Integración: América Latina en un Mundo en Transición* (1996); and "Las Relaciones de América Latina en los Años '90: Nuevos Desafíos y Viejos Dilemas", Serie de Documentos e Informes de Investigación no. 148, FLACSO, Buenos Aires, December 1993.

of the Armed Forces and its subordination to civilian authority outlined in Chapter 4. Although a concerted common security and defence policy has not emerged in the Southern Cone, however, and significant differences in political and foreign policy preferences persist between the member countries<sup>87</sup>, developments at the regional level acted visibly to reinforce the processes of political change and demilitarisation at the domestic level in Argentina. These are mainly associated with the question of the consolidation of democracy and regional stability. In this sense, the Argentine government's project of political reorganisation found further expression in new sets of principles and regulations established outside the boundaries of the national state.

## Conclusion

Regionalisation, therefore, is similar in some ways to conditionality, in that it should be seen both as a dimension of external influence and as the result of purposive government policy. In this sense, the analyses of regionalisation and conditionality can be used to demonstrate the closely interlinked nature of inputs and outputs, and also the limitations of drawing too sharp a distinction between different levels of analysis. Particularly in terms of economic policy, it has become almost impossible to identify any dividing lines, let alone blurred ones, between elements that might previously have been considered either 'domestic' or 'foreign'. In this sense, the international / regional and domestic levels are absolutely interconnected.

Regionalisation acted to reinforce and consolidate political and economic reform in Argentina since the early 1990s. As such, it has contributed to the strengthening of the state and the consolidation of state power. Although policy autonomy was significantly constrained as a result of regional integration (and globalisation), the autonomy of the state vis-à-vis societal interests was greatly enhanced, opening up the space for a significant consolidation of the political and economic changes implemented in the 1989-91 period. In the context of the analysis in this chapter, this was a result both of regional dynamics that have acted

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<sup>87</sup> See Hirst: "Security Policies".

to 'lock in' a particular economic model and offset potential opposition to it and of highly statist / intergovernmental structures of regional relations that are elite-driven with limited participation from non-state, non-elite actors. Those groups that did participate in the integration process, such as big business, did so through lobbying activities and consultation with the national government rather than on their own terms.

A corollary to these arguments refers to the frequent and mistaken assumption that regionalism depends on a diminution of state strength, along the same lines as the 'pooling of sovereignty' argument. State strength or highly statist political arrangements are seen to militate against the process of regionalisation. According to this conception, regionalism necessarily entails a loss of power for national states as decision-making and other forms of authority are transferred to the regional level. This also coincides with the implications of the 'rescue of the state' argument, in the sense that it was a crisis of the state that created the conditions for the devolution of authority to the regional level. However, rather than being seen as an obstacle to regionalism, state strength must be considered to be essential to the successful construction of a regional bloc. As Andrew Hurrell observes, the most elaborate and dynamic cases of regionalism - that is, the EC, NAFTA, ASEAN and Mercosur - have emerged in precisely those regions in which state structures remain comparatively strong, and where frontiers and regimes have not been called into serious question. Conversely, in regions characterised by weak state structures, low levels of state effectiveness, political instability and recurrent crises of the state (such as parts of Africa and South Asia), the process of region-building or regionalisation has been highly problematic and to date relatively unsuccessful.<sup>88</sup>

The empirical evidence therefore suggests that a high degree of state coherence and cohesion favours regionalism, and possibly that state strength is a pre-requisite for successful regionalisation. This complements the state-centric approach offered by theories of integration such as liberal intergovernmentalism, which accord prime importance to national states in processes of regionalisation. If integration remains primarily the concern and domain of national states, and

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<sup>88</sup> "Regionalism in Theoretical Perspective", pg 67.

regional negotiations remain dominated by national governments responding to domestically-defined national interests, then it follows that the more effective and coherent the individual member states involved, the more likely the process of regionalisation is to advance and be consolidated, at least in the short term.<sup>89</sup>

Regionalisation, then, is the third and last of the dimensions of international influence that have been identified in the thesis. Along with conditionality, it represents an important mechanism by which the influence of globalisation is transmitted and the interests of a globalised international economy are served. In this sense, regionalism is a means by which the national conditions necessary for the maintenance of the process of globalisation are created and sustained, as well as providing a basis on which states (or countries) can respond to the imperatives and opportunities thrown up by international change of this sort. Furthermore, on its own terms regionalisation has worked, and been deliberately designed, to 'lock in' a set of neoliberal policies compatible with the demands of a globalised international economy, and furthermore to consolidate a political model based on a strengthening of state power *vis-à-vis* domestic societal interests.

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<sup>89</sup> It may well be, however, that the development of the regional bloc following its initial establishment and consolidation may lead to pressures for new forms of institutional organisation which involve the construction of supranational forms of decision-making authority that compromise state power in one form or another. See Hurrell: "Regionalism in Theoretical Perspective", pg 67. This explains clearly resistance in Argentina and Brazil to further institutionalisation in the Mercosur.

## Chapter 8

### Conclusions and Perspectives

#### The Argument

The central research question of the thesis concerned the ways in which sustained and consolidated political and economic reform became possible in Argentina, when patterns of post-war development would have predicted otherwise. The thesis showed that the reform process under the first Menem administration should be seen as having 'broken the logic' of Argentine politics in its achievement of durable change. As such, this constitutes a reformulation of the questions that are usually asked about reform in Argentina. The usual 'why did reform happen' question is explained with reference to the politics of crisis and hyperinflation which opened up a space for radical economic and political restructuring. What these perspectives cannot answer is the 'why did it last' question. The thesis has offered an explanation for the consolidation of reform that focuses on international currents of influence.

Chapters 3 and 4 detailed the nature of the political and economic reform processes directed by the Menem government from 1989 to 1995. In the economic sphere, the process was one of neoliberal restructuring, which emphasised policies of deregulation and liberalisation and the 'reform of the state'. From April 1991 onwards these were encapsulated in the 'Convertibility Plan' which achieved the virtual elimination of inflation and exchange rate stability. In the political sphere, the Menem government achieved the significant disempowerment of the traditional veto powers in Argentine politics (labour and the military) and the establishment of an alliance with the holders of economic power (business and the technocrats). The 'logic' of Argentine politics (outlined in Chapter 2) would have suggested a resurgence of these disempowered political interests from 1991, and a consequent reduction in macroeconomic consistency. Rather, from 1991/2 to the end of the first Menem administration in 1995, the processes of both economic and political restructuring were sustained and consolidated.

It was argued that both the implementation and the consolidation of reform depended on an enhancement of state power, defined in the Introduction in terms of the government's capacities to implement its preferences and its degree of centralisation and insulation from society. The initial autonomy was derived from the conditions of crisis and hyperinflation, which allowed a short-term space for the implementation of the reform package. However, the autonomy necessary for the consolidation of the package was derived from other sources, which were identified in the thesis as the influences of globalisation, conditionality and regionalisation.

The conceptual construct used to elaborate these arguments was the 'paradox of state power' which arises as a result of these international influences. According to this formulation, state power was seen to be reduced in the international arena but 'strengthened' in the domestic arena. The first relates to the limitations imposed by the specific types of international change examined in the thesis on the policy-making autonomy of national states, primarily as a result of the changing structure of rewards and punishments in the international economy. The second relates to the increasing centralisation of political power and the insulation of the state from societal interests, as well as the state's policy-making effectiveness. Specifically, the strengthening of the state allowed for a consolidation of state power. This in turn allowed for a situation of 'increasing returns to power', in which there was a progressive accretion of political capital and an increase in presidential popularity as the reform programme advanced. As a result, the consolidation of reform was made possible after 1991/2. As such, globalisation has both a constraining and enabling impact on state actions and reform processes. The nature and mechanics of this impact were analysed in detail in Chapter 5.

The augmentation of the capacity of the state to implement its preferences and centralise power stemmed from the government's very deliberate use of international constraints to overcome domestic constraints. The increasing returns to power as a result of the initial successes of the reform strategy can be seen to derive from the rewards to conformity in the international economy described above. The responses of the capital markets in an era of globalisation, furthermore,

tends to weight political alignments in favour of economic actors whose interests are consistent with the neoliberal orientation of the international economy as well as those with transnational linkages. As such, the process of political reform instigated by Menem was accommodated to the specific type of coalition that the government needed to assemble in support of the new economic model, in order to enhance credibility and competitiveness in the international economy. Chapter 6 demonstrated, in addition, the role of international financial institutions in offsetting potential opposition to the new international model and the implications of specific conditionality provisions for various societal actors. Similarly, the regional impact examined in Chapter 7 reinforced this type of political structure through the strongly intergovernmental nature of integration and the privileging of elements of the business sector at the expense of other societal actors.

It has been shown that these international influences were very deliberately *used* by the Menem government in order to reinforce its strategies of political (and economic) reorganisation. This was not a process of external influence that acted independently of the government. There was a clear coincidence of interests between the Argentine state and the agents of the globalising international system which opened the space for a constructive relationship. Specifically, the external factors (such as the changing dimensions of international finance, the new development ‘consensus’ and the conditionality attached to loans from multilateral financial institutions) acted as an additional legitimating element for the economic restructuring process and contributed a perception of compulsion and necessity. In the political sphere, these factors facilitated the consolidation an exclusionary model of state-society relations and a centralised and presidentialist style of government.

The dimensions of our ‘paradox of state power’ are linked by two further ideas: the international / regional ‘rescue’ and the ‘internationalisation’ of the state’. The first was a mechanism used to alleviate the crisis situation in the first couple of years of the Menem government. The second was a consequence of the first, and the most important dimension in the consolidation of reform. Both involved the voluntary consolidation or ‘locking in’ of policy options at the international and regional levels. The ‘rescue’ of the state provided the means by

which the fiscal crisis and the question of ungovernability were resolved as a result of the increasing location of responsibility for policy-making at the international and regional levels. Furthermore, the operation and performance of the economy became increasingly dependent on international and regional dynamics. Although this undoubtedly increased the vulnerability of the state and economy to external shocks (produced by the same forces of change), it nevertheless 'rescued' the state by enhancing the space for reform strategies and resolving the fiscal crisis.

The consequent 'internationalisation' of the state created the political and economic space for sustained reform in Argentina by providing an additional 'support structure' for the reform efforts. The effect was to remove the operation of the economy from the direct control of the state once these reforms had been implemented. In political terms, these developments reduced the effectiveness or utility of lobbying efforts on the part of organised interests in society by breaking down traditional linkages between state and society. The internationalisation of the state (of which the 'technocratisation' of government is an integral part) contributed to an increase in its implementation capacities and its insulation from civil society, particularly from organised groups such as trade unions, and the nature of reform eliminated the arenas in which these interests had formerly been active. As such, the internationalisation of the state contributed significantly to the consolidation of the political restructuring effected by the Menem government and the centralisation of political power in Argentina.

We have seen that the process was one of voluntarily-imposed restrictions on policy innovation through the 'locking in' of reform originating at the international and regional levels. As such, the reforms implemented at the national level were accorded a degree of irreversibility through the coincidence of national and international preferences and priorities. This, however, is part of a broader picture which concerns the state's abandonment of its control over a variety of policy instruments and the reduction of its role in the distribution of resources.<sup>1</sup> Such measures at the domestic level as the establishment of the independence of the Central Bank and Convertibility have the effect of severely curtailing the state's

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<sup>1</sup> Stephan Haggard & Robert R. Kaufman: "Estado y Reforma Económica: La Iniciación y Consolidación de las Políticas de Mercado", *Desarrollo Económico* 35, 139, Oct-Dec 1995 (pg 356).

capacity for discretionary action. Similarly, neoliberal reform is all about the reduction in the size and role of the state through such measures as privatisation and deregulation. The market, rather than the state, becomes the principal mechanism for resource allocation and in this way the problems of the hyper-politicised state discussed in Chapter 2 are overcome. This process, then, is conducted at the international, regional and domestic levels, and is concerned with the establishment of credibility: by imposing restrictions on itself, the government is able to demonstrate its commitment to its economic orientation to the international financial community and the domestic sector on which it depends for the success of reform.

### **The Contribution to the Study of Argentina**

The contribution to the study of Argentina offered in the thesis relate both to the reformulation of the issues and to the sustained analysis of the role of international factors in explaining the consolidation of the Menem government's reform package. Neither of these elements of the empirical agenda of the thesis is readily found in the existing literature on reform processes in general or on Argentina in particular. Furthermore, the emphasis on the 'phases' of reform casts light on new and emerging issues that are increasingly important in the study of Argentina and Latin America. The 'consolidation' phase of reform is characteristically associated with increased pressures for participation and accountability and with demands for the 'democratisation' of the state. This can be seen clearly in the development of new forms of opposition in Argentina, such as the FREPASO. As such, the consolidation phase of reform necessarily involves the elaboration of different political strategies that aim to manage and channel opposition, in this case through the consolidation of political restructuring and the use of international processes to reinforce these changes.

Second, the thesis offered an analysis of the nature and impact of international influences which have been underdeveloped in the literature. Apart from the role of these in the consolidation of economic and political reform in Argentina from 1991/2 onwards (which have been described above), the thesis

identified an important empirical argument to supplement the theoretical arguments covered in the next section. The influences of conditionality and regional integration were identified as among the principal mechanisms by which the two major bottlenecks in the Argentine political economy - problems of (mis)management and growth - were overcome in the 1989-95 period. The influence of the IFIs was presented as a mechanism by which questions of economic management were addressed, through the existence of binding conditionality provisions and the more consistent supervision of the Argentine political economy as a result of the changes associated with globalisation. Changes in the style of negotiation between the institutions and national governments made this situation more palatable than previously. The stagnation problem, which can be traced to a crisis in the export economy, was addressed in part by the establishment of the Mercosur which allowed for the significant expansion of the external sector (as demonstrated in table form in Chapter 7). Apart from their theoretical significance, therefore, the identification of conditionality and regional integration as two of the dimensions of international influence had an important empirical validity.

The third contribution to the study of Argentina (and reform) has been the demonstration of the central importance retained by the state, especially in the context of the 'paradox of state power'. In the 'implementation' stages of reform the process of policy change stemmed from purposive actions on the part of the government which progressively eroded its direct control over the economy. The implementation of policies of liberalisation, deregulation and administrative reform, as well as specific measures such as Convertibility all acted to reduce the size of the public sector and the regulatory influence of the state on the economy. As a direct result, however, this strengthened both its capacities and its insulation from society, which constituted our parameters of 'state power'. Furthermore, the thesis drew attention to the differences in the role of the state in countries like Argentina that were concerned to establish and consolidate a functioning market economy, rather than in the more developed market economies of the world. As such, the thesis has demonstrated that a relatively statist approach to Argentine and Latin American political economy is neither outdated nor anachronistic, but rather

the most appropriate starting point for the study of contemporary change in these areas.

### **The Contribution to the Study of IPE**

Clearly the thesis took as its starting point questions concerning reform in Argentina, and concepts grounded in the study of IPE were used to explain certain anomalies in this particular empirical case. Nevertheless, the Introduction highlighted that the thesis had both an empirical and a theoretical agenda, and that the application of the ideas to the case of Argentina would throw significant light on the ideas themselves. Returning to proposed contributions outlined in the Introduction, then, we can elaborate the contributions of the thesis to the study of IPE.

The thesis offered an analysis of the linkages between domestic and international factors which contributed a specific conception of the nature of the dynamic interaction. On the one hand, it identified three dimensions of international influence and showed how these affected processes of change at the national level (in this case in Argentina). On another level, it demonstrated the ways in which there is a 'loop' between the national and the international which creates a relationship of mutual feeding and reinforcement. The processes of change generated and consolidated at the domestic level by the identified international influences in turn shape and sustain the global order.

Although this is not a particularly novel assertion in itself, the thesis deliberately aimed to identify the specific mechanisms by which this interaction occurs. It focused on what happens at the 'sharp end' of globalisation in terms of the concrete ways in which it is manifested at the national level. This constitutes its major contribution. The 'mediating' variables were identified as the conditionality provisions attached to loans from the international financial institutions and regional integration. On the one hand, these were presented as both transmission mechanisms for the influences of globalisation and as the principal means by which these influences are translated into concrete policy outcomes. On the other hand, they were also identified as the mechanisms by which the conditions are created for

the maintenance and development of the global order itself. Conditionality, specifically, was identified as standing at the interface between the national and the international, and as creating the policy conditions at the national level that are necessary for the consolidation of the global orientation. Similarly, regionalisation was presented as a form of 'limited globalisation' in which these same policy conditions (particularly liberalisation) could most easily and effectively be achieved.

Second, the thesis aimed to contribute to the study of globalisation as a branch of IPE. This involved the classification of our three dimensions of influence which contributed a broader conceptualisation of what is usually presented as 'the international economy' or indeed 'globalisation'. The previous section demonstrated the interconnected nature of these influences and the ways in which the consideration of the second and third - conditionality and regionalisation - contributed to a more specific and detailed understanding of globalisation. With respect to 'globalisation', the thesis provided an empirical application to a region that is not usually considered in the literature and, more importantly, engaged with the debate on globalisation and the state. The 'paradox of state power' formulation extends and tightens the somewhat imprecise metaphor of the 'competition state', and thereby engages with IPE and the study of globalisation as well as the political economy of Argentina.

The study of conditionality was advanced, it is hoped, by a focus on the contemporary dynamics which stem from significant change in the operations of the IFIs as well as the processes of negotiation with national governments. The changing orientation of conditionality (encapsulated in the good governance concept) and changes in the nature of relations with borrowing countries (towards greater flexibility and negotiation) have led to a fundamental shift in perceptions of conditionality and the IFIs in Latin America. In addition, the literature for the most part has not related these influences to the processes of globalisation, which appears to be a significant omission. With the development of globalisation, the role of the IFIs has assumed additional importance in view of the need to generate a degree of policy convergence at the national level. This is necessary, as discussed above, both for the maintenance of domestic growth (through the attraction of

foreign capital and trade flows) and for the development of the globalised international order. In this way, the links between the policy ‘agenda’ of globalisation and the lending activities of the IFIs become pivotal to an understanding of contemporary trends.

The novel elements of the treatment of regionalisation, finally, lay in its presentation as a policy input with significant implications for the nature of state power. At the empirical level, the thesis offered an analysis of the impact of the institutional structures and decision-making procedures in relation to the political and economic reform agenda pursued by the Menem government. These sorts of connections are not generally addressed in the existing literature and, as with the discussion of conditionality, the focus on state power in the thesis sheds light on precisely these issues. The theoretical dimensions of the analysis located regionalisation in the Southern Cone in the context of the globalisation process, and showed how this particular instance of regional integration constitutes a means of engaging with the processes of broader international change. If conditionality is the ‘transmission mechanism’, then, we can perhaps see regional integration as the principal *response* to globalisation and a significant means by which member countries attempt to meet the requirements and challenges they currently face. In this way, the thesis suggested an understanding of regionalisation which emphasises the multi-way ‘loop’, or the dynamic interaction, between national and international processes of change.

### **The ‘Depoliticisation of the State’ Debate**

The above discussion of state power feeds into another growing debate in the IPE literature on the ‘depoliticisation of the state’. The analysis in the thesis took issue with the idea of a ‘separation’ between economics and politics that is often ascribed to processes of neoliberal economic management. We saw, for example, the highly political nature of Menem’s political reform which aimed to disempower interests in society and insulate the state from the associated pressures. Similarly, the discussion of globalisation and the state, and the paradox of state power itself, refuted the notion of a ‘powerless’ state as a result of international

change and domestic reform processes. The concept in recent IPE of ‘depoliticised’ economic management, in the same way, does not suggest the ‘end of politics’ or the “wholesale evacuation of politics from policymaking”.<sup>2</sup> The depoliticisation of the state refers, rather, to strategies which aim to “place at one remove the political character of decision-making”. The act of depoliticisation itself is highly political, and state managers “retain arms-length control over crucial economic processes whilst benefiting from the distancing effect of depoliticisation”.<sup>3</sup>

This clearly fits well with the arguments advanced in the thesis about Argentine political economy and the concept of the internationalisation of the state used to explain the dynamics of the reform process. The position of ‘one remove’ according to our argument and the bulk of the ‘depoliticisation of the state’ literature is, obviously, located at the international and regional levels. In the Argentine case, furthermore, internal political and economic restructuring achieved the highly politicised depoliticisation of the arena in which interests formerly had exercised a significant veto power over the policy process. In this light, it is useful to build on a typology offered by Peter Burnham in a recent paper<sup>4</sup>, and to construct a similar outline for the case of Argentina (Figures 8.1 and 8.2).

The implications of both the theoretical and empirical analysis offered in the thesis, then, is that the relegation of the state in contemporary IPE and political science is misplaced, both in general and in the study of Argentina and Latin America. Although, as the Figures below demonstrate, the case of Argentina and the characteristic impact of globalisation have generated the ‘depoliticisation’ of the state according to the definition outlined above, this does not translate into either the elimination of politics or the demise of the state. Rather, both remain pivotal to generating and sustaining processes of international change, and in managing the domestic political economy. Especially since the Mexican and Asian crises, the new awareness of the need for a ‘management’ of globalisation again has propelled the state and policy choice to centre-stage. Furthermore, the type of

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<sup>2</sup> Peter Burnham: “IPE, Marxian Political Economy and Governing Strategies in the 1990s: The Politics of State and Labour”, mimeo, University of Warwick, May 1998 (pg 13).

<sup>3</sup> ibid., pgs 13 & 20.

<sup>4</sup> op.cit.

**Figure 8.1: Politicised Economic Management in Argentina**

### **Politicised Economic Management in the Post-War Period**

1. Discretion-based
2. Government assumes responsibility for economic regulation, economic management and public welfare.
2. Emphasis on direct intervention (labour, capital, finance) and conciliation / co-optation.
3. Upshot is that 'economic' crisis routinely becomes a 'political' crisis, accounting for the prevalence of both simultaneously. Government takes considerable credit for successful policy / economic performance.

#### **Principal characteristic features:**

- Direct controls (production, consumption, exchange)
- Formal and informal incomes policies
- Fiscal and monetary 'autonomy'
- Discretionary control over foreign capital flows and trade
- Growth of the public sector: 'state as employer', leading to political disputes
- Centralisation of policy-making functions
- Corporatist system of interest representation, state 'control' of political actors
- Resort to inflationary policies as substitute for redistribution

**Figure 8.2: Depoliticised Economic Management in Argentina**

### **Depoliticised Economic Management, 1989-**

1. Rules-based
2. Aim: to increase government control and protect government from political backlash
3. Acceptance of binding 'rules' limiting government room for manoeuvre, at both domestic and international levels (Convertibility, conditionality, etc.)
4. Increased external validation of policy
5. Development of the 'managerial state'

#### **Principal characteristic features:**

- Centrality of exchange rate management: fixed rate parity under Convertibility Plan
- Institutional realignment to enhance policy credibility
- Independence of the Central Bank to limit space for discretionary monetary policy
- Devolution of policy-making responsibility
- Deregulation (NB: financial markets and external sector)
- Marginalisation of unions
- Centralisation of power in the executive branch vis-à-vis legislature
- International cooperation and regional integration

democratic politics that has emerged in Latin America demonstrates that the state probably remains more 'politicised' in conventional terms than many of its counterparts in other areas of the world.

The concept of the 'depoliticisation of the state', then, is consistent with the arguments presented throughout the thesis: this is a strategy for maintaining and consolidating state control or insulation through a process of redefinition. In essence, in Argentina the process of depoliticisation has strengthened the state and consolidated the types of state 'power' outlined in the Introduction. We have also seen that the depoliticisation of the state itself is conducted primarily through an engagement at the international and regional levels, reinforced by certain 'domestic' policy measures such as the independence of the Central Bank and the Convertibility Plan. In this way the depoliticisation argument offers an alternative slant on the 'internationalisation' of the state.

### **Future Directions**

The most immediate questions generated by these observations relate to the impact of the identified changes on democracy and, by extension, on the study of politics. These are issues which will demand significant future research. It seems appropriate, therefore, to outline a few preliminary ideas on both the future of Argentine democracy and on the ways in which the processes of globalisation are likely to affect political development in the longer term. The question, in both cases, is whether the domestic and international trends identified in the thesis are likely to create a disempowerment of political processes in the face of the structural dynamics of globalisation and the processes of neoliberal restructuring. Is this, in other words, 'politics without outcomes'?

### *The 'Marginalisation' of Argentine Democracy?*

The thesis has very deliberately steered clear of the normative debate on the development of the Argentine political system and the merits of neoliberalism as an economic model, but has argued throughout that the reform process in Argentina

has been oriented towards the establishment of an exclusionary style of policy-making and the insulation of the state from societal pressures. As such, it may be that globalisation and reform - or in other words the conjunction of the national and the international - have contributed to the marginalisation of democracy.<sup>5</sup> The thesis has demonstrated that this argument works very clearly if it is understood to refer to *participatory* forms of democracy.

The 'exclusionary' nature of Menemist politics is related to the dismantling of the traditional corporatist structures and the progressive concentration of political power and the insulation of the state from societal pressures. The new political model is a far cry from the generally useful definition of corporatism advanced by Philippe Schmitter: as "a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categorises in exchange for observing certain controls on their selection of leaders and articulation of demands and supports".<sup>6</sup>

However, the new political structures do not correspond either to the pluralist model of interest group activity, which assumes a level and equality of access to the policy-making arena across interest groupings, and a state characterised by a relatively high degree of permeability to such pressures. Argentine politics may be labelled pluralist only to the extent that the state does not directly control or subsidise societal interests. It retains corporatist hallmarks such as the emphasis on co-optation and control, rather than the articulation or representation of societal interests, and also in the relative impermeability of the state and the decision-making processes to those interests that the government has not decided to favour or co-opt. The shift, therefore, was from corporatism or neo-corporatism to a much less regulated system of interest group or societal pressure which, nevertheless, stopped far short of the pluralist character which García

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<sup>5</sup> With respect to the latter see, for example, Jan Aarte Scholte: "Global Capitalism and the State", *International Affairs* 73, 3, 1997.

<sup>6</sup> "Still the Century of Corporatism?", *Review of Politics* 36, 1974 (pp. 93-4).

Delgado ascribes to it.<sup>7</sup> The result was an exclusionary model of politics and a reinforcement of state power that allowed little space for genuine contestation or participation, and which corresponds far more to theories of elitism than pluralism.

In this light, it is clear that despite sweeping political reform under Menem there are striking elements of continuity in Argentine politics. This is particularly apparent in the comparison between Menemism and Peronism. Menem's neopopulism shares little in common with its populist ancestors in terms of economic policy, but the points of continuity are clearly apparent if we analyse these two 'movements' as an approach to politics. The conceptions of power and leadership, for example, appear to be little changed in the 1990s from the 1940s. Similarly, the anti-institutionalist bias of Argentine politics is evident throughout Argentine political history, and the policies of interest incorporation pursued by Menem do not seem radically dissimilar (as *strategies* rather than in their concrete orientation) from the policies of successive governments in the post-war period, particularly Peronist administrations. The structure of government and political power under Menem, therefore, perhaps represents nothing new in terms of an approach to politics: what is new is the successful combination of this approach with a strategy of radical economic reform.

These points can be elaborated further with reference to what Guillermo O'Donnell has termed 'delegative democracy', of which Argentina is clearly an example.<sup>8</sup> Delegative democracies effectively rest on the assumption that election involves a mandate to govern, whatever the chosen content or style of the government. Furthermore, in delegative democracies institutions such as judiciaries and legislatures are perceived to be obstacles to the exercise of the full authority that the President has been 'delegated'.<sup>9</sup> It can be argued, then, that this conception of leadership facilitates a sort of ideological suspension, in which the leader is the only one capable of correctly interpreting the sentiment and needs of the

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<sup>7</sup> Daniel R. García-Delgado: *Estado y Sociedad: La Nueva Relación a Partir del Cambio Estructural* (1994).

<sup>8</sup> "Delegative Democracy", *Journal of Democracy* 5, 1, 1994.

<sup>9</sup> *ibid.*, pp. 59-60.

population.<sup>10</sup> The direct manifestation of this is a high level of centralised and presidentialist power. The question is whether this is inherently anti-democratic.

Conventional literature, furthermore, holds that presidentialism is inherently inimical to democratic consolidation.<sup>11</sup> “Bonapartist democracy” is not an inevitable corollary of neoliberalism, but rather of the pressing need for political and economic reform. This is likely to exacerbate the authoritarian tendencies that, it has been argued, are a staple of the Argentine and Latin American political systems.<sup>12</sup> It has been suggested, furthermore, that the success of governing elites in Argentina and a variety of Latin American countries in implementing neoliberal economic reforms may be directly linked to the strength of the president or presidency, in that this connotes a certain autonomy in relation to immediate political pressures.<sup>13</sup>

However, contrary to many predictions in the early 1990s, the centralisation and personification of power has not led to political instability or democratic breakdown<sup>14</sup>: on the contrary, the same processes in the Argentine case have led to the consolidation of political stability, regardless of views on the representative or participatory quality of the democratic system in question. It has been argued that the ‘new populism’ of which the Menem government is part has a “symbiotic relationship” with presidentialism.<sup>15</sup> This position would contend that “a temporary period of hyper-presidentialism was much less damaging to democracy than would have been the likely alternative - namely prolonged institutional crisis of a kind threatening to democratic stability”.<sup>16</sup> Likewise, as far as the international financial community is concerned, competitive and representative attributes in a democratic

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<sup>10</sup> Ana Margheritis: “Reforma Económica y Estado en la Argentina: La Institucionalización de la Discrecionalidad”, Working Paper no. 28, Universidad Torcuato Di Tella, November 1995 (pg 10).

<sup>11</sup> See, for example, Scott Mainwaring: “Presidentialism in Latin America”, *Latin American Research Review* 25, 1, 1990.

<sup>12</sup> Ian Roxborough: “Neo-Liberalism in Latin America: Limits and Alternatives”, *Third World Quarterly* 13, 3, 1992 (pg 427). Also see Susan & Peter Calvert: *Argentina: Political Culture and Instability* (1989).

<sup>13</sup> George Philip: “The New Economic Liberalism and Democracy in Latin America: Friends or Enemies”, *Third World Quarterly* 14, 3, 1993; Haggard & Kaufman: “Estado y Reforma Económica”, pg 358.

<sup>14</sup> Roxborough, op.cit.. For another example of early pessimism, see Adam Przeworski: *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (1991).

<sup>15</sup> George Philip: “The New Populism in Spanish South America”, *Government and Opposition* 33, 1, Winter 1998 (pg 81).

<sup>16</sup> Philip: “The New Populism”, pg 82.

system are far less important than the formal institutions of democratic rule and the maintenance of political stability.<sup>17</sup>

These observations, then, challenge the assumption that the reform processes in Argentina led to a regression of democracy and the derogation of accountability. Rather, it could be argued that democracy was strengthened by the adoption of presidentialist forms of government in that this type of 'delegative' democracy ensured political stability and the endurance of democratic government. This, it could be argued, may well give way to more representative forms of government as democracy becomes more institutionalised. The evidence at the present time seems to suggest that pressures on this type of political system are emerging, but that they remain located within the democratic system rather than outside it. In the course of the second Menem administration these can be seen in increasing levels of popular mobilisation (such as the student riots, the provincial crisis and the teachers' strike action) and in the emergence of new and serious forms of party opposition, such as the FREPASO (formed in 1995) and the opposition alliance formed to fight the 1997 elections between the FREPASO and the UCR.

These developments accord to an extent with the predictions of the 'neoliberal policy cycle'. This suggests that following the shock treatment (in response to the conditions which prompt reform in the first place) and the consolidation of a political model such as the one described above, the legitimacy of the neoliberal model is likely to be eroded as (or if) the material conditions and the democratic options of the population degenerate. This, it is argued, will be reflected in increasing levels of popular protest and mobilisation.<sup>18</sup> As such, it can possibly be hoped that at the national level, the initial marginalisation of democracy was linked to the short-term political economy of reform. It may well be the case that this situation has started to give way to a revitalisation of demands for participatory democracy which can be accommodated within the existing political framework.

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<sup>17</sup> Roxborough, pg 424.

<sup>18</sup> Henry Veltmeyer, James Petras & Steve Vieux: *Neoliberalism and Class Conflict in Latin America: A Comparative Perspective on the Political Economy of Structural Adjustment* (1997), pp. 66-70.

The question, however, is whether this can have any significant impact. None of these opposition groupings has questioned the fundamentals of the economic strategy. Certainly none has dared to explicitly advocate the abolition of Convertibility. The ‘internationalisation of the state’ and the network of international and regional commitments constructed by the Menem government similarly throw into doubt the possibilities for genuine change. Certainly there is a demand for the modification of certain aspects of neoliberalism, such as social policy and employment policy, but given the fiscal targets negotiated with the IMF significant concessions to government spending are unlikely in the medium term. The question is, then, ‘participation in what?’ ‘For what expected result?’ It seems that the possibilities for political opposition are vast, but that its capacities (and expectations) significantly limited.

#### *Globalisation as ‘Politics without Outcomes’?*

A final consideration relates to the question of whether a smoothly functioning, internationalised economy is compatible with an active civil society, or whether the effects of globalisation create a kind of ‘politics without outcomes’. In effect, the versions of globalisation theory that perceive a ‘withering away’ of the state, to whatever degree, feed into a current that may be labelled the ‘politics of anti-politics’. This can be found quite as much in the international relations and political science academic literature as in the rhetoric of politicians and in countries and institutions throughout the world. Globalisation can be seen to have eroded the possibilities for genuine change through political action, as a result of both policy convergence and as a result of the ‘globalisation’ of both political and economic activity.

The question for future research, then, is whether the internationalisation of economic activity and increasing global convergence will have led to the disempowerment of politics. On the one hand, Chiapas and recent developments with terrorist groups in Peru might suggest that globalisation and closer relations with international financial institutions have made economic development and the maintenance of a corrupt, belligerent or subversive society incompatible. This ties

in which general observations that increasing international integration has acted to eliminate political extremes in most areas of the world. On the other hand, if we look at the issue more in terms of the arguments presented in this thesis, it may be the case that economic development in its present 'internationalised' form and participatory forms of democracy are not compatible with each other. The question, then, is whether certain elements of civil society are inherently inimical to the development of neoliberal globalisation, or whether there are genuine possibilities for accommodating new forms of political challenge to depoliticised market forces. The presently increasing questioning of the 'convergence' notion itself appears to offer an open path for addressing these issues.

## **Appendix: List of Interviewees**

Raúl Alfonsín

President of the Republic of Argentina, 1983-89      Buenos Aires, 31 July 1995

Roberto Bloch

Lawyer and Researcher on Mercosur      Buenos Aires, 12 July 1995

Raúl Buonuome

Economist, ING Barings      Buenos Aires, 1 August 1995

Adolfo Canitrot

Deputy Economy Minister, 1985-1988      Buenos Aires, 28 July 1995

Gabriel Casaburi

Fundación Mediterránea

FLACSO

Buenos Aires, 29 May 1997

Francisco Corigliano

FLACSO      Buenos Aires, 26 May 1997

Francisco Delich

Professor, Universidad de Buenos Aires      Buenos Aires, 10 June 1997

Carlos Escudé

Advisor on Foreign Policy

Universidad Torcuato Di Tella

Buenos Aires, 26 July 1995

29 May 1997

Alberto Ferrari Etcheberry

President of the Junta Nacional de Granos 1984-6

Secretary for Latin American Affairs, 1987-1989      Buenos Aires, 25 July 1995

Aldo Ferrer		
Economy Minister, 1970-71		
Professor, University of Buenos Aires	Buenos Aires, 26 May 1997	
Andrés Fontana		
Advisor to the Undersecretary for Foreign Policy		
UnderSecretary for Planning, 1997-date	Buenos Aires, 10 July 1995	
Rosendo Fraga		
Advisor on Military Policy	Buenos Aires, 2 June 1997	
Jonathan Friedland		
Wall Street Journal	Buenos Aires, 27 June 1997	
Julio Godio		
Researcher, Labour Issues	Buenos Aires, 26 May 1997	
Jorge Hugo Herrera Vegas		
Undersecretary for Latin American Integration	Buenos Aires, 17 July 1995	
Bernardo Kosacoff		
Researcher, CEPAL	Buenos Aires, 24 July 1995	
Fernando Lahoz		
President, Joint Parliamentary Commission (CPC)	Buenos Aires, 5 May 1997	
Roberto Lavagna		
Minister of Industry and Foreign Trade, 1985-7	Buenos Aires, 27 July 1995	
Miguel Lengyel		
FLACSO	Buenos Aires, 3 June 1997	

Claudio Lozano

Head of the CTA

Buenos Aires, 13 June 1997

Alejandro Mayoral

Undersecretary for Economic Policy

Buenos Aires, 13 July 1995

Cristián Mira

Editor, External Trade Supplement, La Nación

Buenos Aires, 9 June 1997

Guillermo Mondino

President of the Fundación Mediterránea

Buenos Aires, 5 June 1997

Alfredo Morelli

National Director of Mercosur

Buenos Aires, 19 July 1995

Ana María Mustapic

Universidad Torcuato Di Tella

Buenos Aires, 22 May 1997

Alejandro Nayfeld

YPF

Mercosur Negotiator on Industrial Policy, 1991-2

Buenos Aires, 19 July 1995

Rogelio Pfirter

Argentine Ambassador to the UK

London, 14 June 1995

Fernando Porta

CENIT

Buenos Aires, 1 August 1995

Jesús Rodríguez

Economy Minister, 1989

Buenos Aires, various dates

Roberto Romero Ullmann  
Universidad de Belgrano, 12 July 1995

Buenos Aires, 12 July 1995

Juan Sourouille  
Economy Minister, 1985-1988

Buenos Aires, 26 July 1995

Néstor Stancanelli  
National Director of External Trade

Buenos Aires, 17 July 1995

Juan Carlos Torre  
Instituto Torcuato Di Tella

Buenos Aires, 21 July 1995

Javier Villanueva  
Instituto Torcuato Di Tella / Universidad Católica

Buenos Aires, 24 July 1995

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El Cronista

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