



Graduate School of Development Studies

**Argentina's political economy in the aftermath of
2001 financial crisis:
A new economic model?**

A Research Paper presented by:

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In partial fulfilment of the requirements for obtaining the degree of
MASTERS OF ARTS IN DEVELOPMENT STUDIES

Specialisation:
**International Political Economy and Development
(IPED)**

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The Hague, The Netherlands
November, 2008

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List of Acronyms

IMF	International Monetary Fund
ISI	Import substitution industrialization strategy
IFIs	International financial institutions
FDI	Foreign direct investment
GDP	Gross domestic product
NGOs	Non-governmental organizations
ECLAC	Economic Commission for Latin America and the Caribbean
YPF	Yacimientos Petrolíferos Fiscales
TFP	Total Factor Product
SMEs	Small and Medium Enterprises
BCRA	Banco Central de la República Argentina
INDEC	Instituto Nacional de Estadística y Censo
WB	World Bank
IDB	Inter-American Development Bank

Abstract

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Relevance to Development Studies

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Keywords

[keywords]

Argentina, political economy, structural break, neoliberalism.

Chapter 1. Introduction

Preamble

By the end of 2001 Argentina experienced one of the worst economic crises in its history. Output fell around 20% over three years (since the onset of the recession in 1998 until 2002), inflation went up, the government defaulted on debts of \$80 billion, unemployment climbed to 21%, poverty engulfed 56% of Argentines, the banking system was to a great extent paralyzed, and the Argentine peso, which was pegged at par with the U.S. dollar, reached In June 2002 levels of 3.90 pesos per U.S. dollar. In the second quarter of 2002 the economy began to recover due to a high demand of food commodities such as soy and beef; still there was a long road back to sustained stability and growth.

Less than five years earlier, Argentina had been hailed by the multilateral organizations and capital investors as a model of successful economic reform: Inflation, the torment of Argentinean economy, had reached hyperinflationary levels during the 1980s and managed to go down to single digits; output growth was remarkable, and had successfully frighten away the Tequila crisis of the mid-1990s. Later, at the end of the decade, an apparent booming economy exploded and the country slipped into a deep depression from which it was unable to liberate itself. The unfolding of the crisis and the major hardships it imposed on the people of Argentina is been a troubling case if we consider the country's strong past performance. Why did this happen? Was the question everybody asked.

However, it was not a surprise for politicians in power, neither for Washington. There was widespread recognition of the underlying vulnerabilities of the economy and errors in policy implementation, added to the missteps in handling the first moments of the crisis. Yet, Argentina was regarded as a model reformer and was engaged in a succession of IMF (International Monetary Fund) sponsored programs –some labelled as 'precautionary- through much of the 1990s, when those vulnerabilities were becoming increasingly evident.

The severity of the crisis, the fact that it burst out despite Argentina's excellent performance and despite the support of IMF programs, make it an important study case of disenchantment –with the neoliberal recipe- and political transformation –not to repeat the same errors as in the past, and fulfil the generalized desire of change expressed by Argentineans after the economic collapse in 2001-. This research paper will attempt to draw on the main economic, social and political consequences of the latest Argentinean financial crisis at the wake of the 21st century; as well as trying to define whether there has been a significant rupture with the past or not, and how sustainable this new -if at all- development path is. The latter, but not the least important, will insert us into an on-going debate on how Argentina, as other Latin American

countries, is struggling to build a different political economy framework; or is it just the reproduction of an old model disguised by a political discourse away from the '*menemism*' *free-market* formula?

Research Justification

But what went wrong? Is the recurrent question that comes to our minds when we try to understand how this staunchest reformer and unique example of neoliberal success in Latin America, fell into a deep economic recession, the worse in the last 100 years of this country's history.

There are two conventional explanations: the first one is related to the loose fiscal policy of Carlos Menem's second term -1995- when public debt rose from 40% to 50% of GDP, which meant De la Rúa's government (1999-2001) couldn't spell out of the recession –even though a big fiscal squeeze was imposed-. The second reason has to do with the Currency Board that was responsible for controlling the pegging of the Argentinean peso to the US dollar. During the 1990's exports have continued to rise thanks to some industries that have modernized, but some argue that the high cost of capital - due partly to the fixation of the local currency to the US dollar and its devaluation- is a bigger brake on competitiveness than the exchange rate itself. Yet, there are two more powerful arguments and they refer to a series of external blows Argentina faced such as: weak prices for its agricultural commodities as well as trade barriers, Brazil's devaluation -cheaper exports-, drying up of capital flows to emerging markets since 1998; as well as the mismanagement by Mr. De la Rúa's administration often at odds with itself and Cavallo -the Ministry of Finance at the moment – meddling too much and explaining too little relying on his reputation, and trying –fruitless- to boost confidence to avoid a debt default.

Nevertheless, the combination of a fixed exchange rate, the fiscal decadence and overwhelming debt were the main economic causes of Argentina's debacle.

The economic break Argentina endured in 2001 not only has a heavy historical weight and relevance in Latin American political economy; it also draws attention to the trends the continent has been following in the last years to counterbalance the negative effects of liberalization and free trade as the main US foreign policy tools towards the region in the past three decades.

Regardless of the brutal crisis, Argentina, contradicting all forecasts from orthodox economists and their cornerstone, the IMF, started recovering in the second semester of 2002 after abolishing the Convertibility System, devaluing the peso and freezing most of its debt obligations. When growth resumed, idle plant and workers could easily be brought into action; this scenario was complemented by an incredible timely factor: world commodity prices boost

with direct consequences on the value of Argentina's exports (and the taxes imposed on them).

The government supercharged growth, prompting demand with wage increases, price controls, undervalued peso and public works. This formula, which worked for much longer than critics expected and made Argentina reach sustained growth levels for five years at an annual average rate of 8.3% -faster than any other big economy except China-, has also generated big distortions. Inflation has undermined the real value of wages and profits, pushing up poverty again. Almost nobody believes the official figures indicating a 9% increase over the 12 months to July 2008. Credible unofficial estimates rank the price index at 25% (The Economist, 2008). The problem is that by underestimating inflation, the official figures may also overstate growth. A slowdown, long predicted by the Kirchner's opponents, is materializing.

The country's leftwing government, first led by Néstor Kirchner and since last December by his wife, Cristina Fernández de Kirchner, has relied on taxing farm exports and energy policies to fund public spending. It kept energy tariffs frozen at their 2002 level, deterring investment and urging blackouts in 2007. Winter this year has been milder and tariffs have recently risen. Nevertheless, uncertainty about energy supply is a strong discouragement to investors. Energy and transport subsidies now cost 3.5% of GDP, revealed Ecolatina, a consultancy.

Taxing farm exports with the purpose of keeping up fiscal budget initially had some justification, since farmers benefited hugely from the cheap peso. But Ms Fernández went a bit too far with this policy pushing up taxes in March –in accordance to soy prices in the international market which were around US\$600-. This triggered an unexpected revolt and social protest –not only from farmers- that paralyzed parts of the economy for almost four months, ending with Congress disapproval of the measure last July. The four months strike undermined confidence in voters, investors and within the Peronist party, making it harder for the government to maintain its power base and institutional stability.

An overheated economy, as categorized by economists, is now facing a turndown, and it certainly puts the "K" mandate in an awkward financial position, raising doubts about the so called "*Argentinean miracle*". To enhance its primary budget surplus (excluding interest payments), the last two administrations include in its accounts revenue from the Central Bank and the pension funds. Additionally, it has put on stand-by transfers to provincial governments.

The recent fall of up to a quarter in world prices for commodity exports, and the markets, have prompted the Central Bank to sell dollars in order to boost the currency, opposite to what is being doing for years which is to buy dollars to stop the peso from appreciating. Last August, Standard & Poor

downgraded Argentina's credit rating. The risk premium of Argentine public debt has ascended to 670 basis points above the interest rate paid by American Treasury bonds. Just to compare, the equivalent for Brazil debt is 240 basis points.

Argentina's public debt is still large; in spite of the tough restructuring Mr Kirchner compelled bondholders to accept in 2005 hence limiting the cost of servicing it. Representing 55% of GDP, debt obligations for next year mean a \$2.5 billion extra in the budget. The problem is that international capital markets are still unavailable because Argentina has not reached an agreement with some bondholders, nor its sovereign creditors in the Paris Club. So far, Hugo Chávez has been buying Argentine bonds taking his total purchases to \$7 billion. The latest \$1 billion –August 2008- pay interests of 15% -the same rate agreed by Domingo Cavallo, a former finance minister, in a significant bond swap in 2001 on the eve of the collapse-.

Fears of another economic collapse of the kind Argentina has already experienced are, in fact, false alarms. Most forecasters expect the economy to continue growing, but at a more moderate rate of 4-5% in 2009. 'Argentina's hyper-growth period is over,' says Miguel Bein, an economic consultant. The country still benefits from budget and trade surpluses. But by common consent, maintaining these surpluses and engineering a smooth landing requires policy changes, and here is where doubts lay in (The Economist 2008).

The government has plenty of policy tools to stabilize the economy. Beginning with energy, for which Argentines pay a third less than their neighbours. Pushing up energy tariffs would improve the public finances, and attract investment. Settling an arrangement with the Paris Club and bondholders would allow Argentina to guarantee financing from the markets. Some economists reckon that such measures should be good enough to keep the economy geared, not growing at Chinese rates but still at a healthy annual index of 4% through several years. 'By delaying the necessary adjustments, the government has already made them more painful. And the Kirchners, who govern as a couple, have made their defiance of the IMF, the Paris Club and the bondholders a point of pride. Unless they now swallow that pride, it will be followed by a fall' (The Economist 2008).

The current economic panorama of Argentina certainly indicates huge recovery after a dramatic collapse in 2001, but there is hesitation regarding a new development model being implemented and uncertainty about the future performance of the economy as it reaches a productivity limit, and even worse, inflation undermines stability. Thus, this paper is important in the sense that it will draft the analytical framework to answer a much general but still relevant question: does Argentina contribute to the great Latin American challenge of undertaking an alternative development model(s) after neoliberalism has proved to be unsuitable? An issue directly linked to the core thesis and crucial aspect of this research: whether there has been or not a structural qualitative

break from the past in Argentina, a break in economic but also political and social terms after the financial crisis in 2001 and Néstor Kirchner's election two years later. And why is this significant?

Furthermore, is it possible to argue hasn't there been such a break - structural or not-, Argentina would be facing similar problems it has had in the past and even more problematic, would be in a tied up situation without the economic margin, as it has today, to fully control and strategically plan the course of its development model. The next question then should be: is there the political will to do so? Is there political consensus to pursue growth with equity in the context of an economic slowdown and rising inflation, translating into loss of real wage value and poverty?

It sounds familiar. After six years of super-growth Argentina is at a turning point in which the power struggle and lack of political compromise to change direction, threatens to revive ghosts from the past and diminish the great macroeconomic turnout up until now.

Research Objectives, Questions and Arguments

The primary objective of this research will be to determine to which extent there has been a qualitative break in Argentina's political economy triggered by the financial crisis in 2001, whether there has been a fundamental change in the Argentinean development model or not. Is Argentina currently doing something different from the past that we should be interested in?

This being said, there are two main questions I will attempt to answer along the research process:

Is there a qualitative break in the economic dynamism of Argentina shifting from a financial to an industrial driven economy?

Which are the economic and political consequences of such break? Does it represent a new development model for Argentina? Is it sustainable in the long run?

Methodology

Multiple aspects are at stake in the break Argentina experienced in the wake of the financial crisis in 2001. Trying to identify the features of this break and analyze how deep and structural its impact was on the production system and economic model as well as employment and income redistribution patterns, poses various questions regarding the methodology used to pursue this research.

This dissertation focuses on the shift Argentina suffered in its political economy approach after the social and economic fall down in 2001,

transforming from a financial to an industrial oriented economy within the established capitalist structures. From this perspective, the thesis identifies significant agents inserted in these structural forces that have observed or somehow intervened the course of the break therefore have an insight of the power relations intrinsic to the spheres of politics and economics, cornerstones of the political economy ambit and determinant factors of the metamorphosis Argentina has undertaken in the last 7 years.

For the purpose of this research we have adopted a qualitative method, which allowed us to develop an exploratory work attempting to define the contours and consequences of the break. Within this qualitative method, we have incorporated semi-structured interviews as the tool to approach the key agents interacting inside and across the structural forces that support Argentina's capitalist system.

In the effort to build the main arguments of this thesis we have used working papers, official documents and local NGOs' reports, as primary sources. Top government officials and Members of the National Congress contacted and interviewed directly in Buenos Aires, also provided relevant information. In addition, face to face conducted interviews to journalists, professors, local NGOs' representatives, Small and Medium Enterprises' envoy (appointee for salary negotiations with the government), entrepreneurs, members of advocacy organizations, and middle class workers (occasionally), contributed to enrich the documentary information and better understanding of the dynamics characterizing Argentina's economic model and the actors involved in it

Books, journals, newspapers and TV documentaries that have analyzed from different angles the various issues related to the causes and consequences of the crisis, were used as secondary sources.

A limitation in the methodology is the void presence of low-income workers as one of the most benefited groups under the new economic model oriented towards domestic market demand and growth. Due to time restrictions it was not possible to go deep into this matter and confront policy success in connection to high employment, salary increase, low inflation and controlled staple food prices.

Scope and limitations

After six years of sustained economic growth and the end of the Convertibility System in 2002, the debate about the Argentinean "economic model", whether it is a new one or it is just the "simple" implementation of reforms within the same framework of the nineties, has come back.

The main purpose of this paper is to contribute to the discussion collecting different points of view primarily from local analysts, researchers, politicians and civil society representatives; in addition to comparing the most relevant aspects that boosted the economy during the Currency Board interval, more specifically, after the Tequila crisis, and the pos-convertibility recovery and economic expansion period.

The focus would be on the configuration of the productive system and the labour market as determining factors of change within the structural forces of a capitalist system.

Several sectors in Argentina, especially those within the official circles, insist that the logic behind the economic escalation in the last years is completely different from the one operating in the former decade. It is worth then evaluating this assertion and the arguments backing it, identifying the contrasts and similarities between these two periods.

Timeline of study

As mentioned before, the “model” is in the centre of the discussion, yet there isn’t a consensus regarding its meaning neither when it comes to compare the “current” model with the one “before”. (Katz in Lavopa 2007: 49).

The use of this concept serves as an analytical instrument when attempting to understand the functioning mechanism of a particular economy in a certain period. It is a simplified construction of a much more complex reality, it’s a tool to extract the fundamental characteristics of an infinite economic sphere affected by multiple factors, actors and circumstances impossible to embrace all at once.

This level of abstraction is useless when it is not framed within a historical context allowing a retrospective look. Thus in the Argentinean case, there is consent regarding two well defined historical processes considered as different economic models: the agro-exporter and the import substitution industrialization strategy (ISI). On the contrary, there isn’t any kind of agreement when trying to label the last 30 years with an economic tag, although there are some elements that distinguish this period with the ISI phase: trade openness and liberalization.

So the historical angle is key when establishing if the end of the Currency Board and the devaluation marked the beginning of a “new” era. Nevertheless, by reviewing the most recent facts we can also be a bit “intuitive” and analyze the outstanding characteristics of this presumably “new model” and whether there have been essential modifications since 2002.

Examining these characteristics implies asking two basic sub-questions in order to comprehend the real functioning of the current economic system: first, which are the forces mobilizing it; and second, through which actors and interactions these forces materialize.

To begin with, we must explain the obvious: the Argentinean economy is framed within a capitalist system. In this context growth is mostly determined on the basis of decisions taken by the owners of the means of production. These decisions are influenced by a core aspect: profit rate. We can then affirm that forces mobilizing the economy are affected by factors determining profit rates. Such determinants vary along time and depend on multiple causes such as: state actions, international context, development and technology and certain structural traits historically rooted like the productive and labour pyramid –structural forces- (Lavopa 2007: 51). But to analyze the causes influencing profit rates through time is a grandiose task, instead we can look at the evolution of the various economic activities during the period we want to study.

‘A defining point of any economic model is, then, the particular set of productive sectors that motorize the aggregate growth’ (Lavopa 2007: 51). The actors, through which the determinant forces of the economy materialize, are the enterprises and the workers. What kind of enterprises and in which particular way workers are making part of this process, are some of the matters we will address.

To summarize, the purpose is not to define the current model and contrast it with the one ruling in the nineties; the focus would be on recognizing the breaks and continuities between the two processes with an emphasis on the productive configuration, the labour dynamics and the actors mobilizing the course of the economy. Obviously there are clear limitations because attempting to bring to the surface structural characteristics without a historical retrospective has its limitations. This is why we need to be precise with the periods we want to compare.

Through out these last two decades, in between recessions, stagnation and crises; it is possible to identify three phases of GDP sustained growth in Argentina. After the hyperinflationary episode -not the first one- in 1990, the economy re-flourished until 1995 when the Tequila crisis exploded. Past the Tequila crash we can observe a second period of constant expansion that lasted until 1998, here recession begins. This second stage ends with the deepest political, social and economic turmoil in Argentinean history as well as the elimination of the Convertibility System in 2002. By mid this year economic activity recovers its dynamism and numbers start skyrocketing for the next lustrum. It is important to clarify that the period under systematic analysis in this research paper stops by the end of 2007, when Néstor Kirchner finishes his mandate and hands it over –by democratic means- to his wife, Cristina Fernández de Kirchner.

Now, it is central to make the distinction between “recovery” and “genuine growth” as Lavopa defines it. According to him, the period after the Tequila crisis in 1995 reflects clearer the real functioning of the Convertibility System once the structural reforms of the nineties had permeated and produced its impact on the production arrangements. This is why we will concentrate on the pos-Tequila (IV trim 95-II trim 98) and post-convertibility (II trim 02-IV trim 06) growing periods. It will allow us to tell apart the recovery trimesters -growth reaching the former higher peak- and the genuine growth trimesters -growth surpassing the latest peak- (Lavopa 2007: 50-54)

During the pos-Tequila expansion the Argentinean economy grew 21% opposite to 40% during the post-convertibility period. One of the reasons explaining this gap is the dimension of the crisis preceding both periods, the Tequila crisis implied a contraction of 6 points in GDP output, whereas the recession in the last years of the Convertibility System sank the GDP index by 20%. These are relevant facts drawing the macroeconomic picture through out both periods and sub-periods of analysis while at the same time setting comparison standards.

Chapter 2. Concepts, definitions, theory

Politics and economics: an indissoluble marriage

The meta-theoretical underpinnings of this research paper are framed in a *political economy* ambit, assuming politics and economics are two indissoluble concepts (and/ or social realms). The discussion begins at the broadest level by indicating that the various economic streams of thought are inserted in different paradigms, these visions of the world change due to developments in the political and economic spheres. Hence, it is not only a dialectical but organic interrelationship the one between politics and economics as part of social life.

The economic perspectives we refer to hereby and will explain in detail in the coming paragraphs derive from the capitalist model theories, and it is from this array of concepts we will construct a framework of analysis to dig out underlying assumptions implicit in Argentina's political economy shift after the financial crisis in 2001. Furthermore, these theories will help us exploring the dynamic of capitalist systems and will shed light on the contours of the break Argentina suffered in the aftermath of the economic collapse seven years ago, finally inserting us on the current debate held by scholars and economists attempting to answer to what extent this break was a structural one and how deep its impact was on Argentine's production structure.

From this broad *political economy* angle, we will make an emphasis on the interactions between structural economic forces and power struggles for capital access and wealth distribution in Argentina before and after the crisis, presupposing there was a transformation from a financial to a domestic industrial model within the principles of contemporary capitalism (liberal/neoliberal approach), where the basics of free market, privatization, and regressive fiscal policies as well as distribution patterns remain.

Thus the dissertation takes as a starting point the core notion that 'the political' and the 'economic' are not areas of its own and 'cannot be separated in any meaningful sense [as these are] intimately bound with each other....constituting the same integrated ensemble of governance' (Underhill 2000: 4). From this perspective political interactions play a key role in the establishment of *economic structures* (Underhill 2000: 3-24). Specifically, the end of the Convertibility System in 2001 in Argentina amidst political and social turmoil not only produced a change in monetary and economic policy floating the exchange rate, devaluing the peso and boosting domestic market and demand, it also brought into power a "progressive" or "leftist" president, Néstor Kirchner (2003-2007), who was able to capitalize on the failure of neoliberalism and promise a different way of managing capital and redistributing wealth. He was proposing a national capitalist model.

Moreover, according to Susan Strange (Strange 1991: 33-50) the structures of international political economy rule the behaviour of the states and markets; determining the production, exchange and distribution of power and wealth. This last statement can certainly be applied to Argentina's political economy during the nineties when neoliberal prescriptions pushed by international financial institutions (IFIs) permeated Argentina's economic and political reforms, favouring foreign capital inflows and the insertion of the country in the world economic system on the basis of foreign debt. The consequences of this unsustainable path are well known: recession, unemployment, poverty and economic collapse.

Theorizing capitalism

If we do a historical review of theories of capitalism we will find the foundations of contemporary capitalist system, and will be able to draw on key aspects which function as engine and gear of such economic model turning it into a dynamic entity. Simultaneously, based on this theoretical appraisal we will be able to extract the main factors triggering structural changes in a capitalist economy, which will then be used as a "tool box" to further analysis concerning Argentina's case. After assessing these theories from a critical point of view, we will define the perspective from where we want to answer the main question of this research paper: whether Argentina experienced a structural brake from the past shifting from a financial to an industrial driven economy in the wake of the 21st century, or was it just a subtle variation represented in the twist of some macroeconomic variables without causing major impacts on the production system's structure?

Building paradigms: looking back in history

To determine the political implications of economic theory the dominant paradigms should be set out clearly in order to reach a critical analysis, taking into account the fundamental concepts of economic science.

Economists have strongly influenced our lives with their thoughts. Since the eighteenth century, people tried to understand capitalism as a new and complex society structure. These men were the lords and masters of a tradition of thought that has changed the world. The development of productive forces and an impressive variety of material goods are all creations of capitalism; these are the trophies of capitalism, although discussed, a "civilizing project". Many saw economic progress not as a guarantor, but at odds with the ideas of freedom and justice (Andreas 2005)

Political economy emerged from economic theories in the midst of the debate on the massive transformations provoked by industrial revolution and colonialism - observed from the perspective of morality, as did philosopher Adam Smith, by the stockbroker David Ricardo, and journalist Carlos Marx-. They all have one thing in common: Without a formal academic training, each

of them from their own experience dealt with the economy. That was the pre-disciplinary phase of scientific thought. The various ways they chose to formulate questions have left deep marks and opened wide roads.

In the late nineteenth century this diversity in the way of dealing with the economy began to speak differently: It achieves academic and social recognition. It incorporates study techniques mathematically correct –beyond apparent reproach- that were used as the argumentation base to define quality criteria gradually converting the economy into a legitimate discipline as such. Neo-classics in particular were very successful in this regard.

The 1930s global economic crisis raised doubts and caused discredit to this theory -which doesn't conceive state intervention in the direction of the economy-. The lack of credibility towards neoclassic economics due to the crisis paved the way for a new theory to come out: Keynesianism. Systematic state intervention to combat cyclical oscillations and unemployment were the main claims of this new approach, enlightening economists and politicians with some fundamental principles associated to distribution and welfare.

After Second World War the discipline of economics grew rapidly. The following decades witnessed many contributions, which can be classified into three paradigms:

- The neoclassical
- Keynesianism
- The political economy

While Keynesianism dominated after Second World War, the neoclassical view regained its importance since the 1970s, exerting particular influence with its emphasis on monetarism.

Along those lines of dominant theoretical work, Marxist thinking revived with structuralist and dependency theories.

Modes of capitalism

Defining the main features of capitalism from a general perspective is not as challenging as explaining the causes of transformation and dynamism in a capitalist system. The reason? Capitalism dynamic is a multi-layered subject with transversal cuts, which can be envisaged depending on the prism you use to look at it –paradigms/streams of thought-. Furthermore, the actual co-existence of various modes of capitalism in the world determined not only by dominant economic theories but political and social factors, proves how wide and complex capitalist systems can be. But for the purpose of analysis and research we can extract key concepts that will serve as the lens to look at Argentina's model shift after the financial crash in 2001, how it tilted from a

financial to an industrial driven economy within the same capitalist structures along with its impact on economic growth, wealth and distribution patterns.

Let's go first over some basic definitions starting with Marx. He was the first one to realize the logic underpinning capitalism was unlimited growth. For him, what differentiates a market economy from a capitalist economy is workers selling their labour force to owners of capital, meaning, the transaction between the worker and the owner of the means of production is one of the main characteristics of capitalism.

On the other hand theorizer Thorstein Veblen, insisted on the concept of accumulation not as the base of capitalist dynamic and production -like Marx-, but as a lifestyle. Veblen is specifically referring to objects and services' consumption as a way of disclosing success instead of power -like it used to be in traditional societies-. It is in this attitude of ostensible consumption where lie the most profound roots of dynamism in production. Unlimited demand is the source of unlimited growth, under this perspective capitalism opens the valve of infinite production being desire and not necessity the pulling factor (Guillén Romo 2007: 79-80)

Overall, capitalism is an accumulation force with no limits since production is number one requirement to gain profits, and consumption -in Veblen's sense- transforms desire into increasing demand.

The third great theorizer of capitalism we want to make reference to is Joseph Schumpeter. In his piece *Capitalism, socialism and democracy* published in 1942, he points out capitalism constitutes by nature an economic transformation that has never been or could be static. In fact, the driving force of the capitalist machinery springs from the set of new consumption goods, production and transportation methods, markets and industrial structure. All these elements have one aspect in common: they derive from the capitalist initiative.

The industrial metamorphosis is constantly shaking and transforming the economic structure destroying its old elements and creating new ones. More precisely, for Schumpeter these revolutions within the economic realm are not continuous, they are spread through time separated by intervals of relative calm. Nonetheless, the whole process is uninterrupted in the sense that when a renovation is not taking place then its results are being observed.

For Schumpeter, innovations do not generate automatic growth. For this to happen two actors are required to intervene and transform innovation into real investment: the entrepreneur and the banker. He characterizes entrepreneurs as ambitious, full of energy, intelligent, egocentric and not conformist. All of these allow them to grasp opportunities, manage innovations and convert them into investment with the banker's help. Thus,

for this author, capitalism evolution is a matter of entrepreneurship, more than anything else.

‘Innovations do not appear on a regular and continuous basis.... These spread in separate clusters causing waves of investment financed by bank loans resulting in cumulative growth and expansion. Gradually the effects are mitigated and innovations become less efficient. Profits decline and banks begin to restrict credit to less lucrative businesses. This process inevitably leads to crises and depressions. The latter are not only necessary for the evolution of capitalism, but regenerate the cycle of innovations and investments’ (Guillén Romo 2007: 80)

French economist Francois Perroux belongs to Schumpeter’s line of thought in the sense that capitalism is an economic model sustained by entrepreneurship, for him businesses and market are reciprocally linked.

‘The market, though very imperfect is worth more than a perfect planning; a compromise in which all participants have limited rights of expression and action is worth more than a regime where by definition the state has unlimited power over citizens’ (Perroux in Guillén Romo 2007: 80)

Both Schumpeter and Perroux agree on the main role innovative entrepreneurs play in the dynamics of capitalism, the latter author emphasizing state coordination and arbitrage of this dynamic as a crucial aspect (undermining the neoclassical assumption regarding the invisible hand of markets). The state embodies and gives coherence to capitalism in a wider sense, capitalism has never existed completely isolated from the public sphere, it is a mixed system comprising private and nationalized economic sectors.

Perroux particularly refers to liberal intervention of the state as long as it respects the internal logic of market and business economy, it’s about fixing not destructing the economy. These “correcting” measures can be classified in two groups: 1) the institutional framework and rules of the game are established by the state whose interest and obligation is to guarantee conditions to pursue healthy competition, continuous business activity and vigorous private investment. In this case the state doesn’t destroy the market strings, on the contrary it protects or enhances them improving distribution without compromising productivity. 2) In the most liberal of the regimes production and investment derive from private plans betting on new structures. In a regime subjected to liberal interventionism, the state will eventually reveal its own stakes and adjust those taken by businesses with flexible financial and fiscal measures (Guillén Romo 2007: 81-82).

Perroux ends his dissertation about capitalism differentiating between a capitalism that “runs well” and one that “ends well”. Capitalism “runs well” if brings to the limit and in a constant manner the real product available and decreases social tensions (caused by unequal redistribution). On the other hand, capitalism “ends well” if it ends in an economic model held by

completely renewed institutions and rules of the game aiming to fulfil human plenitude (Perroux in Guillén Romo 2007: 84).

As we can see in Schumpeter and Perroux's approach, it's not competition what explains the system's dynamic but the dominant enterprises, thanks to innovation (Schumpeter) and the state (Perroux)

In contrast, a group of European and North American economists called *Institutionalists*, amongst them Douglas C. North (belonging to the critical group of *Institutionalists*), claim it is not enough to focus the analysis on the presumption of "efficient markets" as neo-classics do. For Douglas, ignoring the fact that transactions bear costs implies institutions are disregarded. Recognizing those costs means the importance institutions have when it comes to facilitate or block any capitalist exchange is acknowledged. However, defining institutional efficiency as the means to reduce transaction costs leaves intact the neoclassical idea that human beings are optimizers of utility, independent and rational (Keaney in Guillén Romo 2007: 83-84)

Institutionalists do not consider capitalism as the peak of human progress nor as an unavoidable consequence of it. For them, capitalism is informed by the configuration of social institutions historically dependent.

At the beginning of the 20th century with the creation of giant monopolies and trusts a new theory aroused: the theory of capital monopoly, represented by Paul Sweezy and Paul Baran amongst other authors. Both of them examine how competitive capitalism has become a monopoly capitalism characterized by large firms and industrial capital being associated with financial capital. Due to economic concentration these companies manage to control the market and therefore prices which, despite steady gains in productivity, do not fall and allow the accumulation of huge surplus.

The main problem is then to absorb surplus, as this type of capitalism is incapable of creating effective demand sufficient to ensure full employment and capital use. For Baran and Sweezy, the only way countries of the south can develop is by quitting the system and not seeking their insertion -dependency theory/structuralism- (Guillén Romo 2007: 86-87). Duménil and Lévy expand this idea introducing the concept of neoliberalism as the "newest" imperialist version of capitalism.

Since the early 1980's a new phase of capitalism began: *neoliberalism*. This was and still is presented as the development model to follow, truth or not, it is also about the restoration of power and income of capitalist classes, which have been reduced due to the Keynesian influence after World War II. Neoliberalism, as Duménil and Lévy define it, also comprises a 'new stage of imperialism, itself, a permanent feature of capitalism'. They explain the link between capitalism and imperialism by associating the latter with the

acquisition of capital income by 'rich countries of the centre from countries of the periphery. 'It is a hierarchical system...The combination of neoliberal and imperialist traits is so tight that we denote the entire set of relationships as the *neoliberal-imperialist mix*' (Duménil and Lévy 2006: 389)

In this set of relationships both the ruling classes of the periphery and the centre benefit(ed) from neoliberalism, but not at the same level: in countries of the periphery these classes are sometimes under the domination of the ruling classes of the centre. So an important aspect in understanding contemporary capitalism is the place where ruling peripheral classes are able to stand within global capitalist relations, clarify Duménil and Lévy.

Finally, changes in three spheres: technology, economy and institutions is what invigorates and makes the capitalist system dynamic, explains Carlota Pérez in her historical appraisal of capitalism. In the technological field change comes with the establishment of innovation clusters generating successive technological revolutions modernizing all the productive structure. In the economic area, production and financial capital merge and revolve around the *long wave* cycle (*long wave* is the term used by Mendel to name alternative periods of expansion and contraction of the world capitalist economy that range between 50 and 60 years). And finally in the institutional sphere, changes in ideas and socio-political behaviours modify the socio-institutional framework and affect the different modes of capitalism (Guillén Romo 2007: 91).

All the elements just mentioned inform capitalism in diverse shapes. Bruno Amable classifies these forms of capitalism based on five indicators: competition, flexible labour market, financial market characteristics, social security and educational system.

After exploring all these definitions related to capitalism dynamic and modes of production within the framework of different paradigms and schools of economic thought, we can have a better idea of the factors determining breaks in a capitalist system. Notwithstanding, it is in Carlota Pérez and Bruno Amable's points of view that we find a more holistic approach regarding the various forms of capitalism and the aspects triggering change towards a development model either market oriented or characterized by state intervention, inward-looking production system and emphasis on wealth redistribution and low unemployment. Therefore, in the process of answering our research question concerning Argentina's economic break and political economy shift from 2001 onwards, we will not only consider the elements highlighted by Marx, Schumpeter, Perroux, North, Baran and Sweezy, associated with economic growth, domestic demand, productivity, competition and institutions, but also the innovation and social security facets underscored by Pérez and Bruno, all part of the *political economy* realm.

Narrowing the analysis to a mere economic interpretation would leave aside vital aspects intrinsic to "politics" and "economics" such as employment,

wages, labour market as well as social protection and redistribution patterns, which are key determinants of structural changes in capitalist production systems. This is definitely a post-structuralist vision -not in the strict sense of Import Substitution Industrialization strategy as it was proclaimed in the 1970s by the CEPALISMO current¹, but in the expansion of social protection and income inequality improvement-; and it is through this lens we can best observe Argentina's political economy turn in the outcome of the collapse in 2001 and after six years of sustained demand growth.

Chapter 3. Background

Latin American growth trends in the last decades. Argentina: a volatile economy

Post World War II years, those of the Keynesian commitment, were characterized by large growth rates experienced in most capitalist countries. Furthermore, when these capitalist economies suffered the structural crisis of the 1970s, they managed somehow to feed their growth rates thanks to policies “biased” towards the non-financial sectors, yet at the end they declined.

If we look at the table below, we can see that the break in Latin America was sharp and unexpected. It shows the average annual growth rates in the seven biggest countries of the region and in Brazil, Mexico and Argentina separately. Specifically in the case of Argentina, we can observe the low values prior and after the 1970s crisis. This is extremely important since it reveals one of the dominant features of Argentinean macroeconomy: its volatility, with large accelerations and recessions at least during the last 100 years.

Table 1
Latin American growth trends (1950-2004)

Average Annual Growth Rates (%)	1950-1980	1980-2004
Seven major countries of Latin America	5.7	2.2
Brazil	7.6	2.1
Mexico	6.5	2.5
Argentina	3.3	1.3
France	4.4	2.0

Source: Penn World Table (Heston, Summers, and Aten 2002); World Economic Outlook (IMF various years); and Organization for Economic Cooperation and Development.

Source: (Duménil and Lévy 2006).

The widespread idea of the “lost decade” when analyzing Latin American economic trends during the 1980s should be extended to the 70’s and the 90’s, some would say. The flows of foreign investment were large during the late 1970s (first wave of foreign indebtedness), smooth during the 1980s and intense during the 1990s (first investments different from FDI, and then during the second half of the decade direct investment). Why is this relevant? Because supposedly these investments should have materialized into larger growth rates, they didn’t, also didn’t materialize in an escalation of total physical investment; nor fuelled growth performances.

For instance, the contrast between the 1980s and 1990s in Argentina is just an illusion. While the 1980s were stagnant years, between 1991 and 1998 there was a rising wave of physical investment by enterprises; nevertheless this accumulation ended being part of an inflated economy and led to recession in 1998, then the country crumbled.

The neoliberal aspiration was that these investments would translate into more exports hence more foreign currency available, and of course more profits. Wishful thinking, both expectations failed to happen: As in other Latin American countries, the trade balance in Argentina went negative during the 1990s due to such inflated exchange rate. Furthermore, in 1998 profitability gradually started to decrease because of high interest rates, sinking into very low levels at the end of the decade. Those affected most were the local capitalists still owning a shrinking fraction of the national economy, as Duménil and Lévy assessed it in their paper about Argentina published in 2006.

However, in spite of the low capability to collect revenue and the institutional weakness, the primary surplus remained positive and basic public expenses didn't blow up the system. The main problem was when high and skyrocketing interest rates caused a large deficit notwithstanding the primary surplus. Public and private debt, both internal and external, went up the slope quite fast. International financial institutions and private banks kept on lending to Argentines during the 1990s, until the end of 2001 when the interest rate "spread" reached the peak. Abandoning the Currency Board (particularly the fixed exchange rate) had a very high cost, but preserving it was abysmal. In 1998, when recession began –slowly declining trend of output between 1998 and mid-2001-, revenue commenced to shrink. The government intervention to balance the budget such as tax increase, only made things worse, stressed Duménil and Lévy.

So a high exchange rate, declining output and an unsustainable indebtedness, plunged the country into one of the worse economic catastrophes ever, as described above.

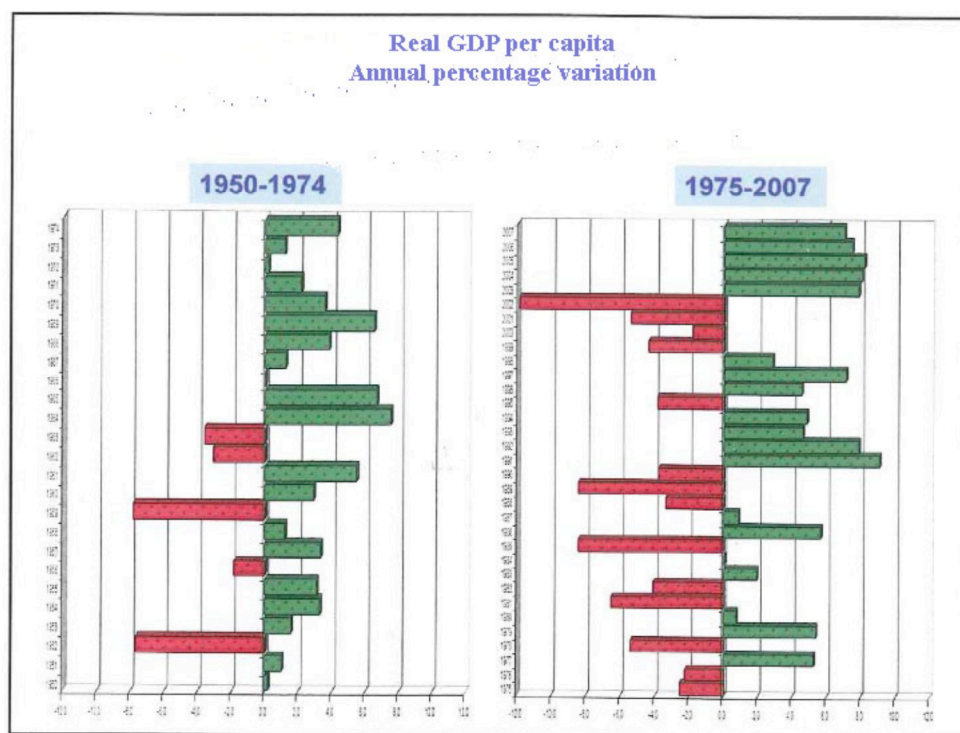
'The sequence of events (Keynesian pre-eminence after WWII, structural crisis and neoliberalism), which can be applied to major capitalist countries in the analysis of growth patterns with the assertion of neoliberalism in 1980, must be somehow adapted to Latin American circumstances with the early liberalization attempts of dictatorships (e.g. after 1973 in Chile and 1976 in Argentina); their failure and reversal in the 1980s in the wake of the debt crisis; the gradual trade and financial opening from the mid-1980s onward; and the new framework of the 1990s, in particular Argentina' (Duménil and Lévy 2006: 389)

The straitjacket of the Convertibility System, a closer look to macroeconomic reforms

In the 1930s Argentina opted for an “inward looking” development model materialized in an import substitution industrialization (ISI) strategy. During this period, which lasted roughly until the 1980s, the country experienced moderate growth rates. The ISI, characterized by the promotion of local industries to satisfy domestic market demand, indeed boosted growth but it came along with an increasing volatility in GDP expansion as well as inflation levels. The cause of this volatility has been attributed both to exogenous shocks and endogenous issues, specifically macroeconomic mismanagement (Mercado 2007) The graph below depicts Argentina’s GDP instability in since the 1950s :

Figure 1

Argentina’s volatility
Variations in Real GDP per capita



Source: Kosacoff 2008(b). ECLAC

At the end of the 1980s Argentina suffered two hyperinflationary episodes laying the social and political conditions for a consistent experiment in economic policy. Beginning the 90s Menem’s government applied massive and radical changes in terms of economic openness, privatization and deregulation. Parallel to these, it established a “Currency Board System” or “Convertibility System” as part of its anti-inflationary restoration kit, institutionalizing by means of law a fixed exchange rate pegging the peso to the dollar where one peso would equal one dollar, thus eliminating “forever”

monetary and exchange rate policy from the government's tool box. 'It was argued that such an extreme and stringent rule was necessary to provide a definite "cure" for a country where governments' lack of monetary and fiscal discipline were common' (Mercado 2007: 1)

When governments decide to combat high inflation or hyperinflation periods by fixing the exchange rate as a nominal anchor, a policy normally accompanied by the creation of a new domestic currency name to produce a sort of psychological effect dividing history and marking the beginning of a "new era", the effect on inflationary expectations are strong and in a relative short period of time inflation rates plummet (Agenor and Montiel in Mercado 2007)

In this sense Argentina was no exception to the rule. Furthermore, the Currency Board System and the new peso –instead of the previous currency named austral- didn't come alone. Menem's administration installed an "emergency law" granting almost absolute power to the executive branch to privatize state enterprises and deregulate all markets. These modifications adjusted inflation rates and expectations on the economy, according to experts on fiscal and monetary policies.

Such an ambitious experiment throughout the 90s was within the Washington Consensus framework, and it did attract significant capital inflows. The combination of a Currency Board System with capital inflows facilitated a strong monetary and credit expansion, also fuelled by the International Financial Institutions and foreign investors' confidence, contributing to an economic boom that lasted several years.

'A typical characteristic of a Currency Board System is that what one gains in terms of stringent domestic monetary discipline, one loses in terms of external shocks impact. Indeed, the economy is left completely exposed to shocks stemming, for example, from capital inflows reversal or changes in the terms of trade, thus experiencing dramatic changes in its level of activity' (Mercado 2007: 4) Argentina, again, was no exception to the rule experiencing a first serious shock in 1995 due to capital outflows prompted by the Tequila crisis in Mexico. GDP fell about 5% after the "Tequila virus", still it managed to recover rather quickly as so did Mexico. However, when international shocks became stronger and persistent after the Asian and Russian crisis, Argentina couldn't avoid swallowing the bitter pill of neoliberalism: in 1998 it entered the longest economic recession ever.

This situation led to a kind of vicious cycle in which successive economic administrations tried to keep the boat floating through orthodox fiscal policies (increasing taxes and cutting expenditures) as 'last minute attempts to buy credibility to stop capital outflows, something that in fact exacerbated the recession' (Mercado 2007: 4)

Mercado's idea is reinforced by Duménil and Lévy's appraisal of the Currency Board actions. 'With the Currency Board, the task of controlling the macro economy had been entirely transferred to "markets", that is, national and primarily, international financial interests. The intrinsic declining trends of financial investment from countries of the centre (reflecting the ups and downs of their own macro economy) combined their effects with internal tensions. When the pressure reached unbearable levels, it became clear that the Currency Board, based on reserves in foreign currency, acted in line with what it is: a procyclical multiplier of external disequilibria' (Duménil and Lévy 2006: 393)

This vicious cycle that the country was trapped in partly because of the Convertibility System adopted in the wake of the nineties reforms, was interrupted by the economic earthquake in 2001, and with it the credibility of a "serious" and long term project: the neoliberal experiment. The terrible human consequences are well known. Taking the second quarter of 1998 as a benchmark, output fell by 20% of its value in the first quarter of 2002. At the same time, investment by enterprises dropped by 56%.

It is not a surprise then that the end of the Currency Board System happened in the midst of a social, economic and political confusion –there was a succession of several presidents within one week-, forcing Eduardo Duhalde's administration in 2002 to abolish the law backing the currency entity and devalue the peso.

"Que se vayan todos". The politics of the economic crisis

To get a better understanding of Argentina's political economy shift and the structural forces [of capitalism] supporting or inducing this mutation, it's crucial to review the main political events that somehow explain the route taken after 2001; and reflect the lack of credibility on the apparatus and parties as well as the great instability the country was subjected to during this period when voters just wanted "all of them [politicians] to leave and never come back".

An economic recession of long duration and protracted gestation (nearly five years, from mid-1998 to late 2002) combined with the deterioration of all forms of sociability and a phenomenal political crisis that culminated in the bloody days of the 19th and 20th of December 2001, caused the collapse of Fernando de la Rúa's government -inept and unpopular administration according to analysts and public opinion-.²

This "spontaneous uprising" was the violent culmination of a series of initiatives (strikes, "pickets" in the streets, roadblocks, ollas populares, etc.) and mobilizations that had been drawing the attention and stirring the Argentine political and social scene since the mid-nineties, when the momentum of economic neoliberalism had revealed its limitations in pursuing

the formula of high economic growth and low levels of poverty and unemployment.

The days of December made clear the "organic crisis" -in the Gramscian sense of a rift between representatives and represented- unprecedented in Argentina. Crisis propelled by the simultaneous and equally catastrophic collapse of the Convertibility System that for nearly ten years had falsely -and at a tremendous cost, as revealed later- matched the value of the dollar against the peso. It was a crisis that devoured four presidents in just over a week and, predictably, caused deep effects on public life. One of them: radical lack of legitimacy of the traditional political class, a consequence still alive today (Boron 2007: 5-6).³

An expression that reflected the mood of the vast Argentine society and gained popularity in those dark December days, "*que se vayan todos*" -"leave all"-, was the motto used by the afflicted population to state widespread condemnation towards the political class and the general discontent of the governed in relation to the rulers. The gravity of the situation explains the tremendous efforts made by Kirchner's predecessor, President Eduardo Duhalde, in resetting the whole system and bringing back to life the political parties, recover the prestige of some of their leaders and restore somehow the broken link between the representatives of the political elite and the voters. Considering the chaos at the time, Duhalde's handling of the whole situation was carried out 'reasonably successful'.

Kirchner was able to capitalize on this lack of confidence and repudiation expressed by the voters in relation to the past decade, the contamination of the whole political machinery and the failure of the structural adjustment project. He was perceived, wrongly, as a marginal component in the corrupt constellation of power that had thrown Argentina into the most acute crisis in its history. And we say wrongly, because at the time of the crisis Kirchner had already been for over ten years governor of Santa Cruz, a province in the south of Argentina.

His management of the province was framed within the general guidelines established by then-President Carlos Saul Menem (1989-1999). Moreover, his identification with the neoliberal project led by Menem was evident in 1994 when he was elected as a conventional call for the Constitutional Assembly, with the purpose of reforming the *carta magna* and enable Menem's re-election in 1995 and which, by the way, would transfer to provinces the absolute sovereignty of the subsoil exploitation, a measure applauded by the large oil companies. Finally, we must not forget that the privatization of YPF (Yacimientos Petrolíferos Fiscales, a super solid state owned oil company) had the enthusiastic support of Kirchner as governor of Santa Cruz, and so did other executed policies inspired by the Washington Consensus, particularly promoted during the climax of Menem's administration.

In any case, the fact is that after the turbulent juncture in December 2001 and with an uncertain panorama ahead –politically and economically speaking-, Kirchner was the candidate breaking the line of continuity. Duhalde, who couldn't stand the idea of Menem overtaking power once again –he was running for the 2003 presidential elections-, 'sponsored' Kirchner giving him all his public support to run for President.

The "progressive" profile of the '*Santacruceño*', certainly not shaped during his administration as governor of the Southern province but for his militancy in the Peronist left wing when he was young; along with his commitment to keep in office Duhalde's Minister of Economy Roberto Lavagna -who could claim major successes and the recognition of public opinion after gaining control of the situation pretty much in coma back in 2001-, were major elements that strengthened Kirchner's electoral campaign.

These also contributed to the support of the Peronist party "apparatus" in Buenos Aires as well as the acceptance of his radical speech influenced by the devastating social landscape after the collapse of the Currency Board: 54% of the population below the poverty line, half of them sinking into indigence. The latter stimulated a rhetoric sharply opposed to neoliberalism and clearly marked the difference between Kirchner and the other candidates. Yet it was not enough: at the closing of the polls Carlos S. Menem obtained 24.4% of the votes against 22.2% by Néstor Kirchner.

Current regulation in Argentina provides that if no candidate reaches 45% of the valid votes cast, the first two opponents in the ranking must go for a second round. This meant a race for the presidency between Menem and Kirchner to be held on May 18th, 2003.⁴ A few days before the ballotage Menem, trying to avoid a defeat that would bury him politically, took a decisive step: he withdrew his candidacy allowing Kirchner to become the new elected president. 'A president who, with no doubt, was extremely weak, lacking the legitimacy that could have earned in the second round of voting and accessing the *Casa Rosada* with the lowest proportion of votes ever recorded in Argentinean history' (Boron 2007: 7)

Chapter 4. Literature review

“The Argentine miracle”

Numbers did improve

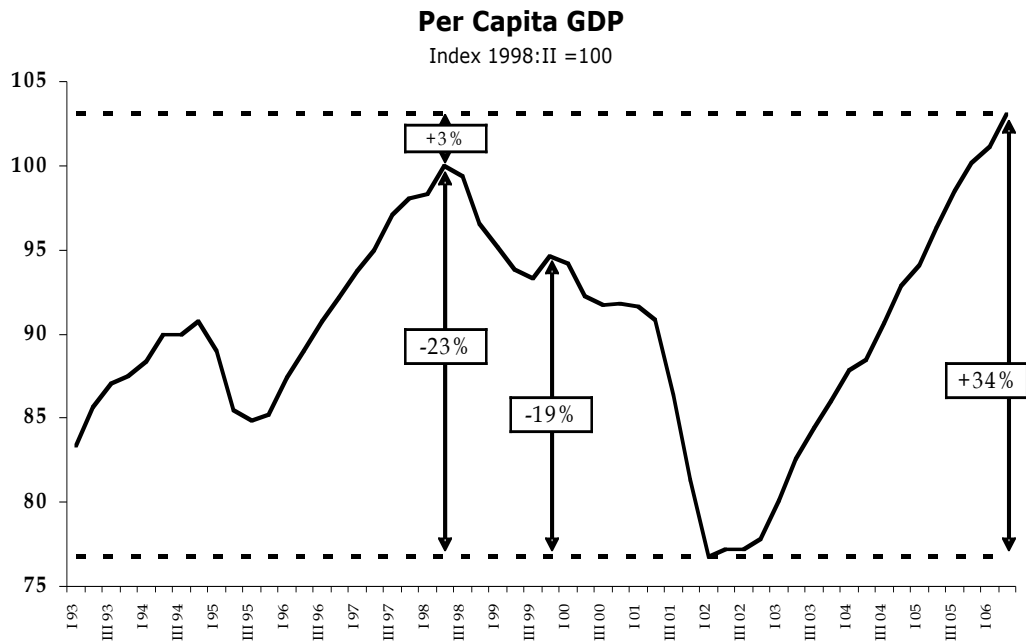
The dimension of the Argentine crisis makes us think there was a post-microsurgery process to recover the economy. Well, the new “post-Convertibility” macro policy consisted of a few and relatively “simple” steps. When we say simple we refer to the design of the policy itself. It was not easy at all in political terms since they conflicted with foreign and domestic creditors and bond holders, as well as privatized utility companies and the IMF.

The first move was devaluation and floating of the exchange rate allowing a significant real depreciation, this pushed the relative prices towards the tradable goods production; then the government -Duhalde’s- started renegotiating the debt pursuing a substantial reduction; financial capital inflows were restricted; all dollar denominated contracts were “*pesificados*” (converted into pesos) affecting creditors (e.g. bank deposits and bond holders) and benefiting debtors (e.g. firms and mortgage holders); utility tariffs were frozen (utility companies were already privatized); export taxes were imposed on the main products (mainly agricultural commodities) as a source of extra revenue for the government as well as a way of keeping prices down for popular consumption products –bread, milk, meat, etc.-; and a fiscal surplus of about 3% of GDP was accumulated in an attempt to collect genuine funds then translated into foreign reserves to repay –selectively- the public debt (particularly the obligations to IFIs such as the IMF, WB and IDB).

The result? Surprisingly, Argentina began to recover -some started talking about the *Argentine miracle*- entering its largest expansion period, with GDP growth rates between 8 and 9% per year through several years while inflation rates were very low. Let’s take a look at some of the main features of this recuperation.

The graph below depicts Argentina’s per capita GDP evolution since 1993 thru 2006. It clearly shows the economic boom of the nineties, the long recession starting in 1998 after the Asian and Russian crises, and the sharp decline in 2001 due to the breakdown of the Currency Board system. The fast and consistent recovery begins in 2002, accumulating a total increase of 34%.

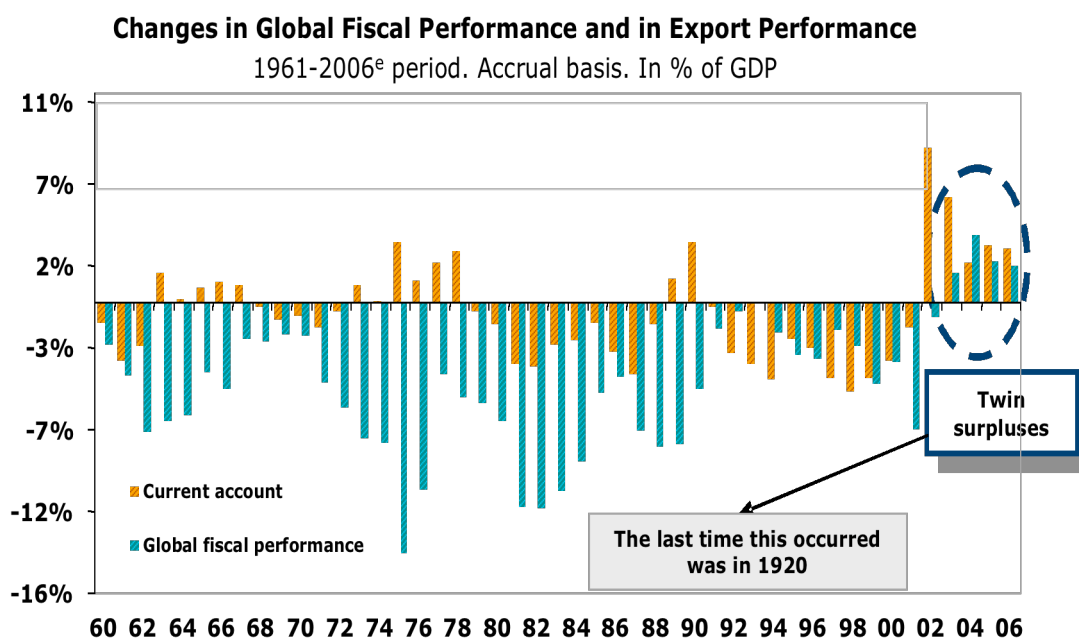
Figure 2



Source: SSPE-Ministry of Economy (Mercado 2007)

An immediate deduction after looking at these figures is that Argentina is facing again a boom such as the one in the nineties. However, there are some specific factors that mark the difference with the previous period, and also with most of Argentina's economic cycles. We are talking about the progress of the current account and fiscal surplus:

Figure 3



Source: SSPE- Ministry of Economy (Mercado 2007)

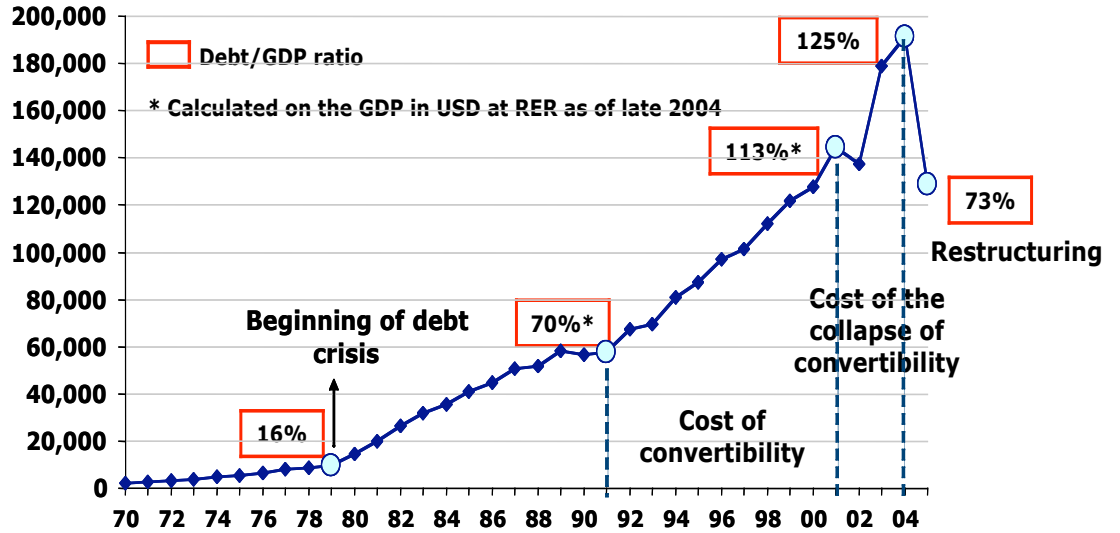
Here we can observe a peculiarity: From 2002 onwards Argentina experienced the “twin surpluses” phenomena. Last time this occurred was in 1920, so it is indeed a hard thing to find in Argentine economic history. Furthermore, these surpluses manifested at the same time the country was going through a growth surge (Mercado 2007), a combination even more unusual in this specific case leading us to ask if these excellent economic performance during the years after the crisis in 2001 –characterized by domestic demand and exports rise- constitutes a structural break in Argentine’s production system. We will come back to this later.

Another feature of this expansion period is the debt dynamics, reaching a pinnacle of 180 billion dollars in 2004 surmounting to 125% of GDP, descending to 73% of GDP after the debt restructuring.

Figure 4

Changes in total public debt

1970-2005 period. In millions of US dollars, as of the end of the period



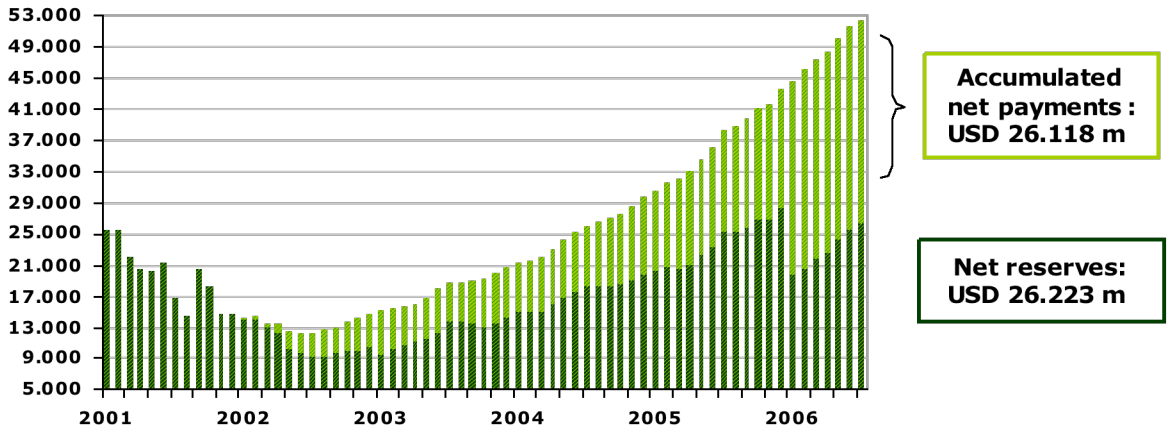
Source: Secretary of Finance-Ministry of Economy (Mercado 2007)

In relation to the debt restructuring we can also see the engrossment of international reserves. After the crisis, at the beginning of 2002, numbers show a positive performance on this regard while payments were still being made to international organizations. Notice the one-time ten billion dollar payment to the IMF in January 2006 to definitely cancel the debt with this financial institution, putting an end to its conditionality on the Argentinean economic policy.

Figure 5

Evolution of international reserves and net payments to international financial institutions (IFIs)

January 2001 – June 2006. USD million



Source: Secretary of Finance-Ministry of Economy (Mercado 2007)

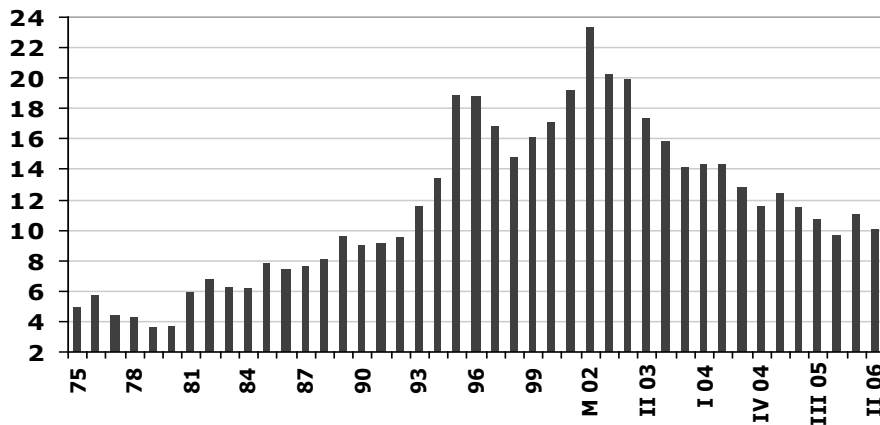
Last but not least, there were also some important variations in unemployment and poverty figures. After reaching a ceiling of 23% right after the crisis, unemployment began to decrease “stabilizing” at a 10% range by the end of 2006.

Figure 6

Unemployment rate. Urban total

Evolution 1975–2006

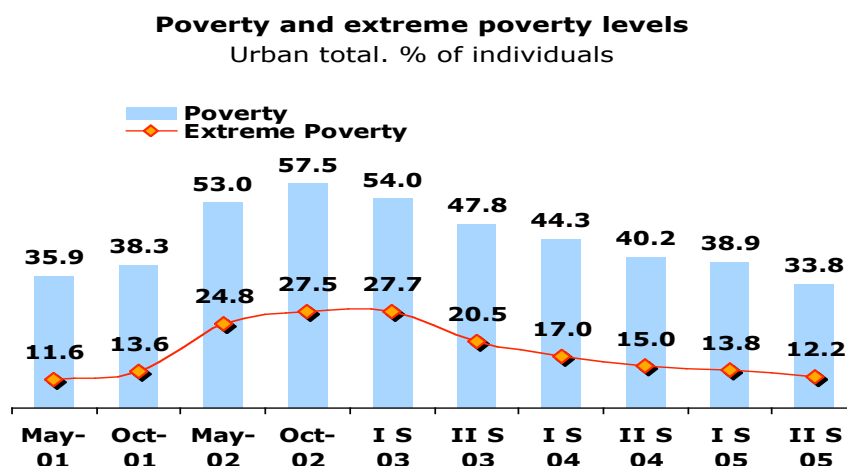
Annual average rates 1975-01. % of PEA



Source: SSPE Based on INDEC- Ministry of Economy (Mercado 2007)

On the other hand, poverty and extreme poverty indexes climbed up to 57.5% and 27.5% respectively during the crisis climax. By 2005, poverty had gone back to 33.8% while extreme poverty was reported at around 12.2%.

Figure 7



Source: INDEC-Ministry of Economy (Mercado 2007)

The limits of a “simple” macroeconomic equation

Inflation, Argentina’s constant fear

Today, Argentina’s official statistical figures are unreliable, they are made up –inflation figures released by the government don’t coincide with reality-, but the contours of the economic performance in the last years are not under dispute: Uninterrupted economic growth for five years at a rate of 8,8%, totalling an expansion of 52.5% up until March 2008, an investment rate of 25% in relation to GDP in the third trimester of 2007, exports expanding from US\$ 25,000 million to US\$ 55,000 million, foreign reserves over US\$ 45,000 million, fiscal and trade surpluses, unemployment falling to 8%, and poverty, still the Achilles’ heel of this nation, is below 25% compared to 55% during the crisis.

Argentine businessmen are enjoying today a period of stable profit margins, yet there is a general discontent and anger towards the government. The feeling, even among those that supported Nestor Kirchner’s plan, is that his administration is ‘gambling away a golden opportunity’. Furthermore, some entrepreneurs have expressed their discomfort regarding the government’s authoritarian -some would say hooligan- tendencies that attempt against Argentina’s democracy.

Worldwide recognized economist Dani Rodrik, has called Argentina's recent economic growth 'of the good kind', denying high commodity prices as the only cause of this upsurge. He is close to other analysts' approach (e.g. Molinero 2008) emphasizing that the investment boom of the last few years is been held by high saving, not by external debt as in the 1990s:

Figure 7

Saving and Investment

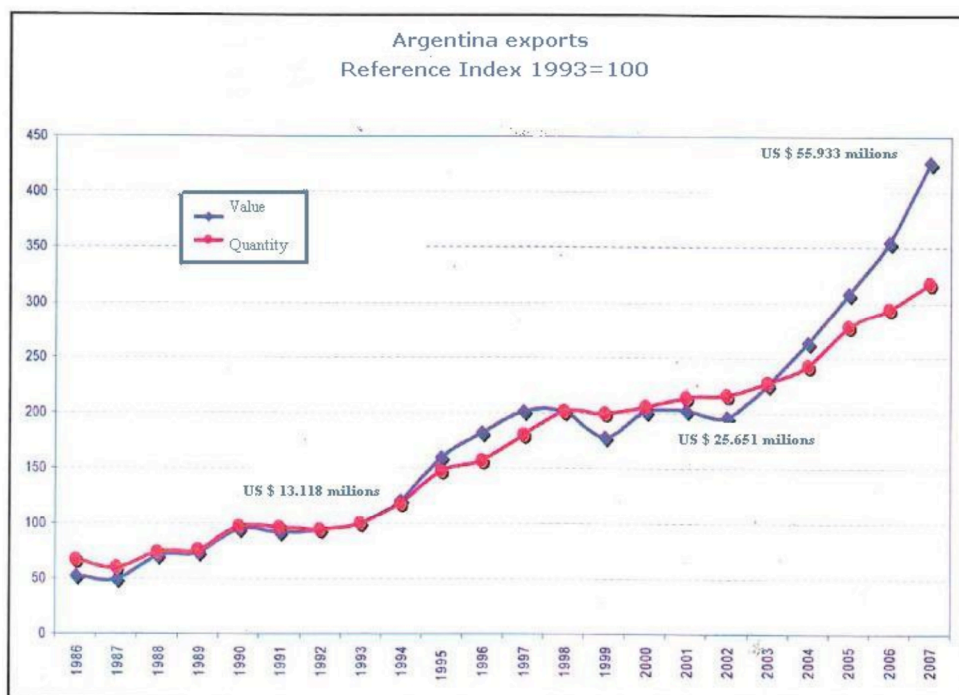
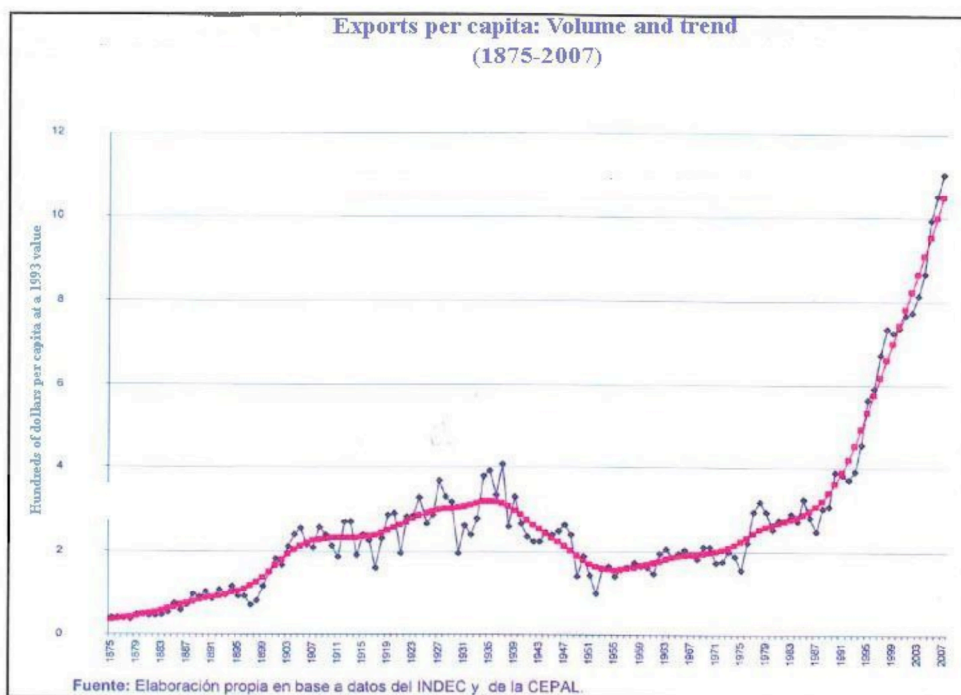


Source: The Economist Intelligence Unit in Dani Rodrik's weblog

The difference is that economic recovery and sustained growth from 2002 onwards have been driven by a competitive currency. The abolition of a fixed exchange rate and the pegging of the peso to the dollar after the crisis in 2001, immediately boosted the relative profitability and output of a wide range of tradables: agro-industries, manufacturing, and a broad spectrum of services (from tourism to call centres). Unemployment and poverty rates have come down. Manufacturing employment has been revived after a long period of decay. 'The weak currency has stimulated the right kind of structural change - from lower productivity activities to higher-productivity tradables- which is the source of the economy-wide increases in TFP we have seen' (Rodrik 2008). We can verify this trend by observing the rise in exports –driven by a competitive currency as well as spectacular international commodity prices (e.g. soy, oil) up until 2007-:

Figure 9

Exports trend in Argentina



Source: Source: Kosacoff 2008(b). ECLAC

But economy and politics don't follow the principles of fairy-tale stories, things are never as simple as they seem to be in Argentina. In a growing economy, the tendency for the real exchange rate is to appreciate -unless it can generate saving surpluses over investment (Rodrik 2008)-. This is exactly what has happened in Argentina: prices have gone up. While the peso is stable against the dollar in nominal terms, the overheated economy has pushed up inflation (over 20% annually at present), which at the same time has been 'mismanaged'. This suggests the economy is hitting the wall and poses the question of sustainability regarding the "new" economic model operating in Argentina after the break in 2001. Moreover, it brings doubts in relation to Rodrik's statement just a few lines above saying Argentina's growth is 'of the good kind'.

The answer to high inflation should be a fat fiscal surplus -much larger than what the government is managing at the present despite the huge windfall in commodity prices- (Rodrik 2008). Instead, the government -aside from meddling with official statistical figures- has been applying temporary measures: price's control, export taxes, and intervention in currency markets. There is no coherent plan to handle inflation and even worse, no route map or long-term guideline for sustaining competitiveness in the wake of the real exchange rate appreciation, something imminent even in the best of the circumstances.

On the other hand, there isn't a consistent strategy either to tackle structural poverty and exclusion, which still remains hitherto the spectacular growth rates Argentina has achieved in the last years. If we contrast the current economic and social indicators with the ones applicable to the decade of the seventies, immediately pops up the immense challenge Argentina must endure to recover the welfare, equity and dignity of the majority of the population. From 1975 up to 2007 GDP per head grew at an annual rate of 0.6%; during this cycle 19 years were of economic activity expansion and 14 of crisis, a performance revealing the stagnation and extreme volatility framed in a context of increasing heterogeneity and social exclusion.

'Consistency between growth of aggregate demand and supply and maintenance of external and fiscal surpluses, is one of the central challenges involved in the design of economic policy. This goal implies strengthening the flows of investment and exports and establishing distributive patterns socially accepted. It should also be associated with an structural change dynamic, which in essence creates more and better wealth with a progressive distribution pattern, against a background of increasing social cohesion' (Kosacoff 2008)

Additionally, the reputation of the government as 'abusive, threatening and intimidating' within the business community, is a very unhealthy approach to the private sector, it may tamper investment and entrepreneurs' willing to undertake future risks. Kirchner's position is quite provincial in the sense that

it seems to appeal to his main political power base while assuming the engine of growth won't stop. Yet, the lack of credibility and confidence coming from the business sector due to unclear rules of the game evokes similarities with the past, and it certainly can hold on stand-by the wheel of growth

Domestic industrial structure, biased towards commodity exports

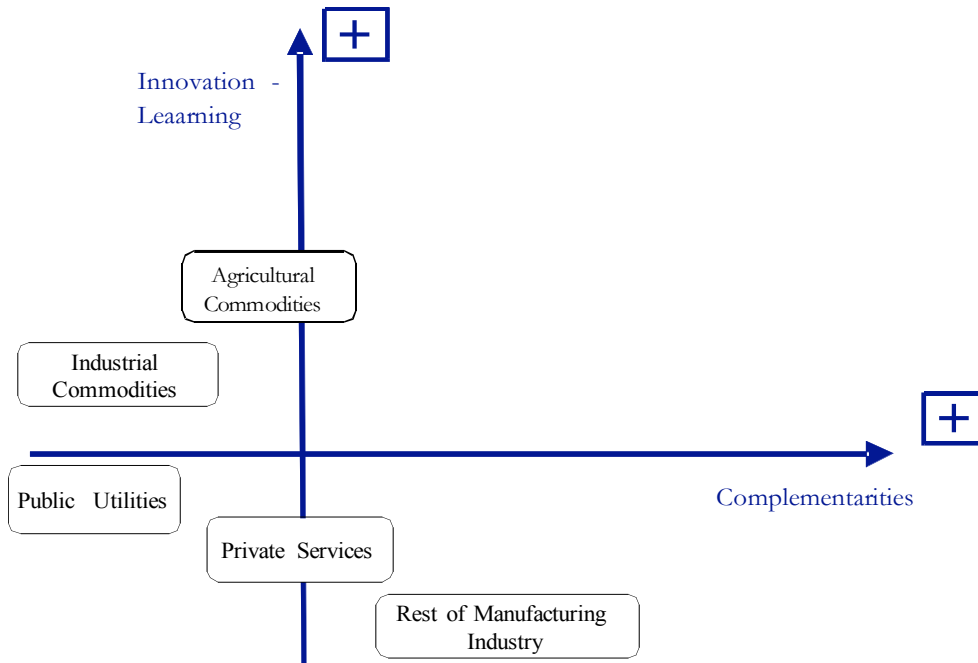
As we have seen through the display of the main macroeconomic features that reveal a consistent recovery and growth of the Argentinean economy after the crisis in 2001, there have been significant reforms aiming to change the direction and dynamics of the economy in order not to sink again in a recession like the one resulting from neoliberal policies applied in the nineties. Yet, the panorama after Duhalde's "interim" government and four years of Kirchner in power, is not only challenging but also questioning as to what extent there has been a break with the past.

In general, there is a consensus when it comes to analyze the Argentine economy performance in aggregate terms: it's been quite satisfactory from 2002 onwards. Questions pop up at the "*mesoeconomic level*". Some economists and analysts assert there is not a clear vision yet on the course to follow in relation to domestic production structure and international insertion. The Argentinean productive configuration relies basically on commodities and goods with medium levels of complexity –low added value and low technological content production processes-. Experts on the topic affirm that given its factor supply, primarily in terms of its qualified labour force, Argentina could start leaning its production structure towards more innovative activities, with a higher degree of learning and complementarities involved.

Fernando Porta, who has studied in detail the configuration and major aspects of the industrial scheme in Argentina, has come up with a sketchy characterization of the two dimensions in which Argentina is inserted today:

Figure 10

Diagram of industry in Argentina



Source: Porta, F. 2005

The agricultural commodities sector, condensed in the “Pampas” (and to a lesser extent the production of olives, lemons and honey), and their derived agro industries display a significant introduction of innovations but a dim level of complementarities. On the other hand, the industrial commodity sector (steel, aluminium, paper, cars and “differentiated products”) is composed by “modernity islands” with limited universal effects. Multinational corporations, with a strong presence in this area, are taxed with low exit costs and ‘lack internalization of strategic functions, suppliers’ development and specialized branches’. The utility sector, in private hands, also doesn’t contribute much when it comes to innovation (except in telecommunications) and complementarities. Finally, private services along with the rest of the manufacturing industry ‘developed a “defensive adjustment” during the nineties characterized by a high degree of informal activities, predatory competition, subsistence strategies and low average productivity’; still these sectors are the ones that contribute most to maintain labour demand levels (Mercado 2007: 14).

Baruj and Porta propose a different industrial policy approach than the one is being applied so far in Argentina. If we look at the graph above we clearly see “a missing or empty quadrant”, this is where the industrial policy should “bias” its structure if the government really wants to invigorate

Argentina's current performance and diversify its industry, as it's being stated in almost every single discourse and Kirchner's public appearance since his election in 2003. But it is not that there isn't an industrial policy in Argentina, we are not referring to lack of instruments, actually there are dozens of mechanisms and promotion programmes offering tax breaks, subsidies, sponsored credit and technical assistance; we are talking about a non-strategic road map, the superposition of programmes and tools and the lack of monitoring and evaluation (Baruj and Porta 2005).

These are the main flaws to be fixed in the restructuring of Argentina's Industrial policy.

A key element in the interaction of these *macro* and *meso* levels is the fact that the main exports of the country depend on the agricultural sector which, at the same time, produces the main staple food basket of the population. In other words, a real depreciation of the exchange rate or a significant rise in export prices immediately affect the real wage and puts a substantial upward pressure on the domestic food prices as well as nominal wages (This is the "course" of Argentinean economy: its main agricultural exports are at the same time their national staple food)

This particular "symbiosis" has been at the core of the stop-and-go-cycles recurrent in Argentina's recent history, especially during the ISI and even today seems to attempt against the macro-equilibrium of the economy.

'Some authors (e.g. Gerchunoff 2006) see this historical problem of the Argentine economic structure and macro dynamics as going away as Argentina has shown changes in its export composition and labour market over the last two decades. However, this "dual" (macro-meso) policymaking challenge still seems to be relevant, at least in part, as shown by the widespread system of export taxes instituted by the government in order to keep domestic prices and wages under control, and it calls for changes in export composition as well as in the consumption pattern' (Mercado 2007: 16).

There is another aspect to take into account regarding factor endowments and that is Argentina's natural resources wealth, it tilts the production edifice towards specialization upon its comparative advantages. Therefore "filling" the empty quadrant faces an obstacle: "this gravitational force" requires the design of an accurate transition path.

One last issue to touch upon in connection with the approach to industrial policy instruments' design is, at the micro level, the improvement of the general conditions for competitiveness of the country. Even though competitiveness indexes are somehow controversial, Argentina has not occupied high ranks.⁵

Unclear rules of the game, deterring investment

Argentinean companies currently having normal profit margins, going through an investment decision-making process consisting on the assessment of earnings flow over the next ten years based on present values, should count with the accurate information in terms of real exchange rate, wages and interest rates pulse, at the very least, to avoid the wrong move. Hence, the decision to import is much less uncertain. Actually, in the last three decades economic agents have learned quite well what is the best way to import.

As mentioned earlier, Argentina is today an open economy that allows importing. A very positive feature as long as the rules of the game are set and clear and the incentives to develop entrepreneurial skills in the production of goods and services are tangible enough. Creating the ‘systemic conditions’ for investment is associated to keeping aligned the macroeconomic variables, lowering transaction costs, designing and expanding tools for long-term financing and improving the industry organizational model. In relation to this last point, researchers and analysts –e.g. Kosacoff- on the same line of thought as Baruj and Porta, insist on the necessity to restructure Argentina’s industrial model. Successful experiences prove how joint private efforts and public policy instruments play a central role in preparing the ground for investment and industrial transformation.

Rodrik has referred to this gap between private and public sectors as a pity, because the Argentinean economy is going on the right direction, he says. He has assessed the underlying model as ‘much more sound than anything in memory’, despite the lack of dialogue between businesses and government and short fiscal surplus, the two main flaws of Argentine economy. Nothing impossible to cure, asserts this respected economist and professor from Harvard Kennedy School.

Other scholars and economists standing on the structuralist verge, like Kosacoff, think it is way more complex than expanding fiscal surplus and stimulating investment. Yes, there have been positive reforms after 2001 with which Argentina can continue growing at a high rate, forecasters affirm; nonetheless there are pending issues to be solved that not only contradict the “new” model perspective but pose huge challenges to the ruling classes in charge of the political economy design. Argentina, like all Latin American countries, is still very unequal with high levels of poverty and unemployment, thus we can’t claim a structural change when these haven’t been solved yet, nor has the production and industrial system being diversified and the distribution pattern readjusted.

Macroeconomic healthy conditions, increasing international demand for commodities and companies’ stable profit margins, are a favourable starting point for the country to navigate through the next decade without drowning into a new crisis. But the structural change and new model attributed to the “economic regime” installed after the crisis, and constantly proclaimed by

academics, analysts and politicians close to the official circles, is more of a pending agenda representing a collective challenge of great magnitude.

Kosacoff is being very explicit: 'a country in the path of greater social equity requires the strengthening of entrepreneurial skills, leading to a process of structural change towards a specialization pattern based on the production of goods and services with greater technological intensity, human resources qualification and increasingly progressive distribution model' (Kosacoff 2008)

5. Analysis

The post-convertibility model, breaks and continuities

To answer this question, we must match the particular set of activities within the economy that are developing more intensively being the engine of growth. But sometimes, some sectors are the most dynamic ones but not necessarily contribute to increase the level of growth - e.g. commercial activities-. This is why we have to take into account both: the most dynamic and the boosters of growth.

Table 2

Characteristics of growth. Pos-Tequila (IVtrim95-IVtrim98) and Post-convertibility (IVtrim02-IVtrim06)

A) Sectors that drive growth

Pos-Tequila (68%)*	Growth (%)	Post-convertibility (75%)*	Growth (%)
Paper, publishing, printing	29	Paper, publishing, printing	67
Rubber, plastic	33	Rubber, plastic	69
Machinery & Equipment	27	Machinery & Equipment	139
Vehicles & other transport	69	Vehicles & other transport	137
Furniture & non classified products	97	Furniture & non classified products	119
Construction	46	Construction	171
Commercial	27	Commercial	56
Transportation related activities	26	Transportation related activities	55
Post & Telecommunications	54	Post & Telecommunications	92
Insurance Financing	36	Insurance Financing	62
Leisure	27	Leisure	93
Wood & related products	73	Wood & related products	142
Restaurants & hotels	34	Textiles	89

Financial services	49	Metals & related products	74
		Transport	43
		Services	42

B) Sectors with major contribution to growth

Pos-Tequila (68%)*	Growth (%)	Post-convertibility (75%)*	Growth (%)
Primary activities	5	Primary activities	3
Construction	11	Construction	16
Commercial	19	Commercial	17
Transport	3	Transport	4
Post & Telecommunications	7	Post & Telecommunications	10
Real Estate	7	Real Estate	5
Chemicals & Refining	3	Food, beverages & tobacco	4
Restaurants & hotels	4	Machinery & Equipment	4
Financial services	11	Services	4
		Leisure	4

*Total contribution of sector during the period

Source: Realidad Económica 2007. (Vol. 231)

This table contradicts the idea that the patterns of growth in one period and the other are radically different. In fact, out of the core activities motorizing the current process of growth, two thirds belong to the same nucleus that mobilized the economy during the pos-Tequila phase. The most relevant breaks concentrate in three industrial sectors that were almost stagnated or very weak during the pos-Tequila and gained dynamism during the post-convertibility: textiles, garments and metal industries.

Also, only 10 out of the 30 sectors listed, represent 69% of total growth during the post-convertibility. Furthermore, six of them coincide with the most influential ones in the pos-Tequila.

A common explanation for this coincidence is the fact that such sectors revived the installed productive capacity idle after recession. This means

growth after 2002 was possible due to a natural recovery process of previous levels. However, if we take a closer look at the sub-periods of genuine growth (Itrim 96-IItrim98 and Itrim05-IVtrim06), the findings are as blunt as relevant: from 2005 onwards (year in which the higher production peak of the post-convertibility period is reached), the set of sectors generating growth are exactly the same that propelled the economy through the pos-Tequila process. So it is indeed accurate to associate this interim period with genuine growth since it is not just the recovery after the crisis, it is actual growth. We then have a level of growth of the same scale, during the same timeframe and mobilized by the same sectors.

Table 3

Characteristics of the sub periods of real growth Pos-Tequila (Itrim96-Itrim98) and Post-convertibility (Itrim05-Ivtrim06)

A) Sectors that drive growth

Pos-Tequila (68%)*	Growth (%)	Post-convertibility (75%)*	Growth (%)
Paper, publishing, printing	19	Paper, publishing, printing	23
Rubber, plastic & other	18	Rubber, plastic	21
Machinery & Equipment	17	Machinery & Equipment	17
Vehicles & other transport	44	Vehicles & other transport	45
Furniture & non classified industries	79	Furniture & non classified products	19
Construction	33	Construction	40
Commercial	18	Commercial	16
Post & Telecommunications	46	Post & Telecommunications	37
Financial services	40	Financial Services	47
Insurance & Pensions	17	Insurance & pensions	16
Leisure & culture	23	Leisure& culture	24
Wood & related products	75		
Chemicals & Refining	19		
Electricity, Gas & water	17		
Restaurants & hotels	24		

Transportation related activities	24		
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B) Sectors with major contribution to growth

Pos-Tequila (68%)*	Growth (%)	Post-convertibility (75%)*	Growth (%)
Construction	11	Construction	15
Commercial	17	Commercial	15
Post & Telecommunications	8	Post & Telecommunications	12
Financial services	12	Financial services	10
Real Estate	7	Real Estate	5
Primary activities	7	Food, beverages & tobacco	4
Chemicals & Refining	3	Transport	4
Restaurants & hotels	4	Leisure & culture	4

*Total contribution of sector during the period

Source: Realidad Económica 2007. (Vol. 231)

The data released here raises serious doubts in relation to the argument that after the peso devaluation in 2002 the Argentine economy functioned within a totally different pattern of growth. Other research papers (e.g. ECLAC, and Fernández, C. and Porta, F. March, 2008, *Revista Realidad Económica. Crecimiento reciente, Nuevo regimen sin cambio estructural*) back up this theory sustaining the economy in Argentina is going through an expansion period without a structural change. As highlighted at the beginning of this paper, it is an ongoing debate, turning Argentina's current economic model into a relevant study case.

More jobs and the specificities of the new process

One of the most striking (and contrasting in comparison with the nineties) characteristics of the process after devaluation in 2002, is the high demand for new jobs. As a matter of fact, between the second trimester of 2002 and the last quarter of 2006 the amount of urban inhabitants employed rose 32%. (this number doesn't include those registered at the *Plan Jefes y Jefas de Hogar*, unemployment subsidy granted by the government) Considering the

Argentinean economy grew 43% during this same period, we can deduct the product-employment elasticity settled around 0,73 in comparison with 0,42 in the pos-Tequila. And if we narrow the analysis to the sub-periods of genuine growth, these phenomena remains, being 0,72 in the post-convertibility whilst 0,65 in the pos-Tequila. (Lavopa 2007: 61)

It is pertinent to ask why such high margin of product-employment elasticity through out the post-convertibility. According to Lavopa, there are two reasons behind this relevant fact: in the first place, the expansion process may be driven by a set of economic branches characterized by an intensive use of labour; secondly, the process itself (whether it is pushed by the same set of sectors or not) might be grounded on a more intensive use of labour (Lavopa 2007: 61)

The main factor causing this higher product-employment elasticity seems to be related to changes inside each branch of the production system and not to a detour of the economy towards an intensive labour rationale with a generalized spilling effect on all sectors. Now, why elasticity enlarged within some sectors? Following Lavopa's rationalization of this process, he says the most frequent answer tends to appeal to Neo-classical microeconomic theory which focuses on the peso devaluation as the wheel of relative prices, increasing the cost of capital and squeezing labour rates, hence injecting more work force to the production processes of enterprises. Lavopa disagrees, for him this is very simplistic and limited to what happens in the manufacturing industry.

There are other elements in place to be examined. Primarily, the vast majority of jobs created are categorized as waged labour, with some differences of course regarding the sector and the size of companies hiring personnel. After the Tequila crisis, the most significant areas in terms of labour demand were the public sector and large private companies; whereas during the post-convertibility period this phenomenon was led by the small and medium enterprises, SMEs. Same logic applies for both cases in the sub-periods of genuine growth.

In addition, if we dig deep into the on-going process, we notice that there is a key difference between the recovery and genuine growth periods: even though the role of the SMEs as labour absorbers continued, during the recovery stage the small establishments played a preponderant role (comprising 20% of new jobs created) while the public sector played a marginal role. But from 2005 onwards, the opposite happened: small companies got out of the picture and the public sector undertook the task of maintaining low unemployment. We could then deduct Argentina's presumably new pattern of growth (genuine growth not recovery), specifically in relation to product employment elasticity, has been to a large extent held by government subsidies, social plans and public sector jobs, undermining the positive effects and

dynamism reached during the first years after the crisis led by SMEs as the nucleus of labour demand.

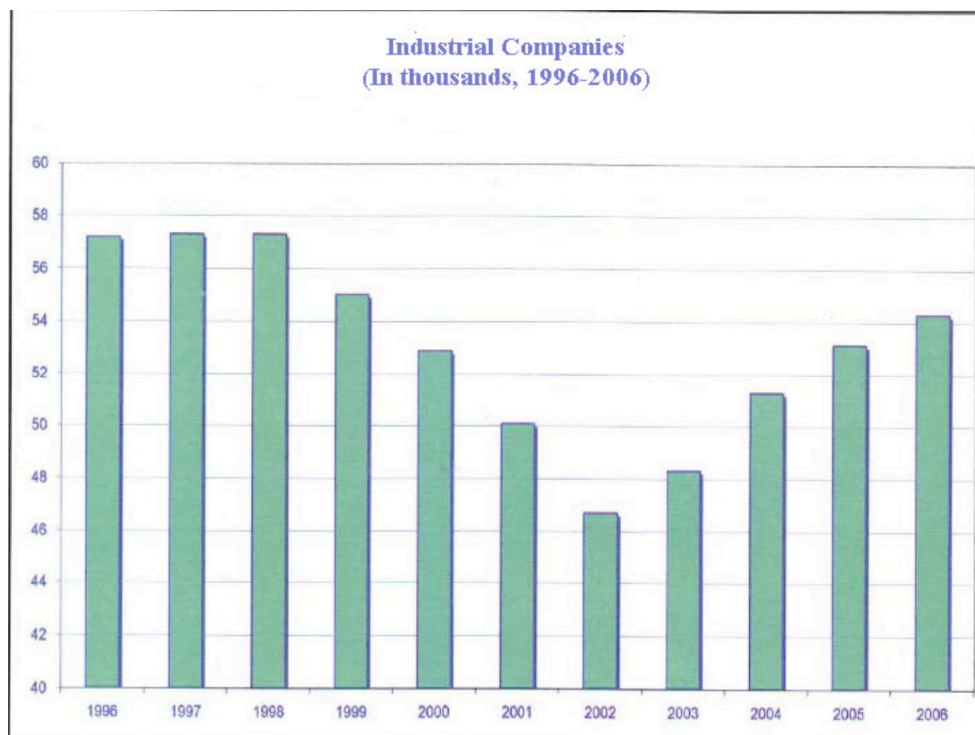
Finally there is a last point to make: the quality of these new jobs. We can't leave aside the fact that in Argentina "precarious employment" (workers with no retirement plan) has become a structural aspect of the labour market. In the nineties, the undermined working conditions clearly reflected during the post-Tequila crisis where 70% of new jobs had no future protection for workers, were precarious. In the post-convertibility, it improves a bit but it still rounds a 40%.

The SMEs, a fundamental actor

Reviewing all the issues we have touched upon, the role of the small corporations and SMEs is fundamental in this whole analysis. The increase in the number of employed population might be the response to a higher demand of workers coming from already existing establishments before the recession; or the starting-up of new businesses during the period of growth after the convertibility crisis.

The main causes behind the employment surge during the post-convertibility period are linked to the fresh SMEs taking advantage of a protected internal market due to local currency devaluation. During the final stage of the convertibility period the closure of businesses was far superior to the creation of new ventures. In the past five years there has been an inverse trend. For example, in 1996 the number of formal industrial establishments was 57,000, in 2002 it dropped to 46,000, then in 2006 it went up again to 53,000, as we can observe in the graph below:

Figure 11
Enterprise creation curve



Source: Kosacoff 2008(b). ECLAC

This curve is very positive, but it is worth pointing out that the number of companies existing a decade ago hasn't been reached yet. What's more worrying is the bad business climate predominant in the past 20 years, as evidenced by the small number of new ("green field") large Argentinean enterprises. In contrast, almost 1,000 companies have sold their position in the market through merging and acquisitions processes, preferably with subsidiaries of transnational corporations and more recently, with Latin American firms, particularly Brazilian. (Kosacoff 2008)

It is an inflexion point the fact that such strong dissemination of small ventures hasn't modified in a substantial way the pattern of growth of the economy. A possible answer to this is that the newly founded businesses and SMEs joined the same branches that constitute the hard-core activities of the economy –those that have real impact on GDP growth-.

The processes of vertical disintegration and outsourcing of activities that characterized the nineties have created the conditions for today's absorption of the new SMEs into the condensed nucleus of the economy, particularly in the

area of substitute import inputs. On the other hand, even if these SMEs had crossed the gate of other sectors within the production system, their low level of productivity diminishes their impact on the aggregated output, despite their intensive labour demand.

‘In a context of strong economic concentration as the one characterizing Argentina, it would seem quite plausible that the largest companies are the ones determining, ultimately, the course of the economy. According to a recent paper on productivity and functional income distribution, the participation of the 500 largest companies in the country's total output would have remained constant since the beginning of the post-convertibility growth process’ (Lindenboim et al. in Lavopa 2007: 70)

In this context, further investment is vital. The considerable rise in consumption contributed significantly to the rise in domestic demand. Investment in durable production equipment in 2006 surpassed the previous maximum levels. The manufacturing sector in particular experienced a boost in its production capacity. The extension of the phase of fast growth drew the attention to a key aspect: consistency between spending evolution and supply. Business response to a sustained demand, with full utilization of installed capacity, can opt to adjust via prices instead of quantities, therefore importing capital rather than investing. ‘Providing all the incentives and reducing uncertainties in order to strengthen the endowing process, is one of the pillars of sustainable development’ (In Kosacoff, 2008)

So there is a main role for the state to play in the investment decision-making process. But what does investing really mean? And why is it so important in an economy dynamic?

Investing means taking a decision in the present compromising the future. It is determinant of business’ strategy and requires having access to capital markets that will disburse long-term financing. In a few words, investing means to disseminate positive externalities through the generation of wealth, employment and skills (Kosacoff, B. 2008).

Denying the differences ‘wouldn’t be fair’

It is indeed quite interesting the analysis about the most dynamic branches of the economy in the sub-periods of genuine growth. Lavopa concludes that the production structure hasn’t suffered major changes, but this, according to the economist and sociologist Jorge Molinaro, is expected: ‘not even in the most intrepid revolutionary process we can observe structural changes in the economic activities’ spectrum through such short periods’ (Molinaro 2008: 113)

It is also expected the dynamism of different sectors remains pretty much the same in the short term, yet, the switch of the political economy can

definitely be seen “in the margins”, even though the whole universe isn’t radically different; as Molinaro points out.

What kind of difference “in the margins” is he referring to? Well, after 2002 the political economy was focused on boosting production and national industry, whilst in the pos-Tequila period the financial and services’ sectors were the priority for policy makers. For instance these “marginal” transformations in the policy emphasis during the post-convertibility phase materialized in high product-employment elasticity and strongest contribution of the SMEs in the increasing demand for labour, as explained earlier.

Disagreements arise when we wrap up and stress a very straightforward matter: Argentina is not implementing a radically different economic model. The main counterargument though revolves around an unsustainable Convertibility System opposite to a “sustainable” post-devaluation model. Still, it would be inconsistent to claim a radical break based on a currency devaluation policy and apparent structural transformation of the production system.

Beyond the widespread critics regarding the social and political degradation caused by the Convertibility and with it the exclusion, structural unemployment -even during the expansion periods-, and the most serious as well as unaffordable issue that characterized this period: growth on the basis of debt, we can’t deny it simply was an unmanageable model in the long run.

The devalued currency as a consequence of the Convertibility System, tied to trade and financial liberalization led to the dismantling of some national production sectors, especially industrial SMEs, which demand high labour per unit of capital employed but cast low productivity levels.

Thus, the fiscal and commercial deficits faced in the nineties were financed by foreign loans with elevated real interest rates. When the economic agents realized debt was over the wall and it was impossible to meet its obligations under the Convertibility scheme, capital had already started to flee to more secure lands. This was the beginning of the end, all the masterminds of the Convertibility had to accept it was no longer feasible to cook up the numbers; it was over.

Subsequently, by the end of 2001 the un-planned transformation shaking the country went far beyond the willingness of its political actors and a new political economy forged parallel to the social unrest and most profound crisis ever in Argentinean recent history. Here are some milestones in the re-making of Argentina’s political economy:

- Foreign debt default (approved by the ephemeral President Adolfo Rodríguez Saá,. Rodríguez Saá occupied the Presidential office from

the 23rd thru the 30th December, 2001. His predecessor, Fernando de la Rúa, quit after the riots a few days earlier)

- Currency devaluation under President Eduardo Duhalde (Duhalde's administration started on the 1st of January 2002, with Remes Lenicov as Minister of Economy, who resigned on the 23rd of April and was replaced by Roberto Lavagna. Lenicov initially devaluated the peso against the dollar with an ER of 1,40=1USD, but very quickly the market pressure inflated it almost reaching the 4 peso ceiling around mid 2002)
- Economic emergency law, January 2002. (Public utility tariffs were frozen and with it the contracts strapping them to the dollar)
- The “pesification” (asymmetric due to Duhalde's intervention) of credits and debits granted to entrepreneurs saving many of them from bankruptcy, the asymmetry was transferred to the state, in other words, to the Argentine population.
- Exports tax. These began in March 2002 –Remes Lenicov-, with 5% on industrial exports and more than 20% on the agro-sector. Later on these were also imposed on oil exports.
- Plan Jefes y Jefas (family unemployment subsidy plan) as a social contention policy in the midst of the crisis. Financed by “impuestos al cheque” and exports tax.

These measures laid the ground for Kirchner's mandate and reforms. He inherited a whole set of running policies plus economic recovery as a backdrop. Let's examine closely this maxi-devaluation process comparing it with Chile. Pinochet practiced a major surgery without any anaesthesia: he didn't execute any protection plan regarding the internal market; the immediate recession bubbled the unemployment rate over 25%. All the businesses unable to overcome new challenges disappeared and thousands of workers were on the street; it was with this military discipline that Chile began a new stage of unequal growth.

On the contrary, in Argentina devaluation was the core element detonating change, hitherto it was not the only one. Duhalde and his successors set up from scratch a series of compensation plans to alleviate the negative impact of devaluation, always present in the early stages. This is how they controlled the social crisis and kept alive thousands of businesses and enterprises, then the basis for recovery in the third trimester of 2002

Kirchner gave continuity to this “salvation package” adding other policies to “deliberately” activate the domestic market: consecutive salary rise, renegotiation of foreign debt plus cancellation of total debt to IMF (US\$ 10,000 million) at the end of 2005—even though the pending public and private debt are still quite significant, having renegotiated the debt with such historical percentage of holdout and having liberated the country from the IMF yoke, are considered as the two major economic actions determining the future development of the country-. A last point to make in relation to this set of new policies during the K era, is the intentional fixing of prices (poner los

precios deliberadamente mal), meaning, government transferring resources/capital in between economic and social sectors with the triple purpose of keeping up growth, support the industry performance through a differentiated exchange rate and bring more income to lingered sectors. We could define this as a Peronist approach: industrial development and bigger contribution of workers to GDP output. (Molinero 2008.)

The bottom line is economic indicators haven't stopped climbing since the end of 2002, reflecting the effectiveness of the new political economy approach, a success that has become the "hobbyhorse" argument for the supporters of the "new model" thesis.

Statistics from ECLAC, BCRA (Banco Central de la República Argentina) and INDEC (Instituto Nacional de Estadística y Censo) reported that in the last 107 years there have been 20 periods of expansion and 19 of depression, some more intense than others. The current period of growth is the fourth in terms of dimension and still is vigorous. (Molinero, 2008. P. 118)

It is not just the windfall of international prices for commodities that have fed the Argentine economy. Defenders of this "new" model insist there is indeed a different political economy favouring local industry and market development as well as wealth redistribution without, of course, disregarding the international context.

'We can discuss to what extent it is possible to achieve changes with the current alliance of classes and sectors around the government, we can discuss how much is left to be done, or whether the course is the right one or not; but it wouldn't be fair to deny the important differences between this model and the convertibility' (Molinero 2008: 118.)

New or not so new, at the end is about capitalism

After the economic and social collapse in December 2001 Argentina came out of the Convertibility but not of neoliberalism. The fundamental characteristics of the economic model put in full practice in the nineties persist today. It is key then asking to what extent the political and social fracture caused by the economic debacle in 2001 was not followed by a radical reorientation of the policies that triggered the crisis.

The hegemony of neoliberalism in Kirchner's administration is proven by the permanence of the following:

(a) The valuation of financial income remains a cornerstone of the economic policy, even though its pre-eminence must be shared with other fractions of capital. Financial speculation is 'officially encouraged' because there is no tax obligation on the profits it produces.

(b) The unequal and regressive pattern of income and assets distribution as a result of the neoliberal reforms set up during the Menem years seems to be immutable.

(c) Fundamental macroeconomic parameters put in place during the nineties, such as privatization, markets deregulation and liberalization, insertion into the world economy, weak public spending; state absence or failure; dependence on exports with little added value, such as soybeans or hydrocarbons, etc.; are the same parameters operating today.

(d) The technical teams within the economic area are, with few exceptions, the same from previous governments.

There is however a discordant note, a break with the orthodoxy: the holdout applied to bondholders of Argentinean foreign debt. Reducing the debt in approximately 62,000 million dollars 'was undoubtedly Kirchner's most successful economic operation' (Boron 2007: 14). The default back in 2001, when Argentina stopped paying the debt to private creditors, was the largest in the history of international finance; and the holdout after lengthy negotiations was also the biggest ever applied to financial capital (Boron 2007). In the extended negotiations with private foreign creditors Kirchner withstood tremendous pressures, national and international, and finally managed to work it all out when nobody thought such operation would prevail.

It should be taken into account Argentina never defaulted the debt owed to the IMF, WB and IDB paying on time the obligations, despite Kirchner's vehement criticism to IFIs. Therefore it was not at all a surprise when at the end of 2005 he announced the decision to cancel the 10,000 million dollar debt with the IMF. The measure was publicized as "liberation" from the IMF's tutelage, and so was believed by some. The truth, however, was different: cancelling the total debt with the IMF was an initiative actively promoted by the White House and had a positive response from the big debtors like Brazil, Turkey and Russia, apart from Argentina. The growing operational difficulties of the IMF due largely to the reluctance of the major contributors to increase its capital -especially the U.S. government because of the financial burden from the Iraq war-; and its lack of prestige, became two major motivations to pressure these countries to cancel the debt.

The bottom line is that Kirchner's government was subjected to all kinds of negative forecasts trying to dissuade him from pushing forward the debt remission. The staunch supporters of neoliberalism predicted markets would give Argentina a lesson sinking the country into a much serious crisis than the one occurred in 2001, had it continued with such attitude of "rebelliousness". The irony is that quite the opposite happened: after the default and holdout of the debt a period of unprecedented economic growth in the history of this South American country began. Such economic resurgence was associated partly with Kirchner's stubbornness and political will to challenge the establishment, which gained him the support of voters, despite the ambiguities already mentioned.

For some there is no doubt that Kirchner represented, especially in some aspects of his governing style, a break with his predecessors. In matters unrelated to the most sensitive ground, the economy, Kirchner did take some concrete and positive actions. On the human rights area: new legislation finally putting an end to genocide impunity along with other initiatives that caused a deep impact as well as strong divisions within the human rights bodies and the society, were implemented. Purging the Supreme Court, an accomplice of the corruption and plunder of the nineties, a series of confrontations with the hierarchy of the Catholic Church because of some government policies on reproductive health and sex education; and last but not least, a military policy that included the removal of the entire military top leaders amongst other changes, were some of Kirchner's attempts to clearly mark the difference with the past and be part of the Latin American "progressive gang".

So there were indeed reasons for the president's popularity to jump up. Yet it was not 100% satisfactory because, as we have seen, measures taken in the economic sphere were weak and scarce. The vast popular majorities are still affected by high levels of poverty and social degradation, the long-standing "social debt" is an overriding and extremely serious problem impossible to ignore. But support for his policies mentioned above and the enthusiasm of his oratory, fed the image of Kirchner as a symbol of change in Argentina and one of the exponents of the leftist wave in Latin America.

Then again the rupture line with neoliberalism on Kirchner's agenda has been very thin and sometimes inexistent. For nearly three years the main architect of his economic policy, the Minister of Economy Roberto Lavagna, who had already been appointed by his predecessor President Duhalde, hardly represented a slight variant of the dominant neoliberal guidelines in the country for two decades, critics say. Through out this period Lavagna's policy was basically focused on negotiating the debt with the IMF and disregarding recommendations made by "prestigious" economists as Joseph Stiglitz and Paul Krugman as well as Latin American stream of critical thinking scholars, whose advise was to forget about the IMF and once and for all change the direction of the Argentinean economy, something Lavagna didn't quite achieve, they argue.

Shielding the basic parameters of a capitalist society from any possible reconsideration was a position ratified in mid-September 2006 by then Senator and strongest candidate to succeed her husband, Cristina Fernández de Kirchner. During the trip President Kirchner made to New York for the opening of the General Assembly of the United Nations, his wife participated in a conference at Columbia University where she stated that Kirchner's government policies –and later hers- lie on the side of capitalism. "What is capitalism?" She asked. What tore apart the Berlin Wall was not "the might of the United States but that capitalism is a better idea than communism, and if capitalism is distinguished from the other doctrines it is because of the idea of consumption", she answered (Clarín 2006.). In this sense their attacks towards the IMF are based on its inconsistency in relation to capitalism, because when

it comes to implement adjustment policies the first restriction has to do with consumption therefore weakening one of the pillars of capitalism.

It is important to highlight that prior to this date and on numerous occasions, Kirchner had constantly referred to the need of establishing a “serious, national and intelligent capitalism” in Argentina. What we’ve seen so far are magnificent results for a certain privileged elite (the ruling classes Duménil and Lévy have made reference to) maximizing its ‘exorbitant rates of profit and the consolidation of special concessions... How do you convince those who are installed in the richest ten percent of the population and whose revenues in 2003 were 56 times higher than the ten per cent poorer, that it is urgent and necessary to switch into a “serious” capitalism to avoid such injustice?’ Most likely, the person in question would take as “not serious” such concern. (Boron 2007: 10)

The unequal income distribution pattern inherited by neoliberal reforms has remained unchanged, despite variations in the official rhetoric since Kirchner got elected. The replacement of Minister Lavagna in November 2005 with Felisa Miceli, an economist and opponent of the Washington Consensus principles, had very little impact on the direction of economic policy. In its analysis of recent developments in the Argentinean economy, deputy Claudio Lozano clearly pointed a continuity line within the Ministry of Economy under Kirchner’s government no matter who is actually leading it, adding that the economic restructuring after the fall of the Convertibility ‘is hold by greater exploitation of the workforce and greater impoverishment of society’ (Lozano, C. Interviewed in August 2008, Buenos Aires)

Although there was a slight improvement coinciding with the strong recovery of economic growth from 2003 onwards, the categorical INDEC reports delivered right after Kirchner took power still remain: Argentina holds “the worst income distribution in the past thirty years” (INDEC 2004). In 2003 income of the richest decile of the population was 56 times higher than that of the poorest decile in the 28 major urban centres of the country, reported the national statistics bureau. The social plans implemented by the government mainly the *Household Heads’ Plan* (Plan Jefas y Jefes de Hogar), along with the creation of new jobs and the modest increase in pensions and minimum wages slightly improved the situation. Yet, poverty reduction is very slow even under growth rates similar to those of China. So far the government has been unable to implement a proactive policy of revenue and resource endowment to contain the problem. In contrast, the middle sectors, which had been hit by the currency collapse, recovered in recent years at a rate significantly higher increasing the gap. INDEC’s measurement of the income gap in the second quarter of 2006 showed the richest decile of the same 28 urban areas have an income “only” 31 times greater than the poorest decile, there was a small decrease over the same period the year before, but still not enough. Another indicator, the Gini coefficient, shows that social inequality in 2006 was at around the same levels as during Menem’s mandate, fluctuating around 0.48. (Quiroga in Boron 2007)

While poverty declined significantly from its tallest peak, these rates are higher than in 1998, when economic recession began. The paradox is that even with economic growth rates ranging between 8.5 and 9% a year, social backwardness remains. Argentina is still at an impasse: a tremendous period of economic growth, which exceeds the length of recovery from a crisis, hasn't produced significant progress in the fight against poverty and social exclusion nor has rebuilt a state semi-dismantled by the structural adjustment in the nineties. Hence we've got to reiterate our initial question whether Argentina experienced a fundamental break with the past in terms of its production system and distribution patterns after six years of continuous growth, or was it just a shift in the main macroeconomic variables within the same capitalist/neoliberal framework? And even more, is this "new" in-ward looking model sustainable in the long run considering the economy seems to be hitting the wall and international commodity prices have fallen dramatically in the last three months?

6. Conclusions

The Argentinean crisis, a reflection of the neoliberal logic

The Argentinean crisis in the late 1990s and early 2000s was another manifestation of several “neoliberal crises” that beat Latin America, Asia, Turkey and Russia during the nineties. Argentina endured typical neoliberal reforms: trade and capitals flow liberalization, convertibility, privatization of pension funds, and so on; all these in the general context of huge public and external debt which became unbearable by interest rates’ rise in 1979.

Structuralists assess this scenario through the class interpretation lens, affirming that in Argentina, as in other countries, ‘these trends were the expression of this new social order’s strong bias to the advantage of central and peripheral ruling classes’ (In Duménil. G and Lévy. D. 2006. P. 388). They go a bit further saying that the Argentinean crisis also owes much to the position taken by its ruling classes in their effort to make part of the privileged elite within the ‘new configuration of imperialism’. Said differently, national economy –including some of the most profitable state owned enterprises e.g. oil company YPF (Yacimientos Petrolíferos Fiscales)- was transferred to the hands of transnational corporations and financial interests, while national ruling classes stocked their finance accumulation in the United States.

If the recession and crisis period -from 1998 thru 2002- struck the masterminds behind the neoliberal experiment in Argentina thus forecasting a black panorama in the following years –unless applying the same recipe on and on-; the post-crisis trends of sustained growth and macroeconomic recovery don’t make it easier to define a more solid strategy, or at least more realistic than the one recommended by the IMF.

The structural adjustment Argentina undertook at the beginning of the nineties allowed its ruling classes to create an alternative framework with strong neoliberal features, laying the ground for them and the country to insert into this new phase of global capitalism. This framework had very similar effects it had on other countries that opted for liberalization of trade and free mobility of capitals: the macro economy control was in the hands of the financial interests, the state became a symbolic figure more than anything else, its ruling power over the economy was transferred to the “markets”.

This array of new settings was ‘strongly biased’ in favour of international capitalist classes –the central, definitional trait of the *neoliberal-imperialist mix*, as Duménil and Lévy call it. Even so, not only the international capitalist classes were benefited, the Argentinean ruling classes also managed to create favourable conditions for their integration to this new configuration of capitalist/”imperialist” relations; furthermore, the expected conflict between the interests of peripheral and central ruling classes was apparently solved

because of the deep reforms Argentina executed in the nineties. The result: a convergence of interest instead of a trade-off.

The stakes taken to maintain the status quo were very high –for instance an overrated exchange rate-, to the extent that no one within this set of relations considered any possible reversal. Hence, a “standard” neoliberal crisis like the ones suffered in Turkey, Russia and some Latin American countries, transformed into a collapse in Argentina.

An analytical lesson can be drawn from this case, as well as its implications for the debate of future trends. The new phase of capitalism, with its specific methods and logic that define it as neoliberalism, must also be interpreted in relation to its principles: the restitution of power and income of ruling classes. The challenging task of designing a new political economy strategy in the aftermath of the financial crisis in 2001 in Argentina, must take into account the class approach both in a national and international setting.

But why? As Duménil and Lévy explained it, ‘the pesoization (the reversal of the dollarization process), the depreciation of the peso, and the cancellation of part of the public debt signal a dramatic turn, questioning several basic neoliberal options. But the interests of ruling classes are, again, at issue. In the analysis of future trends in Argentina, it is important to keep in mind that the same class interests, which gave the 1990s their specific features, could be asserted by other means in coming years’ (In Duménil and Lévy, 2006. P. 395).

Post-crisis shift and the illusion of change

In a macroeconomic framework that keeps expanding, the recovery period after the crisis in 2001 has transformed into a path of sustainable growth. GDP increased 52% (added value) between 2002 and 2007. This strong rebound in an interval of five years without bumping into any kind of external “shock” or lack of financing from the public sector, became a very unusual phenomenon for Argentinean standards.

The normalization of the economy in 2002 brought back the activity and the creation of hundreds of new jobs. This employment and salary dynamism helped reducing the infamous levels of poverty and extreme poverty that stretched during the economic collapse. Investment was higher than expected through out these five years; balance of payments and trade balance were on the surplus verge and the accumulation of international reserves added up a significant sum.

Likewise, in spite of the strong international turbulence shaking the global capitalist system, the impact it’s having on the domestic financial and economic activity is not nearly as strong as it was in the past. The commodity prices, although in the last three months have gone down drastically, still represent a favourable scenario for Argentina which depends largely on commodity

exports. Thus, there is still an opportunity window in this field. Argentina today is an open economy, where imports plus exports represent 45% of GDP, this is double the amount compared to the nineties (Kosacoff 2008).

The country's spectacular performance in the last lustrum is not under dispute, what is being intensively discussed is the economic model now in place. The pro-government circles have tried hard to capitalize on the extremely positive outcome of the economy in the past five years endorsing Kirchner's policy as the driving force of change.

This continuous reference to a "new model" is in one way or the other ambiguous and vague and have managed to distract the attention off the substantial facts. First of all, some researchers argue the period under scrutiny is too narrow to be considered as the frame for a structural change that a new model implies (Out of five years -2002-2007- of sustained economic growth, the first three are attributed to a recovery period reaching former growth levels before the plunging of the Convertibility System).

Nonetheless, it didn't take much time to Menem in the nineties to implement deep reforms leading the country into recession, the worse in its entire history.

Secondly, switching from one model to the other is not as "simple" as switching a macroeconomic variable: the real exchange rate, pretending such move -that carries all kind of political burdens and costs- will restructure the model is being functioning for 30 years now. It is not surprising at all though the waving of this flag by the government as a discursive tool; but it is astonishing the way this assumption has become a lei-motive in the Analysis of the so called "Argentina's miracle"

The purpose of this project then is to mine out the reasons and motivations to support such belief and contribute to the debate analyzing the continuities and breaks between the growth processes representative of supposedly two opposite models. Looking at the main dimensions of these economic models is relevant in the sense that lessons from a recent experience can be drawn; and with them the potentialities for the future to be explored.

We certainly can't ignore the fact that in recent years the life conditions of an important part of the population have improved, in the same way we can't forget that the starting point was one of the worse recessions ever in Argentinean history and the situation today is just staggering: the latest reliable data (second semester 2006/INDEC has manipulated all the statistical information since 2007) accounts for 27% of the population under the poverty line, 40% of workers in precarious conditions, a 12 times household income gap between the richest and poorest decile, and a salary income that in real terms still remains 13% under the peak reached in 1998, already low.

‘Accepting poverty and inequality as something structural and fixed would be as bad as thinking that the market forces would manage to revert the whole situation on their own’ (Lavopa 2007: 71). The nineties clearly reflect this rationale: in a capitalist system, the “optimal rational strategies” of the owners of the means of production -in order to maximize their profits- consist in the abolition of competition and minimization of costs. Concentration, flexibility and decrease of wages are the consequences of it, an approach off track the route of development.

In this sense, there is an unexplored territory for new policy implementation aiming to transform the production structure and wealth distribution scheme derived from the liberal reforms in the last three decades. The incredibly stable macro-economic situation due partly to the international context and windfall of soy prices in the world market, grants the government space for manoeuvre. Nonetheless we raise our doubts in this paper whether this is really happening or not.

As a matter of fact, the new component of the current process: the spread of SMEs boosted by the real exchange rate, has been characterized by its inferior levels of productivity in comparison with the big enterprises; and a higher demand for labour. Nevertheless, the existence of a production settling quite similar to the one that energized the growth process during the post-Tequila period; and the continuous participation of the biggest companies in the aggregate output levels, questions the actual significance of the SMEs in the shaping of the economic dynamic.

In a scenario of high economic concentration, strong dismantling of production strings and high structural heterogeneity as main features of the Argentinean economy, it seems that most of the national production remains held by the set of companies (large and medium) embedded in the greater technological niches of the chain, which already had "survived" the Convertibility.

The microeconomic picture today is totally different from the one at the end of the Convertibility. During the expansive period of 1996-97, companies invested considerable amounts of money increasing its funding -mostly their contracts in U.S. dollars-. The long period of crisis and stagnation in the following four years meant much lower returns to those expected; and the combination of deflation with rising rates of country risk -associated to the macroeconomic inconsistency at the time- generated a significant escalation of debts acquired by these enterprises, forcing them to shut down their businesses and deal with negative net worth. This was the general rule for all firms regardless of their competitive capabilities.

The shift of economic regime came along with very significant qualitative changes. In financial terms, the asymmetric pesoization, the chances of paying overdue debts with government bonds recognized at a 100 percent and the

recomposition of businesses, laid the ground for financial restructuring, investment with national resources and costs reduction. The resolution of private debt with the outside world through public policies instead of subsidies, has been one of the most positive signs. This new financial situation, in a context of sustained demand expansion for five years, with salary and operational costs reduction, favourable international prices, productivity improvements, full utilization of installed capacity and negative real interest rates, entailed significant profitability margins which had declined over time, as there is a growing trend of price update. Currently, almost all companies are facing positive but reversing income.

Future dilemmas

The stakes claimed by Argentinean economy today are very different from the ones taken in the post-convertibility period. New dilemmas had arose in relation to the course of the political economy, triggering negative expectations concerning the future behaviour of the economy. Some are crucial and it's worth mentioning them one more time: Inflation and appropriate energy supply, two areas requiring concrete actions to stop inflationary manners, give back credibility to public data and guarantee the functioning of infrastructure to support high growth. A prolonged conflict with the agroindustrial sector unleashed by the increase in tax exports; signals of economic slow down; peso revaluation; capital flee, interest rates upsurge; more and more subsidies adding weight to the public finances and federal distribution of government resources; are the most urgent matters questioning the "new" economic model, and even more problematic, whether it's necessary to experience another crisis in order to solve them.

'Avoiding the crisis when there is technical margin to pursue consistent solutions, is essential not to fall again in processes of strong social capital destruction and regressive distribution effects' (Kosacoff, B. Interviewed in Buenos Aires, August 2008)

What's to be done then to get back on the track of sustained growth, development and equity? Not just outstanding macroeconomic performance but more equal and democratic wealth distribution? Something absent in the official policies, yet constantly stressed at the discourse level by the government.

Scholars, analysts and politicians who think there is a great opportunity for the state to play a starring role in the coming years, agree on one key aspect: Argentina needs an economic and social plan for the medium and long term. A plan with specific objectives targeting the sectors within the production chain to be stimulated, complemented with building capacity and financial packages as well as infrastructure investment projects. Define the SMEs task and enhance their capacity to add value and competitiveness; and last but not least, improving labour and salary conditions. As long as these measures are taken ignoring the salary issue, then it's hard to talk about development and equity.

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Notes

¹Refers to the policies of the Economic Commission of Latin America and the Caribbean (ECLAC), UN agency under the direction of Raúl Prebisch at the time, promoting a Keynesian economic management based on import substitution industrialization, and seeking to expand social protection, based on human capital theory to attach social policies firmly in a discourse of development priorities

² De la Rúa didn't hesitate a minute to repress protesters in the street which resulted in 33 fatalities, mostly in the city of Buenos Aires.

³ The seriousness of the political crisis is eloquently demonstrated by recalling the fact that in Argentina in the early months of 2002 politicians and state leaders almost could not appear in public, and when they did, they had to be accompanied by effective security forces or disguised to avoid being recognized and attacked, verbally or in action, on public roads.

⁴ Opinion polls after the first round indicated an intention to vote for Kirchner that ranged between 60 and 70%, a trend expressing not a strong sympathy for the almost unknown candidate but the categorical rejection towards Menem, ultimately responsible for the debacle in 2001.

⁵ There are considerable improvements to be made in terms of human capital (quality of educational system); technological, financial and physical infrastructure; and institutional framework (modifications on the legal system; quality, transparency and efficiency of the public administration; competence and balance of the tax scheme in addition to government spending; plus enforcement of competition defence laws along with public utilities regulatory framework).