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Economic Shocks without Vision

Neoliberalism in the Transition of Socio-Economic Systems.
Lessons from the Argentine Case

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I. Introduction

From the 1976 military coup onwards, Argentine economic policies have been predominantly – though not exclusively – oriented by what may be called neoconservatism or neoliberalism (what Ralf Dahrendorf called "conservatism of unreason").

This does not mean that all public policies and institutional reforms during all that period have strictly followed the recommendations of Professor Friedman, or Professor Martin Feldstein, or Professor Lucas, or Mr. Arthur Laffer, or even the Washington Consensus (WC).

Nor does it mean that such policies and reforms gained momentum "pari passu" a liberal political process. On the contrary, government power for discretionary intervention (basically that of the executive) has proved to be essential in order to apply neoliberal recommendations, regardless of the procedural origin of such power. As a matter of fact, and as in other Latin American experiences, the profound change in economic institutions and policies that began with the 1976 military coup (which led to an extremely ruthless dictatorship which ended in 1983) was partially reversed during the parliamentary-democracy-oriented government of the years 1984

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1 For an acute distinction between economic theory and economic policies see Krugman (1994).

2 See Canitrot (1983), where the author emphasizes the relation between short-term dictatorial rule and longer-term neoliberal policies.
through 1989. It was reinforced, however, by the Peronist government constitutionally elected in 1989 (Azpiazu, 1994), as will be seen in this paper. In this last period, the political regime shifted towards an extremely weak division of powers, with the executive controlling the Supreme Court and Congress'.

What it does mean is that — on the whole — what recent literature identifies as neoconservatism or neoliberalism has been the predominant rationale for economic and social policies during most of the last twenty years and that — at least if one believes what policy makers themselves say — most of the recent economic reform policies have been inspired by it.

Furthermore, it is important to stress that whatever the actual WC recommendations were in the recipe synthesized by John Williamson, the fact is that in Argentina (as well as in other countries that applied neoclassical reform packages, especially in Latin America and Eastern Europe) they were socially processed to basically mean shocks produced by monetary stabilization, privatization, deregulation and trade liberalization, as suggested by Krugman (1995).

On the one hand, the ways in which the WC normatives were applied are indeed important for an assessment of the WC, at least in the sense that those recommendations assume what Joseph A. Schumpeter maintained should not be assumed, i.e., that the reaction to similar policies is similar in all economies, regardless of their particular features. As Platteau comments on neoliberal recommendations (1994), "the way the recipe is usually presented implies or suggests that the market is a system that can be planted with guaranteed success in any soil at any time". Furthermore, since the changes at the microeconomic level depend on the "inherited acquired characteristics" of organizations, changes at the aggregate level cannot be predicted assuming standard maximization, equilibrium and perfect foresight microfoundations (Nelson and Winter, 1994), as will be argued in this paper when discussing the 1991-1995 bubble. The reaction to similar recipes has been very different through history, and the WC recipe is not an exception. This is true in two senses. Firstly, all policy recommendations are processed, and thus changed, by each society (there is a long way from general normative to applied economic policies); secondly, the reaction to similar policies is different in each society, even though the gap between general normatives and the actual economic policies is not very significant.

On the other hand, not all neoconservative policies should be considered as necessary outcomes of the WC; in Argentina the WC recommendations were only partially applied, and were rejected when they showed even a slightly progressive social bias).

In short, one may say that the combination of neoconservative recommendations and the way they were socially processed in Argentina since the mid-seventies (and since the eighties and nineties in most Latin American and Eastern European countries, with a few exceptions) led to a situation that Esser (1993) describes as "...a form of the free market economy which has triggered a careless lack of regulation and guidance in all sectors of the economy".

Nevertheless, a "careless lack of regulation and guidance" does not exclude the creation or maintenance of privileges that facilitate the obtaining of what we call "non development quasi rents". On the contrary, Noctiff (1994, 1996) argues that political and institutional neoconservative shocks, beginning with that of 1976, made it at least as easy to obtain privileges as in the previous decades, among other reasons because these shocks led to a weakening of the institutions and organizations (amounting to a "pulverization" of the state and civil society, O'Donnell, 1981) capable of providing checks and balances on big business behavior.

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3 Most reforms were pushed by the executive through so-called "decrees of necessity and urgency", which were issued first by the executive and passed by Congress later. Most reforms were carried on under the general (and sometimes ill defined or vague) provisions of the "Economic Emergency Law", the "State Reform Law" and the "Convertible Law" presented by the executive in terms of "necessity and urgency" and passed by the officialist overwhelming majority in Congress. The first one was sanctioned in 1989, a few months after the deepest hyperinflationary crisis suffered by the Argentine economy, and the "Convertible Law" in 1991, after another inflationary crisis. Those laws granted the executive a power without precedent in any of the previous elected governments in Argentina, leaving Congress practically as a mere "ex post factum" legitimating instance, at least in economic matters. Even in 1997, when the "urgency" and "emergency" are anything but justifiable, this type of executive "ukase" is usual.

4 For example, in the case of public expenditure on education, health, other fiscal matters and environmental problems. A remarkable example is the rejection of the recommendations to increase income tax rates made by the IMF through Vito Tanzi in 1997.
Following the line of Natalio Botana’s most recent articles, one may say that these neoliberal or neoconservative shocks, based in a new form of populism, led to a loss of independence both for the judiciary and the Congress, a blurring of the distinction between state and civil society, a loss of the citizens’ trust in politicians (reinforcing this new neoliberal populism), a general attack on the free press by the government, widespread corruption, and a very low trust in the judiciary’s independence. Botana (1997) focuses the problem in the loss of the "rerum romanorum" (in the sense of the arenas and issues that belong to all citizens and constitute the "public space"). In the author’s own words, "the will to achieve an institutional reconstruction is nowadays an element as necessary as scarce"; “the institutional void (today a synonym of impunity) is like a black hole that swallows all those who go near its diffuse edges" (Botana, 1997, original in Spanish).

This institutional void favors direct relations between big business and the state as well as "ad hoc" decisions of the executive granting privileges to those who have the strongest "lobbying" capabilities. This seems to be the case not only in Argentina, but also in many other countries in Latin America and Eastern Europe.

We consider that this institutional situation is in part a result of the across-the-board and careless neoconservative "institutional shock" and constitutes, by itself, a constraint to systemic competitiveness and development (see Esser et al., 1996 on the meta level of systemic competitiveness).

This paper analyses the behavior of the Argentine economy during that period from two viewpoints: a) the long-term trends, seen through a few fundamental economic and social development standard indicators; b) the economic behavior during the years in which the most neatly neoconservative reforms were applied, i.e., from 1991 onwards.

The main arguments are as follows:

- Within the secular (relative) stagnation of the Argentine economy, the two decades during which neoconservative policies predominated have been a period of absolute (and also relative) regression.
- During the 1990s, the neoliberal institutional shock and policies seem to have induced a bubble instead of the initial stages of a way out of secular stagnation (this should be considered a hypothesis rather than a thesis).
- The neoliberal institutional shock in Argentina is a case of the failure of this type of shock to produce both economic and social development and a solid and sustained increase of systemic competitiveness (again, a hypothesis).

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5 For example, see Botana (1997). Natalio Botana is perhaps the most prestigious classic liberal (in the European sense of the word) political scientist in Argentina.

6 The following week, the Postal Service was privatized in a process depending only on the executive’s decree, without the approval of Congress, and the privatization of the airports was pushed by the executive against the former’s opposition as well as against the decisions of many judges who considered that the way it was being done lacked transparency and was biased against the public interest and also against legitimate private interests. On September 25, 1997, US companies announced that they would not participate in this privatization process unless it was changed to give greater transparency and unless the privileges held by the local operators of some already privatized major airport services were repealed.

7 In the last analysis, following John Locke, one may say that, because it has lost the liberal forms of civil government — or simply because it has not yet achieved them — (as in many ex-Communist societies) — society suffers from the problems of the "natural state" in which men (or at least some of them) are judges of their own causes.
• State reform and privatizations did not lead to a smaller, more efficient and "lean" state, but to the growth of fiscal expenditure, the fall of public investment, and the loss of minimum guidance and control capabilities.

• The political system lost the essential features of a democratic-liberal one (independence of the Supreme Court, judges, and Parliament, political and social checks and balances). This system is thus becoming what has been called a "private state", basically composed of the executive and the big business lobbies.

• The institutional "hands-off" shock failed to create an environment favorable to investment. Basically, the Argentine economy remained one with scarce investments opportunities in industrial tradables, and the "bubble" financed by external saving was blown up basically by consumption. Amidst that general lack of investment opportunities, the privatizations process created a short-run cluster of investment opportunities linked basically to public services. When the bulk of the privatizations was finished, the general lack of investment opportunities in industrial tradables was revealed (a thesis in terms of 1991-1996, a hypothesis with regard to the future).

• The lack of concern about the need to create competitive markets and regulate oligopolies, especially in the most concentrated oligopolistic markets sheltered from external competition and oriented only to the internal market (the public services), narrowed the opportunities for investment even further, since in those markets profits are in fact not at issue and the growth rate is linked to the internal market. After a first short-term period in which investment was attracted by privatizations and the consumption "boom", investment opportunities were reduced basically to oil and to some other primary or simple commodity sectors, especially those that might gain a bigger share of the Brazilian market within the framework of MERCOSUR. That (again a hypothesis) is clearly not enough to sustain the investment and growth process — a virtuous integration process in the framework of MERCOSUR —nor does it lead to an open and competitive economy.

• Because it was sharp, turbulent and careless, and because it was not supported by active restructuring and competitiveness-enhancing policies, trade liberalization surpassed most firms’ adjustment capabilities, and failed to open a truly dynamic export process. As a result, growing trade and current account deficits, and a low-traded economy have developed.

• Without the building of institutions indispensable for efficient markets, social and economic development and social integration and cooperation, deregulating policies led to economic and social fragmentation. Concentration and centralization of capital and of big business's political and economic power led to market distortions, abuses of dominant positions, and extraordinary profits for big business, due to the privileges it had obtained. The counterpart was a conjunction of unemployment, poverty, regressive distribution of income, and a social disintegration without precedent in Argentine history. The workers have suffered these consequences more than any other social class, but small, medium and even big firms which are not conglomerates (especially those in the tradable sector of the economy) have suffered the fall of both profits and investment opportunities, and most of them have ceased operations or are gradually disappearing.

• These failures are related to neoliberalism’s ideological and economic assumptions and recommendations, compounded by the characteristics of long stagnant, closed societies, in which markets have been incomplete, segmented and inefficient for decades, and in which extraordinary profits and high incomes are obtained mainly through a careless exploitation of natural resources or through privileges (market reserves, uncontrolled subsidies not related to economic performance).

• As was the case with Argentina, massive, rapid, and uncontrolled institutional shocks may lead to the reproduction and even the deepening of the above-mentioned historic characteristics of long-stagnant economies.

• The Argentine case may be a source of useful lessons for other economies undergoing neoliberal institutional shocks.

• Market-oriented economies under social guidance and control (social market economies) have been the most successful cases of sustained long-term progress in terms of economic and social welfare. They are not, however, an overnight product of shocks and hands-off attitudes, but of evolutionary and progressive building of fundamental economic and social institutions.

• Social and political checks and balances, social integration and careful reforms (instead of after neoliberal shocks) are fundamental for development as well as for a sustained enhancing of systemic competitiveness, and are the best option for the transition to dynamic economic systems. Sometimes, certain economic shocks cannot be avoided, but
that does not mean that they should be applied as a part of across-the-
board institutional shocks. The point is to build efficient institutions, not
to produce a general institutional crash. In Argentina, the best example
was the monetary shock (the establishment of a fixed exchange rate with
convertibility) which was an institution-building shock, since it was the
way to restore the most important economic institution of all, i.e.,
money. This shock was perhaps the only successful and positive one, in-
ssofar as it was, precisely, an institution-building policy. Non-efficient
institutions are a burden which impedes development and they should,
therefore, be reformed. Nevertheless, institutional voids are much more
negative for development, systemic competitiveness, economic welfare
and social integration.

- In the case of Argentina (and of other systems under similar conditions,
such as some Latin American and Eastern European countries) the ques-
tion, in terms of the future, is to explore the experiences that have been
successful in the long term as well as the ways to apply them in Argen-
tina's specific context. This means careful, efficient and continuous
reforms, permanently measured against world best practices (in an
overall and systemic sense) and implemented under a constant moni-
toring of domestic performance in the chosen paths of change. We should
not dream of importing "turnkey institutions", but learn from the best.

II. The Long Run. Selected Development
Indicators 1975-1995

II. 1. The Core of the Neoconservative Recommendations

In general terms, socio-economic development has — according to the pre-
vailing consensus in the social sciences — no less than four contents,
namely, economic growth measured through the GDP per capita; invest-
ment (as one of the main conditions for growth); growing and improving
employment opportunities; and improvement of income distribution.

During the last two decades, the term "development" seldom appeared
in public speeches in Argentina. Nevertheless, the questions of growth, in-
vestment, employment and distribution remained at the center of the ex-
plicit agenda of most social actors, including big business, policy makers,
political parties and policy entrepreneurs.

The recommendations that dominated both speeches and economic
policies since 1976 may be summarized easily: less government interven-
tion and more market — internal and external —, since government inter-
vention curbs the display of private initiative; fiscal equilibrium (during
some years fiscal surplus), less consumption and more austerity, in order
to increase saving and investment and to control inflation; less leisure
and technological lag and more modernization and work, so as to increase
wealth. In short, the basic neoconservative recipe, that is, privatization,
trade liberalization, deregulation, and sacrifice today to be wealthy tomor-

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9 The policy entrepreneur (or prosperity peddler) has been defined by Krugman
(1994) as "... the economist who tells politicians what they want to hear".

10 For example, the first years of fiscal surplus Argentina achieved after almost 15
years of uncontrolled fiscal deficit were the consequence of privatizations (Table
A.8.). Except for 1992, the positive result for the fiscal sector was achieved through
revenues resulting from privatizations that compensated for current or primary fis-
cal deficits. Yet in 1995, not even privatizing could compensate for that primary
deficit. This situation recurred in 1996 and 1997, when the bulk of public enter-
prises had already been sold. Table A.8. shows how fiscal fragility re-emerged after
most of the privatization process had come to an end (the main exceptions are the
National Postal Service, which was privatized in the second half of 1997, the air-
ports, whose privatization was in progress at September 1997, one of the most im-
portant of the hydroelectric power facilities and the two leading state banks).
row (meaning especially lower real wages in order to increase saving and investment).

Furthermore, since the military coup of 1976, the – at least explicit – goal of economic policy consisted of the sequence characterized by investment first, then growth, then distribution. The core of the neocconservative forecast was that with nothing more than less intervention, more market, less regulation, a lot of privatization, rapid trade-liberalization, and lower distributive pretensions, a series of results would follow, namely, new investment, more employment, growth, increasing wealth and, finally, the improvement of income distribution. In short, development would happen. It should be stressed that it was – and still is – assumed that "more market" meant only "hands-off" and not active promotion and the defense of competition. This is true despite the fact that after decades of rules and regulations, overprotection, high inflation and delivering of privileges to big firms, most markets were – and still are segmented, incomplete, opaque and hardly competitive.

Given Argentina's income distribution prior to the eighties, the sequence investment-growth-distribution meant that a regression of income distribution was posed as a previous and necessary condition for the achievement of a progressive distribution, regardless of the endogenous consequences of such a scheme in terms of education, health, or the structure of consumption, to name just three. Following Raúl Prebisch, one may think that it is likely that one of the causes of the extremely low savings-income ratio in the eighties and nineties (given the high consumption propensity of the high-income classes) was the impact of the income distribution regression on the structure of consumption.

The following paragraphs try to confront the neoliberal diagnoses, recommendations and forecasts with their general outcome during the last two decades.

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11 Price stabilization was the other, often the main one. Despite this fact, the annual cumulative rate of inflation (measured by the CPI) was 34.3% between 1960 and 1975, and 169.7% between 1976 and 1993. As a matter of fact, stabilization of the general levels of consumer and producer prices was achieved only after 1992 – Table IV.2. – (except for a short period of heterodox stabilization policies, in the years 1983 through 1987).

II.2. Social Global Productivity: Investment and GDP per Capita

From 1976 on, the per capita GDP decreased. Despite ups and downs – as Alfred Marshall would have said – the falling trend of the per capita GDP is clear (Figure 1). The investment/GDP ratio also fell. Again, in spite of the peaks and troughs, the falling tendency of investment (expressed as a percentage of the GDP) is evident. In 1996 the gross fixed investment/GDP ratio was about 7% lower than in 1975. These results do not confirm the neoconservative forecast. However, they are mutually consistent, since when the investment rate decreases, the product – sooner or later – also decreases.

Those trends also lead to doubts about the efficiency of the economic policies of the period in terms of productivity, since what one may call
global social productivity\textsuperscript{13} – as measured by the GDP per capita – is the relevant measure for wealth.

The three factors emphasized by Adam Smith (1776) as those on which the "annual supply of a nation" depends are as follows: one, "the quantity of capital stock", which (taking into account the age of this stock) fell during the neoconservative period; two, "the proportion ... of those who are employed in useful labor"; the unemployment rate rose from 3.4\% in 1974 to 17.3\% in 1996, when the percentage of those "usefully employed" fell from 33.4\% to 29.7\% of the total population; three, "the skill and dexterity and judgment with which ... labor is ... applied", which is related to capital stock, thus constituting something equivalent in part to what we may call technology (hard and soft); on this issue, estimates led to the conclusion that in 1996 the average age of machinery and equipment was no lower than in 1972 (8.5 years)\textsuperscript{14}.

It should be noted that "modernization" means basically technical progress in a broad sense ("hard", "soft", and systemic\textsuperscript{15}), and that it should be measured, on a national scale and in the long run, by the growth of the per capita GDP. In this sense, it could be said that global social productivity has been falling since 1976, and that there was no global economic "modernization" process – or at least no measurable one. Another way of assessing a modernization process – the evolution of competitiveness – leads to the same conclusion. If one defines competitiveness as an economy's ability to solve its foreign sector constraints without a collapse in economic and social welfare (Coriat, 1997), the performance of the Argentine economy – with a simultaneous fall in per capita GDP and in wages combined with a steady growth in foreign debt vis-à-vis exports and GDP – shows a long-term decrease of competitiveness.

\textsuperscript{13} Speaking of social global productivity is a way of stressing that, from the point of view of wealth, what matters is not only the productivity of those usefully employed but also their proportion of the total population. (See Smith, 1776: Introduction and Plan of the Work, first to third paragraphs.)

\textsuperscript{14} These estimates are based on Goldberg et al. (1991), and the investment data for the 1991-1996 period. We will return to them later on.

\textsuperscript{15} Factors determining systemic competitiveness in Argentina are discussed in Section IV.1.

II.3. Employment, Wages and Income Distribution

During these twenty years, the neoclassical explanation of the low investment rates and, more recently, of the high and increasing unemployment rates\textsuperscript{16}, has been that both labor costs and wages were (and still are) too high. Since 1976, however, the per capita GDP, the investment/GDP ratio and wages fell together (Figure 1). In 1995 real wages were 58\% lower than twenty years previously\textsuperscript{17}. As to the unemployment rate, it rose while real wages fell (Figure 1). In 1995 the unemployment rate was 6.7 times higher than in 1975.

\textsuperscript{16} For example, during 1995, rising unemployment was also attributed to technical change (for example, to the introduction of robots, even though there were less than a few dozen robots installed in Argentina). In order to judge this argument, one should take into account several issues: i) Despite the sharp increase in investment after the 1989 hyperinflationary trough, in 1994 the investment/product ratio (20.0\%) was lower than in 1980, lower that the 1950-1975 average, and only in a small part oriented to "greenfield" investment; ii) it has been estimated that investment in machinery and equipment accounts for no more than 25\% of the increase in investment; iii) national saving was still lower (16.2), and the 20.0\% investment ratio was sustained in part by external saving. Since the sharp fall in investment in 1995, the "high wages" explanation for unemployment has returned to the stage. During 1996 other arguments were added. Firstly, it was stated that there had been a change in production, making it much more capital-intensive (this is true for a number of big firms and for some sectors, but in aggregate terms it is an extremely weak argument when considering the investment rate vis a vis the initial average age of the stock of machines and equipment); secondly, that wages and wage costs had increased because the labor market deregulation had not been sufficiently thoroughgoing (the argument put forward by big business). Again, this argument seems to be a fallacy, since labor costs – adjusted by productivity – fell by 7\% between 1991 and 1994, another 1.8\% during 1995, and 4.2\% further still during 1996 (Table IV). Moreover, labor cost per worker, which was not adjusted by productivity but by the CPI, fell by 28.7 between 1992 and mid-1997 (Clarín, July 26\textsuperscript{th} 1997). Furthermore, according to official surveys, in 1995 76\% of unemployed persons seeking employment did do without setting conditions in terms of the length of the working day or job status (Nachtelf, 1996), and hence also in terms of the real hourly wage. This suggests that the "de facto" deregulation of the labor market, together with the current rates of unemployment, induced a "Lewisian" situation in which the demand for labor finds a supply curve whose wage elasticity tends to infinity.

\textsuperscript{17} And non-wage labor costs were also lower. For example, between 1990 and 1996 the employers' contribution for the social security of employees fell by 41.8\%. (UIA, 1996).
As we mentioned above, the core of the neoconservative line was the sequence investment-growth-income distribution. As we have seen, neither the investment nor the growth occurred\textsuperscript{18}. Furthermore, income distribution became increasingly regressive. Once again, the long-term trends are clear (Figure 2). The share of the richest 10% of the population grew (in 1995 it was 30.7% higher than in 1975); that of the next 60% — the middle classes who had considered one of Argentina’s most distinguishing features vis-à-vis other developing countries — fell by 7.9% between the same years, as did that of the poorest 30% (by 29%).

Preliminary data indicate that in 1996 these trends persisted. In 1996, the GDP per capita was about 5% lower than in 1975; the unemployment rate was about the same as in 1995; real wages kept falling, and while the investment GDP ratio was higher than in 1995, it was still very low (18.1%) in absolute terms and compared with the 1975 level\textsuperscript{19}. Moreover, in 1996-97, at current prices, the investment/GDP ratio was lower than the 1980-1988 average (IDB, 1997, Figure 39). During the whole of the 1991-1996 period, investment, both as a percentage of GDP and at current prices, was below the average of the "lost decade" (1980-1988). As to income distribution, everything indicates that it was still worse than in 1995 (Frenkel, 1997).

\textsuperscript{18} The austerity policies of the eighties in Argentina may be analyzed following Ezcurra (1989), making a clear distinction between ex ante and ex post saving/income ratios. "Austerity" policies may increase this ratio ex ante but, due to their effect on investment (and therefore, on the GDP level) may result in an unchanged savings/income ratio ex post. In other words, the decrease in consumption is followed by a decrease in GDP (because of the adjustment's effect on investment) thus "sterilizing" any positive effect on domestic savings. In his description of 1980s experiences in Latin America, Ezcurra calls this type of adjustment "fruitless austerity" (original in Spanish). This is a plausible explanation as to why, as we mentioned above, real wages decreased and income distribution worsened without any increase in the savings-income ratio, when public investment and public expenditure in health, education and other items were reduced.

\textsuperscript{19} These figures have been estimated on the basis of data published by the Ministry of the Economy and the Foundation for Research on Development (FIDE).
following a long high-inflation regime (except for the years 1985-1988)\textsuperscript{23}, economic reforms were hardly market-oriented (some non-neoliberal economists affirm the same, but for different reasons\textsuperscript{24}). Neoliberal economists (the same ones who afterwards applied the institutional shock and neoliberal policies from 1991 onwards) concluded that market-oriented policies had been hampered by the lack of an "institutional shock" based on a still more profound and rapid trade liberalization, deregulation and privatization policies\textsuperscript{25}.

The neconservative institutional shock was administered from 1989-1991 (and, more organically, from April 1991). As will be argued in this paper, its results do not seem to differ very much from those which followed the packages applied during the 1976-90 period (especially between 1976 and 1983)\textsuperscript{26}, and did not lead to a way out of the secular stagnation of the Argentine economy.

\textsuperscript{23} On the general characteristics of high-inflation regimes, and also on the Argentine one, see Heymann and Leijonhufvud (1995).

\textsuperscript{24} While the reasons held by neconservative economists were that policies had been too timid and heterodox, critics of the neoliberal policies highlighted that during that period the asymmetric trade liberalization, government subsidies, external debt policies, the adjustment that induced the fall of wages and the increased inequality in income distribution were oriented towards the creation of another "soft option" for big business, mainly through a sharp increase in the opportunities for obtaining non-technological quasi-rents. These economists argue that due to that orientation and to the neoliberalism-inspired economic shocks, institutional reforms and economic policies during the period were not development-oriented nor market-oriented – considering that development and market building maintain a reciprocal causative relationship (see, for example, Azpiazu and Nochette, 1984, Basualdo, 1987 and the authors quoted in these books).

\textsuperscript{25} As argued by Cavallo (1984) and Liach (1987), Minister of Economic Affairs and Secretary of Economic Programming, respectively, in the 1991-1996 period.

\textsuperscript{26} It should be noted as well that even if we accept the differences between the "timid" reforms and the "institutional shock" as described by the neconconservative economists, the latter, chiefly the one applied from 1991 onwards, would not have been possible had these so-called "timid" interventions (such as the 1976-1983 dictatorship and its disciplinary economic policy; Canclini, 1980 and 1983) not been applied beforehand. In other words, the social and political preconditions for such a profound institutional shock amount to the aforementioned "pulverization" of the state and civil society which took place in the 1976-83 military coup (O'Donnell, 1981), and which was only partially counterbalanced by the 1984-89 democratic transition period. This incapability to reconstruct the social and political mechanisms of "checks and balances" to counteract the economic and political power of big business partly explains – along with macroeconomic phenomena – the 1989 hyperinflationary crisis which, added to the absence of a strong and mature set of institutions, cleared the way for the neoliberal recommendations to be applied with almost no resistance from Argentine society – and even with its general approval.

\textsuperscript{27} Finally, the stabilization goal prioritized in 1976 was accomplished by 1993-1994. Following standard practices (such as those developed by Gunnar Myrdal, Bela Balassa, James Mead, Rudiger Dornbusch and many others) we have measured inflation by the CPI (Consumer Prices Index, determined mainly by non-tradeable costs and services). We have followed this practice especially because in a fixed exchange rate scheme the WPI (Wholesale Price Index, determined mainly by tradable goods) is determined to a great extent by foreign inflation, while the CPI is mostly determined by domestic inflation. As will be argued in this section, however, stabilization was achieved at the cost of serious prices and profits distortions against non-protected tradables (which had a strong negative impact on investment opportunities), an increasing current account deficit and a growing external sector fragility, all factors that contributed to the 1995-1996 downturn of the cycle. Nevertheless, price stabilization has been the major achievement of the reform package applied since 1991, and negative results are not necessarily linked to the exchange and monetary scheme, but to the global reform package, to its application as an across-the-board shock, and to the above mentioned institutional void, and may be corrected maintaining the current monetary scheme. We will elaborate further in this section.

\textsuperscript{28} The Ministry of Economy calculates the macroeconomic aggregates at constant values using 1986 prices.
and recessions of 1989 and 1990 — and those of exports for the whole period. On the other hand, the negative results are the fall in GDP, in consumption, and especially in investment in 1995; the growth of imports, much higher than that of exports in all the years analyzed, with the exception of the recessive year 1995; and the fact that the rate of increase in exports jumped in 1995, indicating prima facie a mainly anticyclical behavior — at least in relation to the previous year. As to 1996, the first year of another upsing phase: in the first place, exports not only increased far less than they had in the recessive year (6.3% against 22%), but also far less than imports (6.3% against 15.9%), in what appears to be a first confirmation of the former (at least partially) anticyclical behavior; in the second, the growth rate of investment was higher than that of consumption (Table I). It is worthwhile noting the fall in the real services deficit during 1995, which also suggests that the fall in the current account deficit was mainly anticyclical (Table A.1.).

This first panorama, drawn from the growth rates, loses its brightness when we look at the sources of growth, the behavior of the external sector, and the unemployment rate. Table II.1 shows the yearly increase at current US$ in macroeconomic aggregates, expressed as percentages of the GDP (in other words, the yearly contribution of consumption, investment, exports and imports to GDP variations)\(^{29}\). From this viewpoint, it becomes clear that the main source of growth was consumption. In all the upsing years (1991-1994), the contribution of consumption to GDP growth was between 1.5 and 3.2 times higher than the contribution of investment plus exports, even though, in the recessive year (1995), the fall of consumption was larger than that of investment and exports jumped\(^{29}\), in the whole 1991-1996 period consumption’s contribution to GDP growth was 2.3 times bigger than that of investment plus exports — i.e., C=(I+X)*2.3, always as percentage contributions to the growth of GDP — , suggesting a still inward- and consumption-oriented economy (Table II.1.). As a matter of fact, the average investment/GDP ratio for 1990-1997 (at current prices) is lower than that of the eighties, and the share of Argentina in world trade in 1997 equals that of 1981, even though higher than in all years from 1982 to 1995 (IDI, Figures 39 and 23). This recovery of the share in world trade that Argentina had registered fifteen years earlier is influenced more by the growth of imports rather than by that of exports (IDI, 1997, Figure 24).

It is important, at this point, to take a look at the composition of investment. Even though official and available private data are dispersed, incomplete and often impossible to compare with each other, it may be estimated from official figures (Table VII) that only 14% of investments were "greenfield" investments, the rest being destined to the reform or expansion and take-overs of existing utilities (34% and 50% respectively). It should be noted that take-overs are relevant investment from the point of view of the investor, but not from that of the economy, since they do not increase production capacity, nor necessarily — even though most probably in the case of FDI — X efficiency. From the viewpoint of macroeconomic aggregates, in which (if standard methods are correctly applied) take-overs should not be taken into account, greenfield investment may be estimated as about 29%. This constitutes a relatively low percentage for an economy emerging from approximately a decade of extremely low investment, and from a still much longer period of being a closed economy, in which — with few exceptions — most productive facilities and practices were not even geared to standard international practices, not to mention the huge gap vis-à-vis the frontiers of best practice.

Moreover, official data (ME, 1996) indicate that for the 1991-1995 period the share of nationally produced machinery and equipment was about 9.6% of the total investment, the rest being buildings (54.9%) and transport equipment, including trucks and cars (8.6%). The imported compo-

\(^{29}\) Aggregates at current US$ have been chosen as basic data for this table so as to allow more accurate comparisons than those that result from data expressed in pesos at 1986 prices, since this latter alternative introduces distortions (most serious in the relative monetary value of exports and imports). The yearly monetary values of the increases/decreases in each aggregate are presented as percentages of the monetary value of the increase/decrease in the GDP, and consequently Table II.1. does not show the yearly variation in GDP (shown in Table I). Showing the monetary value in current US$ of the increases/decreases in the GDP would have been misleading, since the exchange rate was fixed at 1 Peso = 1 US Dollar during the whole period and, consequently, all changes in quantities and/or prices measured in pesos imply an equal change in dollars and are affected not only by US inflation but also by domestic inflation, which in 1992 and 1993 was 24.9% and 10.6% respectively (always measured by the CPI).

\(^{30}\) It should be noted that in 1995 all the aggregates fell except exports. Thus, the percentage contribution of exports has a minus sign in Table II.1.
ment was almost 26.9%, but no information is available about the share of transport equipment, machinery, and other items in this percentage.

As far as the "foreign investment boom" is concerned, foreign direct investment in 1991-1995 was about 18.0 billion dollars, even including takeovers, and was composed mainly of external debt, equity swaps. The official figures (see above) make it impossible to calculate the share of the FDI in investment and GDP. Nevertheless, and just to give an idea of the relative importance of the FDI figures, it is worthwhile to estimate that FDI equals to about 8.4% of the total gross fixed investment, and to 1.5% of the total GDP for the period. Only from mid-1996 to September 1997 has there been a sharp increase in FDI, overwhelmingly attributable to the take-over of existing agribusiness firms, other consumer product producers, and, first and foremost, banks (the bulk of the equities of all the biggest locally-owned private banks except one were bought by foreign, mainly Spanish banks during the first half of 1997). "Greenfield" investment – especially the FDI one – seems to be concentrated in large projects for the exploitation and export of raw minerals, for the generation and transport of energy or in the oil and natural gas sectors (in this last case, largely in utilities for exporting gas to MERCOSUR and to Chile, which may have a strong positive impact on the level, though not necessarily on the trend, of exports).

31 For the total FDI, see UNCTAD (1996), Annex Table 1. It should be taken into account that these investment figures include the acquisition of existing assets (such is the case with the privatizations), reinforcing the argument of a relatively poor FDI.

32 GDP and investment in current US$ have been estimated on data from the sources of Table II.1.

33 Nestlé, Nabisco, Philip Morris, Danone, Parmalat, Grand Metropolitain, Pepsi and Cargill, world-wide leaders in this sector, took part in this process, buying most of the large and medium-sized firms in the domestic food and beverages sector.

34 From the point of view of the buyers, the main reason seems to be the opportunities opened up by MERCOSUR and in some cases the international food markets. From the point of view of the sellers, the main reason seems to be their access to capital gains, since the value of the assets reached a very high level (it has been estimated that the value of those assets grew by 100% in dollars in the last two years). In this sense, domestic proprietors seem to have picked up the windfall gains of the bubble. On the other hand, it seems to be clear also that they do not want to take on new opportunities that entail new risks and harder options.

35 One may say, à la Solow, that these exports will have more a leveling than a growth impact.

In terms of global modernization, competitiveness and what we have called global social productivity, it is important to have another, more detailed look at the age of machinery and equipment. In 1991, the average age of the stock of machinery and equipment was 12.26 years, about 13.8% higher than in 1975. Since 1991 (the last year on which we have reliable information) a process of modernization of equipment has occurred. Nevertheless, it is reasonable to assume that in 1996 the average age of machinery and equipment was not significantly lower than in 1972 (8.5 years, the lowest of the 1970-1991 period), with the additional problem of the rapid shortening of the technological cycle of capital goods that occurred at world level from the early seventies to the mid-nineties. This estimate is based on four sources. In 1992-1996 average gross investment was approximately 18% of GDP (Table III); estimates suggest that only 29% of that amount was oriented to "greenfield" investment (Table VII); the average investment/GDP ratio at that period's current prices was lower than that of 1980-1988 (IDI, 1997); this investment/GDP ratio was the lowest out of fifteen different economies which displayed medium to good economic performance. This information is relevant because modernization should be measured in relative terms (IDI, 1997, Figure 40).

As we have already suggested, this does not mean that no modernization of firms took place. In certain sectors, the approximation to the best practice frontier is outstanding. Examples of this are the introduction of hyper and supermarkets in the retail sector, the technical and organizational change in telecommunication services, and the modernization of part of the industrial sector – seamless tubes, vegetable oils (the first process of extraction from seeds) car assembly, a section of the car parts industry, milk and dairy. What it does mean is that the modernization process has been limited to a few sectors and plants, and did not extend to the economy as a system, and thus that productivity is probably more heterogeneous than ever.


37 Schrøder (1997) produces a detailed analysis of investment that leads to similar, even though more pessimistic, conclusions.

38 The countries selected for this comparison are (in ascending order of the investment/GDP ratio): Italy, Canada, Brazil, New Zealand, Australia, Spain, Mexico, India, Israel, Chile, Japan, Indonesia, South Korea and Thailand.
The macroeconomic structure (Table III) confirms that the upswing phase was led basically by consumption. During the whole period consumption was never less than 82.2% of GDP, while investment grew from an initial 14.6% to a still low 20% in 1994, only to fall to 17.5% during the next year and to increase only to 18.1% of the GDP during the first year of recovery (see above the historical and international significance of these percentages).

Contrary to what was expected from the trade liberalization and deregulation policies, during the upswing phase exports fell from 7.7% to 6.9% of GDP, and only grew during the recession. In this sense, the first slightly positive sign of a possible future trend towards a more export-oriented economy is that during the 1996 recovery the share of exports in GDP did not fall (Table III). In any case, the average over the five years was 7.7%, lower than the 8.8% of the eighties (ME, 1993), lower than the average during the import substitution decades (about 10% in 1950-1973, CEPAL, 1988) and far off that of any open economy. Thus, despite the fast growth in imports – from 5.9% in to 9.8% of GDP – the imports+exports/GDP ratio reached only 0.19 at current prices. In short, it seems that to the present, the Argentine economy is still a predominantly "non-traded output" system that reproduces some of its historical weaknesses. As a matter of fact, Argentina’s share in world trade is smaller than in 1981, though greater than in 1985-1995 (IDI; Figure 23). Furthermore, as we already suggested, this feature is especially dangerous for an economy heavily indebted to foreign creditors.

These last data, together with those that show the aforementioned external fragility, tend to confirm the hypothesis that perhaps the neoconservative "shock" failed to solve one of the traditional problems of the imports substitution period, i.e., that of a foreign exchange constraint-prone economy with sharp stop and go cycles, within a scenario of long-run stagnation (absolute or relative to dynamic economies). It should be noted that an external sector constraint does not necessarily lead to a nominal devaluation of the local currency, as was usual during the imports substitution period. It may lead, however, to non-inflationary stop and go behavior in output, employment and wages, or to a long-run steady-state, low level income and employment economy (Heymann, 1984; Diamond, 1978).

2. The Foreign Sector: a Debt- and Imports-led Current Account Deficit and a Low-Trade Economy

Reinforcing the "prima facie" impression about the anticyclical character of the 1995 exports boom, the growth of exports in 1995 corresponds to a fall in all the other components of the GDP (Table II.1). Moreover, the increase in exports in the recession year was roughly the same as the cumulative increase of the three upswing years – 5.4 billion against 5.3 billion (ME, 1996). On the other hand, during the upswing years the cumulative increase in imports was of the order of 15 billion dollars, almost three times that of exports. Even including 1995, when exports grew by 32.4% and imports fell by 6.7%, the increase in imports in 1991-1995 was 94% higher than that in exports, the same percentage as for the 1991-1996 period (Table A.1.).

Meanwhile, the total external debt grew by approximately 41.3 billion (70.7%) (Table II.2.), despite the inflow of about 27 billion obtained through privatizations and the cut in debt resulting both from the Brady Plan and the more recent rescheduling of the public foreign debt. This cumulative growth of the external debt is about 65 to 68% higher than that of the gross fixed investment. These figures indicate that foreign funds were used to finance both consumption (public and private) and take-overs rather than investment, in what one may call an inefficient and squanderous use of international liquidity opportunities. The foreign debt grew from 58.4 billion in 1991 to 99.7 billion in 1996, in spite of the Brady Plan and the external debt equity swaps of the privatization period. One can concur with Machines (1996) that the growth in debt during the privatization process could be likened to the paradox of a firm that increases its debt while selling its assets.

The external fragility of the economy may be estimated from four different angles.

Firstly, by the fall in the X/GDP ratio, from 11.9 in 1990 to 9.3 in 1996, even after an increase from 7.7 in 1991 to 9.3 in 1996 (Table III).

Secondly, by the external debt/exports ratio, which was 3.6 at the end of 1996, one of the highest of the main Latin American economies and about 45% to 49% higher than the Latin American average, even considering that this was a period of high external fragility for the whole region (Damill et al., 1996). On the other hand, because of the successful reprogramming policies carried out during 1997, the Argentine debt is distributed over a
longer period than most of the other Latin American ones. On the one hand, this implies, ceteris paribus, a reduction in annual payments. On the other, the final success of this reprogramming depends on the long-term behavior of the current account (and especially the trade balance), and on the behavior of interest rates (if they are stable or tend to rise, the move to a long-term debt is a correct one; if they fall, the same move is a bad one). Nevertheless, by itself, the move towards longer-term indebtedness is positive, especially in terms of stability and expectations.

Thirdly, external fragility is shown by the behavior of the current account (Table A.1). Leaving transfers aside (since their value is negligible), all the components of the current account have been negative in all the years considered. An exception was the commercial one, which was positive in three years. Of these three years, the first (1991) does not reflect the change in the economic regime 39. The other two are 1995, the trough of the cycle, and 1996, during which the recovery did not compensate for the 1995 fall in GDP. Still, even that partial recovery was reflected in the shrinkage of the trade surplus, which went from 5.6% of X-M in 1995 to 3.5% in 1996. During the first months of 1997, when the 1994 GDP was reached and surpassed, the trade balance turned negative again (most analysts consider that the trade deficit for 1998 will be about 6 billion dollars) and the official forecast of the deficit for the whole of 1997 was surpassed in September. In short, the trade balance has been systematically negative since 1992, with the exception of the years 1995 and 1996, i.e., the downswing phase of the cycle. Even in those two years, the surplus was 4.5% of the total trade (X-M/X+M), while in the 1991-1994 period, the deficit was 7.3% of total trade (Table A.3).

The deficit in the services and financial components of the current account (Table A.1) increased in all the years considered. Once again, the exception was the recession year of 1995, in which the fall of the deficit in real services by 681 million dollars (which behavior is also related to the cycle) more than offsets the increase in the deficits in financial services and profits & dividends, leading to the only fall in the current account deficit of the period.

Fourthly, the fragility in question may also be appraised through the behavior of exports during the recovery years of 1996-1997. During 1996, total exports grew by 3.2%, but this increase was due only to transport equipment, since the rest of the exports fell by 2.8%. The transport equipment increase was brought about mostly by a special promotion regime which involved a huge amount of subsidies and was geared mainly to Brazil within a scheme of sectoral trade offsets.

From the viewpoint of markets, the increase in exports was due only to the Brazilian demand: while exports to Brazil grew by 15.0%, those to the rest of the world fell by 4.7%. This again is explained by the growth of exports under the car industry promotion scheme, for these exports to the rest of the world grew by 13.8%, while all the others fell by 6.1%. During the first five months of 1997 (the most recent data available while writing this paper) the growth in exports is also explained mainly by transport equipment and Brazilian demand. Total exports grew by 12.6%, those of transport equipment by 32.7%, and the rest by 5.5%. Total exports to Brazil grew by 32.8% while exports to the rest of the world fell by 2.2%. Exports of transport equipment to Brazil grew by 48.9% while those to the rest of the world fell by 22.7%. Non-transport equipment exports to Brazil grew by 19.9% while those to the rest of the world fell by 0.7% (ME, 1997).

As compared with that of the other two most important trading partners of Argentina, trade with Brazil deserves a more detailed analysis. The trade balance with the USA and the European Union (EU) has been persistently negative, even during the recessionary years. Between 1991 and 1994, the trade deficit with the USA and the EU, the two traditionally most important trade partners, was respectively 42.5% and 2.5% of bilateral trade. Even during the trade surplus years 1995-1996, these deficit percentages were, respectively, 40.8% and 17.8% (Table A.3).

The case with Brazil was very different. During the 1991-1994 period, i.e., during Brazil's downswing and Argentina's upswing phases, the Argentine trade deficit was 14% of the bilateral trade. On the other hand, in the years 1995 through 1996 (Brazil's upswing and Argentina's downswing phases), the Argentine trade surplus was 12% of the bilateral trade (Table A.3). During these two years, Brazil became almost as important a partner as the EU (Table A.3).

The main reason for this last change in Brazil's relative position was certainly due to the MERCOSUR agreements and was one of their positive effects (for one of the goals of a common market is to increase the trade among the members). Yet the idea is neither to concentrate the exports in one of the members, nor to make the balance of trade dependent on the be-

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39 Because the currency board scheme has been applied since April 1991; and because there is always a lag between trade liberalization and its impact on imports.
havior of bilateral trade with that member. This condition notwithstanding, 
the result of the MERCOSUR agreements was that exports to Brazil went 
from constituting 46.2% of the exports to the USA and the EU in 1991-
1994 to 94.3% in 1995-1996. As to imports, this same percentage (imports 
from Brazil as a percentage of imports from the USA and the EU) was 
42.6% in the 1991-1994 period, and 43.1% in 1995-1996. 
The foregoing data and analysis of the foreign sector pose four ques-
tions. 
First, does the trade balance of Argentina in the nineties depend on the 
dynamism of exports or on the phase of the cycle? The most plausible 
answer is that it depends heavily, though not exclusively, on the phase of the 
cycle. 
Second, to which extent does it depend dangerously on the Brazilian 
and Argentine economies’ alternation of the phases of their cycles? Every-
thing suggests that, if the 1991-1996 trend is a firm one, Argentine growth 
depends heavily on that of Brazil, and, therefore, Argentina needs Brazilian 
growth. On the other hand, if Argentina grows faster than Brazil, the 
former may suffer a dangerous trade imbalance, since (still following the 
trend of the last six years), because of the persistent trade deficit with the 
EU and the USA, trade balance equilibrium with Brazil means aggregate 
trade imbalance (for precise figures on this problem, see IDI, 1997). 
Third, has Argentina moved towards higher systemic competitiveness? 
The most reasonable conclusion seems to be that the economy is not be-
coming more competitive. The most dynamic sector from the point of view 
of exports (transport equipment) shows no improvement in competitiveness, 
since its global sectoral trade runs at a deficit, as well as being part of 
the trade administered with only one country, reflecting a bilateral restruc-
turing rather than an improvement in competitiveness. Argentine exports, 
moreover, are highly dependent on the growth and trade liberalization of 
the Brazilian economy. The above-mentioned share in world trade and the 
influence imports have in it tend to confirm these conclusions. It is obvious 
but worthwhile recalling that an improvement in competitiveness is always 
an improvement in relation to those who compete in world trade. 
Fourth, is Argentina very far from foreign sector constraints? There are 
at least two indicators that suggest that foreign sector constraints may not 
be too far away. One is the fact that trade imbalance has grown rapidly 
and that the current account deficit has grown steadily in terms of GDP. Im-
ports grew by 18% in 1996 and by 31% in the first five months of 1997, 
i.e., respectively 3.6 times and 1.8 times more than exports (Machinea, 
1997). As to the current account deficit as a percentage of GDP, it grew 
from 2.4% in 1992 to 3.5% in 1994, from 0.9% in 1995 to an estimated 
minimum of 3.4% in 199740 (the two upswing phases) and to about 5% to 
6% of GDP in 199841. These figures show that, even with very high un-
employment, the increase in the utilization of output capacity leads to a 
high and increasing current account deficit/GDP ratio. The other is the fact 
that Brazil’s external situation and trends are even worse. During 1995/96 
and 1996/97 (estimated) Brazilian imports grew by 6.8% and 16.4%, while 
exports grew by 2.7% and 8.9%, and the deficit in the current ac-
count/GDP ratio went from 2.6% in 1995 to 4.6% in 1997. If Brazil tackles 
the external sector risk by reducing its growth and increasing barriers to 
imports (this last policy has already started) this would worsen Argentina’s 
external vulnerability. If Brazil accelerates its devaluation rhythm, Argen-
tina’s situation would be no less than catastrophic. Of course, both Brazil 
and Argentina may avoid foreign exchange constraints through an induced 
recession, but that only demonstrates that the external constraint is work-
ing. 
What are the favorable indicators? The main one is the confidence in 
Argentina shown by international banks and investors during 1996 and the 
first half of 1997. An example of this confidence is the fact that the exter-
nal debt was reprogrammed and that the influence of US revaluation on 
capital inflow was weak. On the other, compared with other international 
experiences, the Argentine capital market suffered one of the deepest falls 
as an effect of the 1997 East Asia crisis. The real problem is that confi-
dence was also placed in Mexico in 1994 and East Asia in 1996/97, until a 
crisis was precipitated overnight. Both crises, moreover, followed a similar 
pattern of behavior by the same indicators as currently shown by the Ar-
gentine and Brazilian economies. In the end, the only way to avoid foreign 
sector constraint is to recognize it and, consequently, reduce the current 

40 The data and estimates in this paragraph are based on "Econometrica S.A., eco-

demic research and forecast", and were presented by Dr. Adolfo Sturzenegger at a 


41 As estimated by the IMF.
growth rate of domestic consumption, while advancing towards a growing systemic competitiveness (a question that will be tackled in this paper).

In short, the current account deficit grew rapidly during the upswing years, and the one-year decrease is clearly explained by the fall in GDP. It should be stressed that the trade deficit is part of a structural deficit in the other components of the current account, i.e., that the current account deficit can only be offset by a trade surplus and/or a permanent recourse to increasingly higher external savings. Still, the trade balance is only in surplus when the GDP declines. This is particularly serious because the Argentine economy is still a low-trade one, and one should consequently expect further increases in the share of imports in GDP (Table III and Machinea, 1997).

This process suggests the persistence of a foreign constraint-prone economy. It seems that the economy still works in a way similar to the model described by Heymann (1984). In an oversimplified version of that model, the two most typical behaviors of the Argentine economy are the following. One, with foreign sector equilibrium output capacity is underutilized and unemployment tends to be high (as in the low equilibrium trap advanced by Nelson, 1959). Two (the usual case), both spending and the current account deficit grow. If, in this case, the government and/or other agents try to maintain a "near full employment" level of spending, and/or a near full utilization of output capacity, the current account deficit will grow till the output and employment level adjusts (as in 1995), and there will be a return to output capacity under-utilization but with a higher level of foreign indebtedness than initially.

Additionally, it should be noted that the most recent studies show that structural adjustment by big corporations — especially TNCs — tends to induce an industrial organization in which specialist domestic suppliers (including in some cases those which produce non-differentiated intermediate goods) are being displaced by foreign suppliers. As a consequence, a tendency develops towards a much more "import-intensive" industrial economy as well as an indirect decrease in employment and in the future demand of labor. At the same time, an increase in the demand for imports occurs, thus pushing down the future demand for labor and pushing up imports income elasticity (Kosacoff, forthcoming). This has much to do with the lack of restructuring policies geared to the modernization of suppliers, with the characteristics of trade liberalization and, generally, with the negative impact of the institutional hands-off shock on systemic competitiveness.

One may conclude that, if foreign exchange constraints are not prevented through active competitiveness policies, more likely than not the economy will enter a new (and deeper) downswing phase or, still worse, the monetary stabilization gained through the currency board scheme will be lost through a traditional Argentine "devaluation-inflation-slump" shock. If the international financial markets remain stable, the upswing phase of 1996-1997 might be maintained for some years. However, if there is another external shock induced by new turbulences in those markets, the endogenous fragility of the external sector will rapidly become apparent. In this sense, the foreign exchange constraints may produce a slump or a devaluation-inflation-slump process at any time.

3. The "Employment Crash" and the Worsening in Income Distribution

The unemployment rate rose even during the years of upswing, a phenomenon whose causes have been widely discussed in Argentina. Most specialists in labor market economics tend to consider that the reasons for this rise were multiple, among them the layoff of redundant workers in the privatized enterprises, favored by a rapid and profound change in the legislative barriers to such measures; an significant increase in the intensity of work; the introduction of organizational changes, mainly in the tradable products industries exposed to competition through trade liberalization policies; the disappearance of small and medium enterprises which could not adjust to the pressure of foreign competition in a context of rapid trade liberalization combined with high interest rates and scarcity (still in the case of SME) of credit for investment and restructuring; and an important productivity shock due to a great extent to price stabilization.

Due to its particular importance for the study of stabilization shocks in Latin American economies — and, to a certain extent, Eastern European ones — the question of both the positive productivity shock and that of the negative employment one deserves special attention.

One of the important benefits of price stabilization in an economy emerging from decades of high inflation and two recent hyperinflations is a positive productivity shock. If the entrepreneurs' expectations are that
"price stability has really been achieved and there will be no return to high inflation", they will tend to cut all the costs associated with the high inflation regime, i.e., with the ways to cope with permanent high inflation.

Those costs cover a wide and largely unrecognized spectrum, such as costs associated with high stocks, which were a defense against inflation but became a high financial cost once stabilization (and high real positive interest rates) had been achieved. Another example is that of whole sophisticated departments created for coping with continuous and extremely significant changes in prices (e.g., departments for financial operations management, balance-sheet adjustment, for cost, price and profit estimates or for negotiating wages and suppliers' prices). Of course, this does not mean that these departments are not necessary, but that they are hugely oversized in high inflation regimes.

In that sense, there are many other costs which are insignificant or simply do not exist in economies with inflation figures of say, between 1% and 6% a year, and are a heavy burden on total costs in economies in which inflation is (and has been for decades) between 5% and Cagan's 50%, not per year, but per month (on these differences, see Heymann and Lijonhufvud, 1995, perhaps the first major work on high inflation as distinct from both inflation and hyperinflation). One may say that the change from a high-inflation regime to generalized expectations of stability produces an increase in productivity that is difficult to measure, but is probably hugely underestimated. A major part of this increase is associated with personnel reduction in the above-mentioned oversized departments (within each firm and in the services they require, for example firms of lawyers and accountants and, in turn, in their personnel), since all these internal and external activities of the firms are the most labor-intensive.

Nonetheless, the big jump in the unemployment rate came in 1995 (an increase of 52.1%, see Table 1.3.), with the downswing phase. Consistent with the general trends of the first four years, employment in non-tradables (mainly on the one hand and personal services), which partly offset the fall in employment in the privatized enterprises and the tradable sectors during the consumption boom of the first four years (1991-1994), led to a dramatic increase in the unemployment rate when this first consumption "bubble" burst.

Additionally, what we consider an overshoot in spending, largely based on a misperception of the output trend, most probably changed into an undershoot during 1995 when it became clear that output was well above the steady state level (or sustainable output growth rate). Nevertheless, this last argument does not by itself explain the fact that during the 1996 recovery there was no significant reduction in the unemployment rate — between 1991 and 1995 it rose from 6.5% to 17.5% and in 1996 it fell only slightly (to 17.3%). We think that a plausible explanation should be based on four causes.

Firstly, during the 1991-1994 period many producers of importables that could not adjust to the trade liberalization survived through a combination of domestic production and sales of imported goods fueled by the consumption boom. They disappeared, however, during 1995, under the double pressure of external competition and demand shrinkage.

Secondly, there is a lag between the first shocks the firms received and their decision to close when they realized that their activity was unsustainable (the high percentage of "rotten" credits in the banks' portfolios is a clear indicator of this unsustainability; see Barry et al., 1997).

Thirdly, the effect on employment of the stabilization productivity shock was masked by the proliferation of very small firms — again in personal services and on the one hand — and by own-account workers (the employment sector which showed the highest growth in that period), sustained by the consumption boom beyond the sustainable level of domestic absorption, by the demand pull increase in the price of non-tradables and, most importantly, beyond their capability of surviving, given their capital requirements.

For a macroeconomic model of this hypothesis, see Heymann and Sanguinetti (1996).

In the rest of this paper and for the analysis of expectations and of the cycle, we speak of "steady state" instead of "sustainable output growth rate", following Heymann and Sanguinetti (1996). The reasons for this are that it makes it much easier to use (some aspects of) the model developed by these authors, and that it is difficult to know which was the sustainable output growth rate. As will be argued in this paper, neither the growth rate of 1991-1994 nor the one envisaged by most neocorporative economists and big businessmen (between 7% and 8% a year) seem to be sustainable, at least with the current neocorporative policies.

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42 Never instantaneously since, leaving aside labor market regulations and dismissing direct costs, it is neither theoretically reasonable nor practically realistic to assume perfect knowledge of the causes of all costs.

43 On the structural impact of high inflation in Argentina see also Donato (1996).
(obtained through personal loans at very high interest rates and by the use of their redundancy compensation), costs and prices.

Through the fall in demand and prices, the downswing phase revealed the loss of starting capital suffered by these small firms as well as their inability to pay or renew their loans. In this way, a massive disappearance of these microfirms and of own-account employment occurred (what Argentine economists usually call the "taxi effect" or the "boutique effect\(^{46}\). This development was reinforced by the boom in supermarkets, hypermarkets and huge shopping malls. There was no reason (nor will there be) to expect that the recovery in these forms of employment after 1995 would be enough to offset the employment crash, the main and obvious explanation being that redundancy payments cannot be repeated, and that new forms of employment do not include such payments; 85% of the recovery in employment during the upswing phase was due to the creation of precarious jobs\(^{47}\).

Finally, as we have argued, significant evidence shows that the reorganization of production, especially (though not only) through the take-over of local firms by TNCs, led to an important displacement of local suppliers with the consequent indirect negative impact on employment and on the income elasticity of imports as well (Kossoff, forthcoming).

The fact is that in 1997 only 29.7% of the total population was employed in the formal sector of the economy in what are called "full occup-ations", i.e., jobs abiding by legal conditions, with full-time (8 hours) and stable labor contracts (Table A.12.)\(^{48}\). This is the lowest percentage registered in Argentina except in 1995-1996, and even lower than that of the hyperinflation years (the previous lowest percentage since the forties). This problem tends to have a strong negative effect on development and systemic competitiveness. The lack of active restructuring policies leads to the creation of precarious and own-account forms of work to replace the drop in employment in relatively high productivity and tradable products. In turn, this leads to a loss of the habits and culture of efficient work and of socio-economic integration, encouraging projects without a future either in individual or social terms, and forms of work totally isolated from technological change and international trade and productive practices (Diamond, Noclette, et al., 1994).

This sequence occurred in what were important social and economic districts in Argentina. Even though the question has not been given the attention it deserves, the example of the region formed by the axis Villa Constitución-San Nicolás-Ramallo is a prime example. In about the mid-eighties, the bulk of employment in that region was located in two big steel plants and about 25 large-to-medium-size firms in the food, chemical, car (parts), and textiles sectors (Quintar and Boscherini, 1997). By the mid-nineties, most workers in this region were employed in small or micro enterprises selling food, clothing and cigarettes; micro firms repairing household equipment; personal services; restaurants and bars; taxis, etc. If we compare the beginning of the eighties with the mid-nineties at the national level, employment in firms of more than six employees fell by 17%, while employment in firms of less than 6 employees grew by 12% - basically firms of very low productivity in the personal services sector (Cortés, 1996).

In October 1996, in the Buenos Aires city suburbs and in the provinces of Buenos Aires and Santa Fé, unemployment rates were higher than the national figure (20.8%, 21.3% and 19.0%), and in the province of Córdoba

\(^{46}\) Because these are two of the most common examples of non-viable own-account jobs, e.g., with his redundancy payment and (or with a personal loan) an unemployed person buys a taxi and works with it, spending practically all his income, which replaces his previous salary. When the car must be replaced, he discovers that he has no capital to buy a new unit (the same with the boutique, in this case space is rented, and what cannot be replaced is the initial stock of merchandise).

\(^{47}\) According to information published by the Ministry of Labor and Social Security (MTSS, 1997), in January 1997 the indices (1995=100) were as follows: for permanent jobs 93.6, for temporary jobs 198.8, and for temporary "trial jobs" 489.2. Permanent jobs represent regular jobs - with social security benefits and compensation for dismissal. Temporary jobs represent labor contracts with a pre-determined date of termination and no compensation for dismissal. In "trial jobs" workers receive no social security benefits and are hired for a limited period, after which the firm may include them in the permanent staff or dismiss them without compensation. The latter became the most frequent type of jobs and almost the only job option for young workers (including those with medium, secondary and even, to a lesser degree, higher education levels).

\(^{48}\) Given the purchasing power of wages, a part-time job (or two, if the two adult members of a typical family obtain one each) is not enough to cover the family's minimum requirements in terms of food, housing, health and other basic necessities, at least for about 70% to 80% of families. The option of part-time employment as the main source of family income should not be compared with the same option in countries with much higher wages and much better welfare infrastructure (health and public services, etc.)
equal to the national rate (17.2%) (Table A.13). These areas account for more than 85% of GDP, and were — and still are — the main locations of industry and of some of the leading privatized public utilities. Higher than average unemployment in these areas shows both the effect of migration from poorer regions and the drastic adjustment forced by trade liberalization and privatizations. On the other hand, the much lower than national average unemployment in some of the poorest provinces (La Rioja, 10.5%, Formosa 8.2%, etc., see Table A.13.) basically reflects both over-manning in their public sectors and employment under programs sustained entirely through public expenditure. Where this type of employment does not exist, as in Tucumán, the unemployment rate (20.2%) rises above the national average. These occupations are characterized by extremely low productivity, absence of training and dependence on government subsidies backed by credits from multilateral bodies. As Machinea (1997a) puts it, in the beginning the government used foreign debt to pay compensation to the redundant public employees, then it did nothing either to promote the small enterprises created with those funds, or to direct them towards investment. In the end, the government used new foreign debt to create transitory employment through government expenditure for some of those dismissed in the beginning.

During the upswing years and also during the whole of the 1991-1997, the employment crash was accompanied (as might be expected) by a persistent worsening of income distribution. Argentina was traditionally known as a country whose income distribution was much closer to that of Western European countries than to that of the Latin American ones (with the exception of Uruguay and Costa Rica). As shown in section II.3., this began to change from 1976. In 1993, the UNDP estimated that Argentina was the 15th of 155 countries in terms of the richest 20% of the population's share in total income (PNUD, 1994). Since then, this share has grown from 51% to between 57% and 58%, while the average per capita income of the lower classes — despite growth and price stabilization — fell by 18.7% (FIDE, 1997).

Moreover, PNUD (1994) estimates that public expenditure (including social expenditure) has a regressive impact on income distribution, for the expenditure that benefits the high-income population is almost 44% greater than that which benefits the low-income population. This effect is aggravated by the structure of government revenues. Total government revenues are 18.6% of GDP, against an OECD average of 38.7%. The difference is explained basically by three items, namely, social security (Argentina 4.2%, OECD average 10.5%), income tax (Argentina 2.3%, OECD average 14.1%), and taxes on different forms of wealth (Argentina 0.8%, OECD average 2.1%) (Table A.11).

These differences are clearly regressive in terms of distribution, and also account for the breakdown of the social security system. Some of them are explained by the inefficiency of the tax administration system (only about half of the "fully employed" are registered as such by their employers), others by the bias in taxes. As stated by Vito Tanzi on his last visit to Argentina (August 1997), personal income tax is now 0.9% of GDP, against 11.2% in Australia, 7.8% in the USA and 10.2% in Italy.

Moreover, the level of both public expenditure and fiscal imbalance depend heavily on the above-mentioned differences. As a mere exercise, it is worthwhile noting that if government revenues from social security payments, income tax and other taxes on wealth were equal (as percentages of GDP) to the OECD average, total government revenues would be almost as high as that average — 19.4% against 20.1%.

4. The Economic Policies Package and the Monetary Stabilization

The behavior of macroeconomic aggregates is closely related to a package of economic policies (the core of the institutional shock). Within the package, the most important policies were a fixed exchange rate (more precisely, an exchange rate pegged to the US dollar at a one-for-one ratio), a sharp and rapid trade liberalization, an extremely fast privatization process (probably the most rapid and massive in the western world, with the exception of that of eastern Germany; Azpiazu and Vispo, 1995), and the deregulation of some markets, primarily (and paradoxically) the oligopolistic ones in the non-tradable services and products sectors (Azpiazu, 1994).

We consider that the decision to peg the peso to the dollar at a 1 = 1 exchange rate was fundamentally correct and that it should be maintained while other reforms are made, in order to sustain that parity through a significant improvement in systemic competitiveness (necessary for avoiding a further foreign exchange crisis and/or further recessions) and in order to prepare a smooth and gradual departure from this monetary scheme, which cannot be deemed a permanent one.
After more than twenty years of a high inflation regime and two hyper-inflationary episodes (in 1989 and 1990), the fixed exchange rate regime was the only way to cope with high inflation. Without any doubt, this had an extremely positive effect both on productivity and on expectations. Above all, however, it was the only alternative for the reconstruction of the most fundamental of all economic institutions, i.e., money. Without money there is no chance in the functioning – for better or worse – of any modern economy and society.

For societies that have not endured the near disappearance of money for long periods, it is almost impossible to imagine what this institution really means – no matter how clear this significance is at a theoretical level.

Convertibility of the local currency was also indispensable. It means that the monetary base (total notes and coins) must be equal to the reserves of the Central Bank in foreign reserve currency at the current fixed exchange rate, and that the Central Bank is not allowed to increase the money supply except when these reserves grow, and then in the same proportion in which they grow. This guarantees that the base of monetary supply is endogenously determined, i.e., that the Central Bank cannot have any monetary policy. As in the case of the fixed exchange rate, this is obviously not desirable in all circumstances and for all periods.

Yet in a society that had been told dozens of times through dozens of years that "this is the last stabilization plan" and that the government "will maintain monetary discipline at any cost", only to see inflation and irresponsible monetary policies reappear after a few months, the guarantee given by the convertibility scheme was necessary (even if not sufficient) for the members of that society to regain confidence and rebuild the demand for local currency. It also meant a strong compromise in regard to fiscal control, since a high and persistent fiscal deficit cannot be maintained under a currency board scheme.

It is important to recall here that a currency board does not mean that fiscal deficit should be avoided at all times, but that any period of fiscal deficit (usually in a downswing phase) should be offset by one of fiscal surplus (usually in an upswing phase), and that the said deficit should be equal to the surplus, i.e., that fiscal equilibrium should be maintained through the cycle.

In this sense, during the 1991-1997 period the problem was that in every year but one government current expenditure was higher than current government income (Table A.8. and ME, 1997). In other words, there was a persistent primary fiscal deficit. During 1991-1994 that deficit was easily covered by the income provided by privatizations, leading to a positive result for the public sector (the counterpart of which was a deficit in the current account, or a deficit in the private sector; Table A.1.). In 1995 (the recession year) the primary deficit reached its highest figure for the 1991-1995 period (Table A.8.), and privatizations (the bulk of which had already been completed) could not offset it. The result was primary deficit.

Since then, the fiscal deficit has kept growing, even during the 1996-1997 upswing phase, and has been financed by public foreign debt. On the one hand, this behavior of the public sector indicates that the confidence gained through stabilization enables the government to obtain foreign funds to finance expenditure. On the other hand, it shows that the traditional problem of fiscal imbalance, though kept within reasonable bounds, is not solved. Firstly, because even during the 1991-1994 period of upswing it was only the one-off positive fiscal impact of privatizations which covered the primary deficit. Secondly, because what happened in 1995 demonstrates that the current government income is too dependent on the cycle, for a fall of 4.4% in GDP led to a fall of 9.6% in government revenues (Tables I and A.6.1.). Thirdly, because, especially after 1995, the control of the fiscal deficit has been based on an accelerated foreign indebtedness which contributes to the high external vulnerability of the economy (Table II.2.). Last but not least, it is clear that the government was unable to solve the tax system problems, as we already suggested (see above and Table A.11.).

The fiscal question is a clear example of the double-edged sword of neoliberal policies. One edge, the positive one (though one that did not require a generalized institutional shock nor a neoliberal approach to all policies) is the restoration of money and confidence. The other is the fact that a generalized hands-off policy is not efficient in solving the complex problems of the Argentine economy.

Basically one knows that sudden stabilization after a long period of high inflation (especially one which is expected to endure) is equivalent to a positive shock on wealth and on the demand for money which, more probably than not, will also lead to overconfidence and overspending.

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49 There is a percentage of the reserves that can be covered with government bonds nominated in hard currency. This percentage is currently very low.
(Heymann and Leijonhufvud, 1995; Heymann and Sanguinetti, 1996). We will return to this problem later in this paper.

Additionally, one knows that if this sequence of events occurs during a period of abundance of credit at the international level (especially given a currency board scheme), the demand for money that follows an overspending rush will be satisfied through capital inflows.

One is also certain that when stabilization produces a positive wealth shock, while the growth in output through investment is not instantaneous and may be slow (even in the best of situations), the growth in consumption is almost instantaneous. In the meantime, there should be a sudden (and significant) one-off recovery in government revenues (because of an "inverted" Olivera-Tanzi effect and due to the increase in revenues related to the consumption boom, among other causes). This implies a transitory trade imbalance and a compensating capital inflow. (In a scenario of abundant international liquidity and confidence on the part of foreign financial investors this inflow may actually offset any growth in spending, especially in a small economy.)

Eventually, when output grows through investment (and especially through the increase in the production of importables and exportables), these transitory imbalances will be solved. Government revenues will keep growing, based on increased output, and the trade deficit will fall or turn into a surplus. Thus, the economy will reach a reasonable relationship between current account deficit and GDP, and between exports and foreign debt, without a downward adjustment of the fiscal sector. Moreover, internal savings will recover, improving the relationship between internal and external savings.

Eventually. This will be the outcome if, theoretically and in practice, the government recognizes that endogenous development is the set-up assumed by market-oriented economic theories, and allows their rules of behavior to be valid. If, moreover, it acknowledges the fact that this is a complex historical product that cannot be achieved overnight after decades of incomplete markets, irrational and inextricable regulations, a closed economy, tax evasion, and stagflation (Nochtieff, 1996). In other words, if economists and politicians do not assume that efficient markets, institutions and organizations appear spontaneously "ex nihilo" with only an across-the-board, hands-off shock, and without the active efforts of both government and society.

As in other Latin American and Eastern European cases, in Argentina the aforementioned virtuous positive adjustment may have eventually occurred if certain conditions and policies had been fulfilled, that is, if the government had adopted an active sterilization policy to reduce over-consumption. Opportunities must be widened through public and public/private policies (for example, fiscal policy, export policies and market-building policies and agreements), especially for the production of exportables and importables, and for those activities which generate positive externalities (education, training and upgrading of the labor force, environmental and natural non-renewable resources management). The government should not allow any capital inflow at any time for any purpose (i.e., it ought to follow Chile's example). After decades in which the financial system did not finance investment but only (in certain periods) consumption, and with no institutions or organizations able to direct credit towards investment in machinery and equipment, the government cannot assume that savings will go into investment. Moreover, it cannot take for granted that any trade liberalization, even a careless one (Tables A.9 and A.10., Figures 4 and 5), with no restructuring policy, will reduce X, Schumpeterian and Ricardian inefficiencies. The government cannot assume that in an oligopolistic, privilege-seeking society, deregulation will orient the economy to the market without the intervention of institutions and organizations for the defense of competition and of consumers. The government must not cover the fiscal deficit through one-off revenues (privatizations) and foreign indebtedness. It cannot, moreover, assume that an invisible hand will turn long-experienced tax avoiders into tax-payers.

51 Two examples: the justices who intervened in what was known as "the parallel customs affair" estimated smuggling between 1992 and mid-1996 at 10 billion dollars, equivalent to 12.3% of registered imports; in significant cases anti-dumping action was taken after the industries affected had closed down. These problems are usually seen as the result of a lack of transparency, of corruption, of "lobbying" and of institutional weaknesses. Without denying these explanations, the theoretical background of public policies should be taken into account. At the National Industrial Conference (Bariloche, September 17-19, 1997) the Vice-Minister of Economic Affairs, Dr. Carlos Rodriguez, declared he would eventually apply anti-dumping measures, but that he considered those measures as negative because they reduced the consumer's surplus.

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50 This implies recognizing that Latin American economies may be described accurately by three-gap models like the aforementioned one developed by Eyzaguirre (1986).
The government must not create an extremely pro-cyclical tax structure (Table A.11.). The government must not help (by action or omission) to create "greenhouses" protected from external and domestic competition, allowing the obtaining of quasi-rents based more on privileges than on learning, creative imitation and technical change.

If the decision-makers, however, make the "spontaneous efficient markets, institutions and organizations assumption" following the neoliberal hands-off recipe (Platéau, 1994), and they do not carry out active policies for obtaining the best from reforms, nearly all results will, more likely than not, be similar to those we have seen in the fiscal sector, namely, deficit through the upswing phase of the cycle, more deficit during the downswing one, and more deficit during the recovery years, always with a sort of escape-to-the-future attitude that seems to be leading to a foreign constraint that may stop growth, decrease investment and savings, and worsen the fiscal gap.

The stabilization and fiscal questions tend to confirm that it is almost impossible to coordinate efficiently an across-the-board institutional shock, and that structural reform is much more than just a general repeal of existing regulations combined with a massive and rapid change of property for the biggest corporations — the general neoliberal recipe as applied by most Latin American and (with extreme fundamentalism) by some Eastern European countries. Stabilization and structural reforms should combine a shock aimed at rebuilding the institution of money with active policies. These should be oriented towards controlling the impacts of that shock, towards an efficient and careful administration of changes and a social effort towards institution- and organization-building (especially in public administration). Policies should seek also to avoid or reduce turbulences and overshoots, to establish a sound structure and level of government revenue and expenditure, to build markets — especially through the protection of competition and consumers — and, last but not least, to help create the conditions for the emergence of a new, more competitive, more enlightened and less profit-seeking generation of entrepreneurs.\(^{52}\)

Returning to the question of money and inflation, we think that a system of pegged exchange rate and convertibility should be maintained, supported by policies for the increasing of competitiveness without devaluation, at least for some years.

The reasons are the following. Monetarization has increased steadily, but is still incomparably lower than that of the dynamic and/or developed economies, and has not yet reached solid and adequate levels in these few years. Shocks on monetary assets should be avoided in a country that has lived through (or merely survived) decades of such shocks (through high inflation, maxi-devaluations, hyperinflation, forced substitution of monetary deposits for public bonds, immobilization of deposits, or changes in the stipulated interest rates of existing contracts). A new shock (which in Argentina the public associates directly and immediately with a devaluation) may produce a crash in the demand for money and a virtual disappearance of credit for years, leading to a depression (as distinct from a mere recession) and, most probably, to high inflation.\(^{53}\)

The last thing to do is to destroy the most positive and important achievement of the neoliberal policies of the nineties in Argentina, namely, the first steps taken towards rebuilding the institution of money.

Besides, in Argentina the search for growth and foreign sector equilibrium through devaluation has proved to be a path to permanent frustration, repeated recession, high inflation and an increasingly worse income distribution. Moreover, long-term competitiveness is not merely a problem of the exchange rate but a much more complex and systemic one (Esser et al., 1996), to which we will return in the last sections of this article.

Nevertheless, it is worthwhile emphasizing again that we think that if the external fragility of the Argentine economy is not urgently tackled through active foreign sector policies (selective import and export policies) and a policy bias of "less consumption-more investment in tradables", growth and monetary stabilization being extremely fragile, they will probably not resist the consequences of fluctuations in the international financial markets.

\(^{52}\) The non-emergence of this type of entrepreneur is one of the principal failures of the reforms carried out during the nineties in most Latin American and Eastern European countries, with some exceptions, the Chilean one being perhaps the most interesting in Latin America.

\(^{53}\) Economic agents need not only to learn but also to learn to forget (see Nelson and Winter, 1994).
5. Relative Prices and Profits

As argued by Azpiazu, Bang and Nochteff (1995), the whole package had a strong negative impact on relative prices and profits.

The behavior of relative prices during the cycle in terms of industrial tradables is shown in Table IV. The pressure of imports unleashed by careless trade liberalization, combined with a fixed exchange rate, pushed the prices of industrial tradables downwards, especially during the 1991-1994 period.

Simultaneously, the prices of public services and other non-tradables rose. In the case of the former, it was basically due to the characteristics of the privatization process and the combination of extremely concentrated and barely regulated markets (Azpiazu and Vispo, 1995; Azpiazu, Bang and Nochteff, 1995). The rise in the latter was a consequence of the demand pull inflation triggered by the consumption "boom". Measured against industrial tradables, in 1991-1994 the relative prices of public services increased by between 15.5% and 28.8%, with the exception of electricity charges, which rose only by 0.5%.[54] They fell by between 3.1% and 9.8% during the recession and recovered by 3.8% to 9.8% during 1996 (Table IV.1). The prices of other non-tradables rose by 48.2% between 1991 and the first peak of the bubble, and fell only by 3.7% during the recession. As to what we call simple exportables,[56] the increases in international prices permitted an increase of almost 3.5% during the first upswing years, a fall of only 0.7% during 1995, and another increase of 12.3% in 1996 (Table IV). Finally, the relative prices of protected industrial production rose by about 10.2% in the first phase, fell only 1.8% during 1995, and recovered by 4.2% in 1996, while productivity rose more than that of the tradable industrial activities (IDI, 1997, Figure 32).

On the other hand, industrial wages increased by 25% in 1994, fell 5.7% in 1995, and recovered by 3.1% in 1996 (always in terms of industrial importables, since in real terms, i.e., adjusted by the CPI, they fell). Nevertheless, looked at from the point of view of costs, now for all sectors (and not in relative terms to the importable tradables), the cost of labor adjusted by productivity fell by 7% between 1991 and 1994, another 1.8% during 1995, and 4.2% in 1996 (Table IV.3).

Furthermore, the difference between the evolution of consumer and wholesale price indexes (Table IV.2) shows the strong bias existing against tradables in general. While the consumer price index grew by 36.9%, 3.4% and 1.6% (in 1991-1994, 1995 and 1996, respectively), the wholesale price index, which reflects the prices of tradables, grew by 5.4%, 6.5% and 3.2% in the same periods.

54 To analyze relative prices we have divided products and services into the following groups: a) industrial tradables, i.e., those goods that are freely importable even though protected through tariffs, and have been imported in large quantities relative to domestic production (most primary products are importable, but are not imported because of the comparative advantages of local ones); b) non-tradables, i.e., non-tradables with the exception of the main privatized public services; c) protected tradables, i.e., those goods that are protected through tariffs and other barriers to imports (natural and/or legal) and are not imported, except when imported by the same firms that produce them (as in the special promotion scheme for cars), and thus cannot be brought into the country in significant quantities by individuals or commercial importers (they have a reserved or quasi-reserved market); d) simple exportables, i.e., those products which are Argentina's main exportables, for which there is a large and permanent X/X+M ratio, and/or products in which imports are negligible even without any protection; e) public services, i.e., those rendered by companies privatized after 1989, and for which prices and rates are available (mainly through the research reflected in BID 802/OC-AR PID 0035, 1996, and Azpiazu, Bang and Nochteff, 1995).

55 It should be noted that during this period, and especially during the last two years, the basic supply of electricity leapt because of exceptional rains which led to an inevitable peak in the generation of hydroelectricity. Thus the price of generating fell rapidly, though this fall was only partially transferred to consumers by the distributors (Azpiazu, Bang and Nochteff, 1995, BID 802/OC-AR PID 0035, 1996).

56 These simple exportables, the bulk of Argentine exports in the nineties, are scarcely differentiated, low-technology, and/or low-skilled intensive products, whose comparative advantages are overwhelmingly related to the country's endowment of natural resources and/or to the growth of capital-intensive industries producing low-differentiated products during the eighties – see Beckerman y Sirlin (1996) and Bisang (1995). In 1995, 23 products constituted half of total exports, of which the most important were (in order of importance) crude oil; soy-flour and pellets; soy and sunflower oil (in bulk); wheat; corn; soybeans and soy seeds; gasoline; aluminium (non-finished products); leather and furs; burlcotton; oil cakes (a by-product of vegetable oils); beef (frozen and fresh); and apples. The only complex products among the main exports were trucks, cars and vehicle gearboxes, most of them within an offset scheme (mainly with Brazil) that is the main counterpart to the quasi-market reserve for the car industry (BID 802/OC-AR PID 0035, 1997). Even among the industrial exports, in 1996 the percentage of those considered of low technological intensity was more than 65% (IDI, 1997, Figure 26). For a more detailed profile of Argentine foreign trade, see Figure 3.
We may look at the behavior of relative prices from two complementary viewpoints, i.e., in terms of their relation to the cycle, and in terms of the trend. From the first of these viewpoints, as expected, the prices of all tradables (except protected ones) depend basically on international prices, while non-tradables and highly protected tradables depend principally on the domestic markets. However, the drop in their prices during the recession is low in all cases, especially if one considers their previous growth and the fact that the unemployment rate jumped from 11.5% and 17.5% between 1994 and 1995. In other words, there is a bias towards adjustment through quantities more than through prices, reflecting incomplete and segmented markets.

From the point of view of trends, the behavior of relative prices is consistent with the hypothesis that the neoconservative institutional shock and reform package induced a bias towards a low-trade economy and may have had no positive impact in terms of Schumpeterian and long-term growth efficiency (Dosi, Pavitt and Soete, 1990), at least because it induced a price stimulus to the domestic supply of non-tradables and simple exportables. These are both characterized by a low long-term growth perspective (vis a vis differentiated tradables), the former because their growth is limited by the growth of domestic demand, the latter because of their relative low-income elasticity, low technological elasticity, and high demand elasticity at the international level. In this sense, it is worthwhile comparing exportables and importables, as well as sectoral deficits and surplus (Figure 3), with the sectors and products listed in the technology elasticity and export performance analysis made by Dosi, Pavitt and Soete (1990, Tables 6.2. and 6.3.).

Prices of public services rose sharply, especially during the privatization process (1990-92), not because of a demand pull phenomenon, but as a result of the government's strategy of making public enterprises more attractive to the private sector. This strategy, amongst other complementary actions, implied a raising of the prices and tariffs for public services - especially for families and SMEs, with a lower increase, and in certain cases a reduction, for the biggest companies. The rise in prices and tariffs for the privatized public services shown in Table IV understimates the impact of privatizations on relative prices, because in the years when privatization was in progress the government sharply raised those prices so as to make these utilities more "attractive". In the case of basic telecommunication services, for example, in the lapse between the passing of the law (August 1989) and the privatization of the main public firm (ENTEL), the cost of phone services rose more than 700% (Abeles and Forcinito, 1997).

The so-called "dirty job" of the privatization process was finished off with a staff reduction policy - mostly through voluntary retirement schemes - and an toughening of working conditions (employees of the telecommunications company, for instance, who were used to a 35-hour weekly regime, moved to a 40-hour working week just before the privatization was accomplished).

After the privatization of public enterprises had been achieved, price indexation was accepted (even though the Convertibility Law prohibits indexation), and prices and tariffs underwent a smoother but steady increase, due in part to the fact that local rates and prices for public services were fixed in US$, and some were pegged to US inflation (e.g., those for telecommunications).

This hypothesis about the inducement of a low-trade economy is further reinforced by an analysis of the structure of the economic elite in 1995 with profits and sectoral distribution as parameters (Tables V and VI).

An analysis in terms of balance-sheet sales of the largest 200 firms shows the following features. Industrial firms represent 55% of the total 200, but only 33.51% of the total sales and, worse still, only 16.9% of the total profits (a profits/sales ratio of 0.023 or 2.3%). At the other extreme, the public services (privatized during the 1990-1994 period) account for 19.0% of the 200 firms, but for 22.7% of the sales and 38.2% of profits (the profits/sales ratio being 0.104 or 10.4%, almost five times higher than that of the industrial firms). If the public service firms and the most diver-

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57 This last figure underestimates the impact of the recession on the labor market, since the activity rate, and thus the economically active population, fell significantly during 1995.

58 For the evolution of prices of public services through the privatization process see BID 802/OC-AR.PID 0035 (1996).

59 This analysis is largely based on Azpiazu (1996).
sified holdings are put together\textsuperscript{60}, the share of non-tradable products and extremely concentrated oligopolies can be seen more clearly. They represent 21% of the 200 firms, 25.7% of their sales and 47.8% of their profits (the profits/sales ratio is more than five times higher than that of the industrial firms).

Firms geared to the internal market (public services, holdings and on the one hand) constitute 37.5% of the 200 largest companies and contribute 41.6% of the sales and 52.6% of the profits. The other main component of the economic elite's activity is oil. Petroleum and derived products companies amount to 7.5% of the biggest firms, accounting for 12.9% of their sales and 30.5% of their profits.

Our hypothesis is also reinforced by a comparison of the 200 largest enterprises with those included in that group in 1991. In fact, as Azpiazu (1996) observes, the turnover in this list indicates that the neoliberal shock had a strong and rapid impact on the economic elite's production, sales and profits, and on its sectoral profile as well. The intensity of this impact is revealed by the fact that almost half (97 out of 200) of the biggest companies in 1995 result from "drop-outs" from the 1991 list (either because of a fall in their ranking or due to acquisitions, as in the case of public enterprises), and from the addition of new firms (in this case, due either to a rise in their ranking or to the emergence of newly established enterprises). In sectoral terms, 13 public enterprises disappeared from the above-mentioned list between 1991 and 1995 (due to privatizations), while 28 privatized public services companies joined\textsuperscript{61}; 75 industrial companies lost their position in the elite in the same period, to be replaced by only 40 other industrial firms. In other words, 35 industrial firms fell out of the economic elite. They were replaced by 20 domestic market-oriented commercial and services companies and 15 suppliers to the privatized public services'.

As in the case of relative prices, these phenomena may be seen from the point of view of the economic cycle and from that of the economy's trends and structure. From the point of view of the cycle, it is important to observe that the sales and profits of the 200 biggest firms grew between 1994 and 1995, i.e., during the downswing phase (Azpiazu, 1996), and that this growth, a marked one in terms of profits, is explained basically by the increase in profits made by the firms belonging to conglomerates and operating mainly in two sectors: public services and petroleum (in that order). This reflects the relative autonomy from the cycle of local conglomerates and TNCs (which jointly own the privatized public service companies) and partly confirms the argument that the deregulation of the oligopolistic concentrated markets was rhetorical rather than real (BID 802/OC-AR PID 0035, 1996).

From the point of view of the economic trends and structure, it may be said that, in terms of movement towards a more open, competitive and dynamic economy, the features displayed by the Argentine economic elite (at least up till 1995) were clearly negative. Of the 200 biggest firms operating in the country, those which contribute 54.5% of the sales and 83.1% of the profits are oriented to the internal market (non-tradables) and/or to the exploitation of non-renewable natural resources (oil). Moreover, they perform in markets sheltered from both internal and external competition by the nature of their output (non-tradables), by the market structure (natural monopolies or duopolies), by quasi market reserves, by the lack of policies oriented to the promotion and defense of competition, or by legislative barriers to entry, i.e., in all cases, barriers that are not linked to innovation and learning capabilities\textsuperscript{62}.

\textsuperscript{60} More than 50% of the profits of these holdings are made in public services and other non-tradable activities, and more than 90% in concentrated oligopolistic markets.

\textsuperscript{61} It should be taken into account that most public firms were split up before they passed into private hands.

\textsuperscript{62} For example, imports of cars are limited by quotas defined as fixed percentages of the previous year's domestic production of different categories of cars (from 4.5% in 1991 to 6.5% in 1993, 10% in 1994, and between 10% and 15% in the following years), in a context of extraordinarily rapid growth of the demand for cars, which means that those percentages are much lower when measured against the current year's production. Furthermore, the manufacturers have a preference for importing vehicles, so that the bulk of imports are brought in and controlled by the manufacturers. Within MERCOSUR (Mercado Común del Sur, Southern Common Market) there are import and export offset agreements for vehicles and vehicle parts (basically with Brazil, which adopted a sectoral regulation scheme akin to the Argentine one). For further information on this topic and an analysis of both regulation schemes and the performance of the car industry see BID 802/OC-AR PID 0035, (1997a). Other examples, related to the lack of policies for the promotion and defense of competition, are the markets for intermediate goods of general use (steel, petrochemicals, oil and derivatives, etc.). In these markets, the bulk of commercial imports are controlled by the producers. Thus, the product is importable mainly for the biggest firms able to import themselves (oil companies in the seamless tubes market, car companies in that of sheet steel products, or big civil engineering firms.}
As shown in Table VI, 82.8% of the elite's profits are made by firms that participated in the privatization process (principally public service utilities in monopolistic or concentrated oligopolistic markets), whose profits/sales ratios are almost eight times higher than those of the companies which did not participate in that process (13.05% against 1.75%). In the case of domestic and international telecommunication services, for instance, profits were so high that those in the first four years equaled the initial take-over investment, and in the case of gas distribution services the equivalent return was achieved in the first two years (Abeles and Forcinito, 1997 and Azpiazu, 1996).

The above-mentioned proportion of the 200 largest firms' total profits made by the firms linked to the privatization process is relevant for an analysis of the neoconservative reform package, because it suggests that the privatization and deregulation processes - carried out with a "careless lack of guidance" and in the absence of even a minimal efficient regulation of monopolistic and oligopolistic markets, and embedded in a weak institutional and organizational context - created "greenhouses" in which non-technological quasi-rents could be obtained. In this paper, we describe as "greenhouses" those sectors, activities and/or companies which are protected from contextual factors which affect the performance of the remainder (external and internal competition, recessions, financial problems, etc.), and in which, because of the barriers to entry and the isolation from competition, quasi-rents can be obtained with a high relative independence from technological investment and "x" efficiency, and, moreover, with a relative independence from the aggregate performance of the economy.

One may say that in Argentina, paradoxically, the only company incubators are those created for the biggest companies and conglomerates, most of them old economic groups. Metaphorically, one could say that the strongest faction of the old economic "nomenclatura", protected and subsidized during the import substitution period and during the whole of the eighties, has exchanged one type of privileges for another, but has expanded its privileged quasi-rents, especially from privatized activities.

III.2. Bubble in a Long-Stagnant Economy

1. The Bubble

The data and analysis of the 1991-1995 period suggest that the neoliberal institutional shock of the nineties triggered not the first phase of a dynamic growth process but a bubble or a series of bubbles.

This interpretation is consistent with the long-run behavior of the Argentine economy, of which Hugo Norte (1994a, 1996) has stated that "in Argentina a long-term development process in Schumpeterian terms has never occurred; instead, Argentine economic history may be seen as a succession of bubbles."

A short-term analysis seems to lead to convergent conclusions about the period 1991-1995 (Krugman, 1995). Nonetheless, even if this is an adequate way to describe this process, the main questions that require clarification are what triggered and sustained the bubble, and why this period was not the first phase of a development process. These questions are relevant not only for an analysis of the Argentine economy, but also as a contribution to understanding the transition of economic systems under neoliberal recipes (such as some of the Latin American and Eastern European

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63 In the case of the pharmaceutical industry, for example (BID 802/OC-AR PID 0035, 1997), sectoral deregulation and trade liberalization were followed, in the context of an oligopolistic market structure, to a 96.2% increase in the average price of medicines (between 1991 and 1996). This increase is incomparably higher even than that of the CPI (Consumer Price Index, see Table IV.2.), which includes mainly non-tradables (the products and services whose prices underwent the highest average absolute and relative increases since 1991). The increase in the prices of pharmaceuticals more than offset the 12.9% decrease in the number of physical units sold. While sales measured in physical units fell, when measured in monetary terms they rose by 70.9%. It should be noted that the consequences of deregulation and trade liberalization in this particular market are the opposite of those expected by neoconservative economists and the WC, since in this case - as in others - deregulation and trade liberalization did not lead to more efficient markets. The reason - as we have argued in this paper - is that markets do not come out of the blue, but are produced by evolution and efficient market-building institutions and policies.

64 The term "greenhouses" was originally coined to describe sectors or firms sustained by the combination of high protection and subsidies in closed economies.
ones). We will try now to focus the analysis on the first question and to advance some points about the second one.

Krugman (1995) sees the bubble as a result basically of investors’ over-confidence in the outcome of the Washington Consensus (WC) reform package in the countries which applied it during the first half of the nineties. He also argues that, in the Argentine case, the effect of that overconfidence was reinforced by an overshoot based on the one-off rise in output related to the achievement of political and price stabilization after the mismanagement of the 1980s.

Krugman’s argument, based on investors’ general overconfidence in the WC reforms and in the stability after years of mismanagement and political turbulence, seems to be a plausible explanation for the general overshoot in the value of assets and in demand, but not for the fact that the overshoot was led by consumption and not by investment or exports, and this not just for one or two years, but during almost the entire period under analysis. In the case of Argentina, one may say — as already suggested — that this is just another bubble among those emerging in a long-stagnant economy which never entered into a development process in Schumpeterian terms (Nochteff, 1996). However, this is a more general hypothesis requiring further and more detailed analysis in order to discuss this particular bubble and its relation to the neoliberal institutional shock and policies.

We will start by following some of Heymann and Sanguinetti’s hypotheses and part of their analysis of cycles (1996). These authors maintain that some cycles are shaped basically through the misperception of trends. In their own words, “when individuals overpredict future incomes, consumption will rise above its sustainable value. Investment will do likewise if firms entertain exaggerated expectations of the return on capital ... Eventually, the mistakes are revealed as being such, and spend-

ing adjusts.” This implies that there are intertemporal coordination failures and that, given the first shot, “... faced with hard-to-interpret information, individuals make mistakes which are reflected in the aggregate evolution of the system.” (Heymann and Sanguinetti, 1996).

Before proceeding with the analysis of this problem it is useful to make certain distinctions between the formation of most consumers and producers’ expectations, on the one hand and that of the local conglomerates and some TNCs on the other, related to the different agents’ varying availability of resources for influencing public policies, other organizations, and even institutions — especially in a situation of institutional void (Botana, 1997), of an “anemic” state (O’Donnell, 1995) and of deep information dissymmetries.

66 Looking at the Argentine case as well as that of foreign exchange constraint-prone economies in general, it is interesting to recall Heymann and Sanguinetti’s observation that, even though spending eventually adjusts, “in an open economy such cycles would have lasting effects, through their effect on the level of the foreign debt” (Heymann and Sanguinetti, 1996). On this issue, see also Braun (1973), Diamond (1978) and Heymann (1994).

67 Oszlak (1997) argues that the executive’s increased power contributed to such fragility, both through a “deforming” state reform and through a loss of public space (not only that of the state apparatus, but also that of Congress, NGOs, political parties and regulating and supervising institutions). One of the results of this fragility, he maintains, is a loss of equilibrium between big business power and influence and that of the other social actors. As a result, a “big business lobby - executive” relationship develops which creates a sort of private state”. His analysis is coincident with that of Botana (1997) who argues that in Argentina there is a dangerous shrinking of the rerum romanorum. On this question, see also O’Donnell (1995) and Mancebo (1998). For a detailed case analysis of the influence of big business on public policies see Cárcar (1997).

68 These dissymmetries are explained not only by disparities among firms (because of size, resources, etc.), but by the public sector’s overall institutional void and “anemia” as well as by historical turbulences. In developed societies, more good quality information is available to the public (for example, through government accountability and transparency, complete markets, better coordination, etc.). Following Axel Leijonhufvud (1986 and 1989) one may say that development is complexity and, similarly, the capability to solve information and coordination imperfections. So on the one hand, in less developed societies (more probably than not), information, imperfections and dissymmetries will be more marked than in more developed ones and, on the other, these disparities are the most important during institutional shocks and radical changes in public policies, since the latter can be seen as information flows (Lahera, 1997).
This is most important for the intertemporal consistency of decisions in economies under institutional shocks which have lived through long periods of high inflation, economic turbulence, and inefficient, indeed almost non existent, markets, as was the case of Argentina till the nineties (facts which, by the way, call for fewer shocks and more market-building policies). Once again, other similar cases are those of some Latin American and Eastern European countries, the Bulgarian bubble being the worst example.

Within this framework, one might try to identify the main elements which led to an overprediction of income by consumers. The latter appear at first sight to be the ones who had exaggerated expectations about their future income as well as about the return on investors' capital (a most relevant item of information for the prediction of their own income), which was the information hard for them to interpret.

At this point, it seems reasonable to accept with Paul Krugman that the overconfidence about the outcome of neoconservative reforms was a sort of across-the-board general misperception on the part of both consumers and investors. Furthermore, one may follow the plausible hypothesis type of analysis to branches and types of production (basically, batch and continuous process production) during high inflation periods, the distinction may be applied to periods characterized by institutional shocks and radical changes in economic policy. Under such circumstances, agents who have better access to information on the one hand, and a well defined set of relevant contracts on the other, have to face a much less uncertain scenario than those who have a poorer access to information and a larger quantity of different relevant contracts (or a set of relevant contracts more difficult to define). This is a common feature of all economies, but the resultant dissymmetries are deeper and more significant during the transition of economic systems. This is especially so when an institutional shock occurs and the agents have been confronted with misleading information and high transaction costs for years. This is the case of Argentina and of many other economies in the nineties.

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69 The quantity of contracts depends on the difference between them, i.e., many homogenous contracts sold be considered as one contract. In fact, it is one of the assumptions of “orthodox microeconomics” (using terms from Nelson and Winter, 1994) that if all contracts were completely homogenous (in this respect), reducing the firm to a production function would be adequate.

70 Donato (1996) shows differences in economic behavior in contexts of high uncertainty, looking at their varying "contractual density". Even though he applies this
concerning the additional over-confidence of consumers brought about by the "positive income shock". The latter was a consequence of price stabilization after hyperinflation and of the abundant supply of credit for consumption associated with international liquidity, which (according to Krugman and other economists) led to overspending.

It should be noted here that the "positive income shock" predominates over the international liquidity factor in the determination of spending because, as stated by Heymann (1996), the demand for credit is not an exogenous variable, that is, it does not depend exclusively on credit supply (which, one could say, is only a necessary condition). Capital would not flow into an economy unless to finance some sort of spending decided by the residents (in other words, credit supply does not create its own demand). It does not seem that (as Krugman has argued) financial investors' overconfidence, multiplied by the impact of stabilization, can explain the spending. Rather, we may describe this process as an increase in the demand for money caused by consumers' overconfidence, which was related to the positive wealth shock caused by stabilization. This demand was faced by an abundant supply, fueled by the overconfidence of financial investors, and this in turn (in the absence of barriers to short-term capital inflow and of sterilization policies) reinforced the overconfidence of consumers, and so on (in a typical steep first phase of a bubble). This means that government policies contributed to overspending, either because the government was also overconfident, or because it tried to win massive support for the institutional shock - the above-mentioned conservative-populist alliance - or both.

Additionally, this feedback relation between consumer overspending, financial investors' overconfidence and government attitudes and policies seems to have had a negative effect on the learning process in terms of being able to predict the steady state level or the sustainable growth rate, thus leading to a longer and less consistent overspending. In this sense, Krugman-type seem an oversimplification to say the least, since investors initial overconfidence cannot explain why there was no self-adjustment of the initial prediction through learning and consequently why overconsumption lasted so long and (in our view) recurred after the 1995 recession.

Introducing this analysis, both the first stages of the consumption boom and the subsequent increase of consumer spending may be considered as fairly explained. The overshoot in spending for almost four years is explained not by the initial overconfidence business placed in the reform package, but by a more complex process. The spending cycle was sustained, at least in part, because the agents overestimated the value of the steady-state output as well as the speed of the convergence between the new spending level and the new steady-state capital and output levels. In fact, under conditions in which capital inflows are seen as virtually infinite (and that was the situation in Argentina and other Latin American countries, at least from the time of the Mexican crisis; see Damill et al., 1996) the current account deficit which follows the rise in spending (Table II.2. and Table A.1.) did not produce a positive impact on the learning process as to what is a sustainable trend in output and spending. On the contrary, during 1991-1994, the expectation of an almost infinite supply of foreign credit seems to have contributed to non-equilibrium upwards reassessments of the expected steady-state output.

As has been suggested, the government had a negative influence on the learning process, contributing to the erroneous upwards reassessment of the trend. The neoliberal economists in government and those who supported them and worked as advisors to big business, columnists and consultants, peddled that the current account deficit was not a negative symptom but a positive one, maintaining that the higher that deficit the better, because it showed the confidence of big business, foreign investors, multilateral bodies (IMF, World Bank) and First World economics both in neo-

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72 The perception of a positive trend is paramount; otherwise, there would have been a liquidity trap effect.
liberal policies and in the "Argentine model", and because it brought in foreign savings'.

The upswing phase of 1996-1998 is most probably the starting-point of a repetition of the behavior in 1991-1995 (see above, Section III.2. on the foreign sector)'. By the way, the interaction between these factors produced the necessary and sufficient conditions for high capital inflows — more precisely, hard currency inflows — under the currency board scheme, i.e., the increase in the demand for money and good external conditions for an increase in the supply of money.

But what about investors? We know, in retrospect, that investment did grow during the first years, but also that it was not high, either in absolute terms or in relation to the GDP, either historically or in comparison with other economies.

Recent works (IDI, 1997) show that, at current prices, a) the average investment as a percentage of the GDP during the 1991-1997 period (with an estimated magnitude for the last year) was lower than the average of the "lost decade" of the eighties, which in turn was the lowest investment decade in Argentine history; b) this percentage grew rapidly from the historic trough of the hyperinflation year (1989, when it was below 10%) till 1994, fell in 1995 and recovered during 1996 and 1997; c) even the highest percentages of the 1991-1997 period (19.6% in 1994 and 19.7% in 1997) are below the 20.4% average of the "lost decade"; d) the average for 1991-1995 was well below the percentage of 14 countries with growing economies of different types (as mentioned above); e) the difference from these countries was higher in the nineties than in the eighties (i.e., Argentina's relative investment performance was still worse than it had been in the "lost decade").

This behavior of investment is the first (and principal) ground for considering that the nineties expansions are part of a bubble and at the same time for our analysis both of the bubble's traits and of the puzzle (the hard-to-interpret information) which individuals faced. One central argument will be that there were different puzzles, expectations — and consequently decisions — that may be explained by differences between agents', within a framework of non-development-oriented neoliberal reforms and policies.

Let us assume that, from the point of view of investment and capital returns, analytically and, to a certain extent, actually, we have two different economies in one. The "market" economy (divided into "market-tradable" and "market-non-tradable"), which is the arena of the "scenario takers"; and the "greenhouse" economy, which is the arena of the "scenario makers" (see above).

The "market" economy is composed by the bulk of consumers as well as of producers of non-tradables, importables and more differentiated exportables, in high currency markets and with high contractual density. The "greenhouse" economy consists of the big local conglomerates and the TNCs that participated in the privatization process and in the production of non-traded importables, and by the producers of traditional exportables (some of whom are local conglomerates and, increasingly, TNCs). This second group was protected from the rapid trade liberalization, and/or had access to the exploitation of abundant natural resources in oligopolistic markets, with little — indeed almost no — more regulation of their prices, costs and operations than in the previous period. This latter group of agents work in "greenhouses" in the sense that they are relatively "isolated and

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73 In fact, what is obviously true was that when the current account deficit as a percentage of the GDP is growing and reserves are also growing, by definition foreign saving is growing, but this does not imply that this foreign saving is financing investment, nor that a high proportion of foreign saving by itself renders the growth rate sustainable. By the way, the scenario was what one may call — following Krugman (1994) — one of peddling prosperity, full of economists telling politicians and the public what they wanted to hear.

74 As mentioned above, the IMF mission (April 1998) strongly suggested a reduction in spending, and maintained that the current growth rate was inconsistent with trend and level of the current account deficit (in terms of the GDP).
protected” from the context, costs and risks faced by those operating in the "market" economy (on the question of greenhouses see Section III.5).

Most profits were obtained in the "greenhouse" economy, and they are natural resources quasi-rents and privilege quasi-rents, but not technological ones — except in the case of some exportables such as oil seeds, seamless tubes, milk and dairy products and beef (Nochteff, 1996). This "greenhouse" economy includes all consumers whose income depends more or less directly on the income and profits of these conglomerates and TNCs.

What happened to the first, "market" economy?

First among those who may be called "typical market economy individuals" is the consumer. Within the first year or two of the bubble, consumers had a positive shock on their income and they demanded credit. On the other hand, the credit supply increased because of the stabilization itself, the investors' shift to the "emerging markets" which were applying the Washington Consensus reforms — what we may call the "Krugman effect" — and the deliberate policy followed by Argentina (and by Mexico, but not by Chile and Colombia)77, aimed at attracting capital inflows on no matter what terms — which ended up attracting short-term inflows.

Because of all the reasons outlined above, most consumers misperceived the trends (in other words, they believed that a phase of a cycle was a trend) and overshot their spending, (and the learning process did not lead to a downwards reassessment of consumption).

What happened, under those conditions, to another kind of "typical market economy members", the non-tradable high income-elasticity sectors? They experienced a really sharp increase in demand, raised their prices rapidly and had good reasons (given the information available and the "peddling prosperity scenario" mentioned above) to entertain exaggerated expectations of the return on their capital. Moreover, this "non-tradable market economy" was swollen by a wave of newcomers who lost their jobs and used both personal loans at very high interest rates and their redundancy compensation to establish very small businesses in the commercial and personal service sectors. As we already suggested, these newcomers entertained exaggerated expectations of the return on their capital78.

In short, the assets of this sector of the "market" economy were progressively overvalued in a typical "bubble" process, in which they overshot their spending and — to a lesser extent — their monetary output79. Still, because this is not a capital-intensive sector and because the agents did raise their prices (a typical demand pull inflation), the increase in their investment was perhaps high in terms of the hyperinflation years, but low in absolute terms and in terms of GDP. This result is consistent with what we know about prices and investment (Tables II, III and IV).

What happened to a third group of "typical market economy members" who represent what we have called the tradable market economy? These typical members are basically the producers of non-protected tradables, and especially of manufactured goods — meaning differentiated products, contractually dense (Donato, 1996) and skill-intensive production — with static comparative disadvantages.

They faced a rapid and sharp trade liberalization, especially between the beginning of the Menem administration (July 1989) and the adoption of the currency board scheme (April 1991), when the average rate of nominal tariffs fell from 28.9% to 9.8%80, without any industrial or financial policy to help their restructuring process. Their prices fell while the rest of prices were rising, and they could not lower their costs enough through investment81, even though they reduced their personnel numbers and increased the working hours per employee (ID1, 1997, Figures 33 and 34). In most cases they had to turn to the market for capital.

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76 For example, a study in progress, directed by Eduardo Basualdo and Hugo Nochteff for UNIDO, shows that the real rates of interest paid by consumers and SME have been about 4 times higher than the ones paid by TNCs and conglomerates.

77 On this point concerning policies towards capital inflows see Damill et al. (1996). Following this and other works, we do not consider that the "iperfil effect" was a mainly exogenous event, but a result in part of the policies adopted by Mexico and Argentina (Diamond and Nochteff, 1995), and in part of the misperception of trends, the overshooting of consumption, and the behavior of big business.

78 As described above (Table III.3., on employment). These exaggerated expectations of the non-tradable high income elasticity sectors tend to be confirmed by the collapse of the newcomers in 1995. Moreover, they contributed, through over-competitiveness and the consequent diseconomies of scale, towards reducing the return on their own capital.

79 The difference between spending and output being the private sector deficit (equal to the balance of trade and real services deficit) of all the years but the year of recession.

80 See Table A.10. for the fall in tariffs between 1989 and 1991; Table A.8. and Figures 4 and 5 for the high turbulence of the effective and nominal rate of tariffs between 1990 and 1995.

81 Credit and investment went mainly to non-tradables (see Kacef, 1994).
cases the trade liberalization overstrained their adjustment capabilities. Thus, their increase in productivity was lower than that of the non-traded industrial goods (IDI, 1997).

Moreover, the combination of the rise in the prices of non-tradable inputs, the high active interest rates, the lack of local credit for investment and exports, and the absence of an export-oriented policy affected not only their competitiveness abroad, but also their ability to compete with imports in the domestic market, mainly because of the difficulty of making further economies of scale and scope.

In short, a significant number of them lost their external markets, and their domestic markets were captured by imports (ULA, 1996, IDI, 1997). The industrial trade deficit grew by 336% between 1991 and 1995, climbing from 6.7% to 23.7% of the industrial GDP (Table A.2.). These companies' profits fell from the very beginning (Coloma, 1993), which is consistent with what we know about prices, investment and profits. After the fall in 1995, due to recession, the industrial trade deficit grew again. In 1996, with approximately the same industrial GDP as in 1993, it surpassed the 1993 level (22.6% against 19.7% of the industrial GDP). For 1997/1998, estimates are that it will be higher than in 1994.

Trade liberalization was carried on in a chaotic manner, thus provoking further uncertainty among the producers of less protected tradables. The frequent changes of the tariff structure during the first period of the trade liberalization process did anything but generate favorable expectations in those sectors in terms of their restructuring possibilities and their investment opportunities. Between July 1989 and 1992, thirteen tariff structure reforms were applied (Azpiazu, 1994 and Table A.10.). This high turbulence in the protection rates continued – though not so violently during the following years. This can be seen in Figures 4 and 5, which show the 1990-1995 fluctuations in the effective and nominal rates of protection of the same tradables used for the analysis of the relative price trends in Table IV.

These turbulences in the nominal and effective rates of protection had a negative effect on the expectations and decisions regarding investment, restructuring, modernization, employment and production of the producers of the less protected tradables. Certainly, to invest under those conditions would have been – to make an understatement – a none too rational micro-economic decision. In fact, it is reasonable to think that both the investment and production levels and the demand for labor of the producers of the less protected tradables, would have been significantly higher with the same 1989-1995 average decrease in effective protection rates, but without the uncertainties created by the above-mentioned turbulences.

These negative expectations were clearly reinforced, on the one hand, by the corruption and inefficiency of the customs administration and by the aforementioned low or non-existent capacity for (and commitment to) implementing anti-dumping mechanisms and controlling the real value of imports. On the other hand, the rigidity towards production function changes associated with standard business practice was most probably reinforced by hard-to-interpret facts. These were a) inflation (pushed for three years by the non-tradable prices, Table IV) even in the macro-economic framework of a fixed-exchange currency board scheme, fiscal surplus (Table A.8.) and high real interest rates; b) the previously discussed uncertainty about effective protection rates (and, thus, cost levels and structures); and c) the jump in the value of assets, not (in relative terms) in those related to the production of importables, but rather in those related to non-tradables, e.g., buildings, houses, shopping malls, super- and hypermarkets (this was the boom period this latter type of retail firms).

The unstable scenario faced by the companies in the sectors of tradable, importable goods pushed down the investment levels needed for restructuring, for decreasing the levels of excess capacity and for increasing productive capacity, resulting in investment and output levels that matched neither the consumption "boom" of the 1991-1994 years, nor the micro-economic adjustment required by the trade liberalization process – which is also consistent with what we know about expectations, investment and industrial trade imbalance.

Again, what happened to the producers of less protected importables as producers and investors? In broad terms, they did not display a dynamic

\footnote{Except for the biggest firms which, in any case, obtained a significant part of their funding in foreign markets (especially the big conglomerates and the TNCs).}

\footnote{Among the most remarkable cases were that of turnkey plants, which contributed to the serious crisis of the capital goods sector, and that of imports of semi-durable and durable household appliances by big retailing firms operating shopping malls, super- and hypermarkets. It should be highlighted that in this period there was a boom in these retailing companies (in 1995, for the first time, five such firms entered the dome formed by the 200 largest companies, see Azpiazu, 1997, and Table V).}
investment or adjustment strategy. Instead, they increased their production to levels compatible with low investment rates, and covered the difference between demand and production through imports of goods similar to those they used to produce and retail.

The 1995 downswing phase tended to confirm the rationality of their microeconomic decisions, since the consumption "boom" was perceived in retrospect (we think correctly) as an overshooting of domestic absorption, and many of those producers adjusted their supply by cutting imports (see the fall in imports in 1995 in Tables I and II). The main problem is that this "confirmation" of the rationality of their decisions during 1991-1994 appears to have had long-lasting effects, since the recovery of domestic absorption during 1996 and the first half of 1997 was again followed by a steep increase in imports, incomparably higher than the increase in investment (see Table I, Table II, and Machinea, 1997, already quoted on the problem of the much higher rise in imports than in exports).

In other words, it seems that investors in the tradable goods sectors - especially in the importable goods sector - underestimated the steady level (or sustainable rate of growth) of demand, undershooting their investment, while the government, consumers, and producers of high income elasticity non-tradables overestimated it, and thus overshot their demand for money, leading to unsustainable levels of domestic absorption and to an income elasticity of imports much higher than that of exports, as shown by the 1991-1994 trade deficit, the 1995 surplus (during the first downswing phase), the reduction of this surplus during the second upswing phase, and the deficit of 1997-1998 (see above), when GDP reached and slightly surpassed that of 1994.

The above-mentioned changes in the composition of the 200 biggest firms between 1991 and 1995 partly reflect the displacement of industrial companies by internal market-oriented retail and services firms. In short, in the "industrial tradable market economy" there was (with exceptions) a kind of across-the-board lack of investment opportunities, and there were no good reasons to entertain high (let alone exaggerated) expectations of the return on capital. Which is, again, consistent with what we know about investment.

So far, this analysis of the "market" economy seems simultaneously to explain the bubble and the fact that it was led by consumption and by non-tradables, and not by investment in tradable products. Indeed, that is in part the reason why it was in fact a bubble. If it had been led by investment in tradables, the rise in traded output would have reduced the current account deficit, and the (by definition, lower) level of domestic absorption would have been sustainable. In other words, traded output would have converged with consumption and the initial leap in the current account deficit would have been transitory (and not accompanied by a recession).

The behavior of the "greenhouse economy" was quite different. As previously mentioned, the agents - conglomerates of local, foreign or mixed capital - were mainly "scenario makers". The government was faced with a sort of desperate political and ideological urgency to privatize and deregulate. This was ushered in by its seeking to gain the confidence of both the "Washington Consensus overconfident investors" and the international organizations (IMF, World Bank); by the goal of fiscal surplus; by the intellectual pressure of neoliberalism (and its prestige as the "only conceivable economic wisdom"); by the pressure of foreign creditors (Argentina had not fulfilled its foreign debt obligations in the foregoing years); and by the pressure for the conglomerates to maintain or regain the extraordinary profits of the eighties (which could not, as then, be maintained by subsidy, because of the fiscal crisis they helped to create). On the other hand, recent hyperinflation and the previously discussed institutional, organizational and state weaknesses rendered negotiations with big business very difficult. Thus, in the first year of the Menem administration the Ministry of Economy, the Central Bank and, economic administration in general were explicitly entrusted to the largest and oldest local conglomerate (Bunge & Born, which was the largest private firm as long ago as in the last quarter of the 19th century, and which after 1991 moved its headquarters to Brazil).

The "Bunge & Born economic administration" fell apart a while, mainly because of a combination of mismanagement and the pressure of foreign creditors, since it resisted many of their demands in terms of external debt and the creditors' participation in privatizations, trying to retain all the privileges gained by local conglomerates. After a kind of "interregnum" in which the government appointed one of its "inner-circle members" Minister of Economic Affairs, and which led to another hyperinflation episode,

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The sources of this description of the privatization process are Azpiazu (1994); Azpiazu and Basualdo (1995); Azpiazu and Vispo (1994); Azpiazu, Bang and Nocheloff (1995); Gerchunoff (1992); BID 802/OC-AR PID 0033 (1996) and the bibliography quoted in these works.
the neoliberal Cavallo group — supported by both international creditors and local big business — took over the economic administration and launched what came to be known as the Convertibility Plan.

Most authors recognize that there were differences between the first (1989-1991) and the second wave of privatizations (begun in 1991), and favor the latter over the former. Nevertheless, the point is that in general terms, public assets were bought at low prices, that the regulatory frameworks and agencies are very weak (to say the least), and that most of the conglomerates which took over public enterprises were granted exceptional conditions in terms of prices, subsidies, tax exemptions (or almost non-existent control on the taxes they should pay), and/or market reserves. This was the general case in the privatization of public service utilities and of the oil and natural gas complex. It should be highlighted that the public services were not privatized in the strict sense of the word, since the state has the final responsibility for those services, which adds a further dissymmetry in the relations between the state, consumers and the SME on one hand, and the big conglomerates and TNCs on the other.

Besides, through new regulations (such as the quasi market reserve in the car industry) and the lack of policies for the defense of competition and of consumers, a group of conglomerates and TNCs were protected from competition.13

In short, both domestic conglomerates and the TNCs associated with them obtained privileges that isolated them from the general conditions of the economy (thence "greenhouses").

For all the above-mentioned reasons, all these agents had a much less imperfect foresight than those operating in what we have called the "market" economy and, consequently, a much more adequate perception of trends. These were the agents who made the bulk of the investment, firstly, in the take-over of public enterprises, and secondly, in modernization, cost reduction and expansions. In any case, after investing in cost reduction (though most of the latter was achieved through a sharp and massive reduction in personnel), quality improvement — most remarkably in certain sectors (e.g., telecommunications) — and the supply of unsatisfied demand, privatized firms almost ceased investing. Leaving these sectors aside, investment, as we know, was very low — especially in new facilities — during the 1991-1996 period, when greenfield investment was only about 29% of the total (see above).

This investment process has some specific characteristics. Firstly, because of the privileges obtained, the lack of regulation and the absence of market-building policies, productivity gains and cost reductions were not transferred to the "market" economy. On the contrary, they were accompanied by an increase in prices (absolute or relative), thus reducing the tradable sector's profits and competitiveness, especially in the case of manufactured goods (Table IV.1.), as well as the welfare of consumers. Secondly, non-tradables have — in general terms — a lower long-term growth rate (when adjusted by productivity) than tradables, since the growth of non-tradables depends (at least directly) on their domestic income elasticity and not, like tradables, on global income and global trade elasticities. The said growth rate is higher also because of their ability to displace foreign competitors in both domestic and foreign markets. In the long run, the growth in non-tradables depends on the growth in tradables (among other reasons, because the hard currency necessary for the imports demanded by both sectors is obtained through the tradable sector). Thirdly, in Argentina neither the markets nor the profits of the concentrated oligopolistic non-tradables sectors are disputable (since they are sheltered from competition). Fourthly, most of them do not contribute to a higher-trade economy and, since they do not pass on their cost reduction in reduced prices but, on the other hand, import and remit dividends and royalties (see the increasing importance of profits and real services in the current account deficit, Table A.1.), they have only negative impacts on the balance of payments current account.

All this means that after a (relatively) strong initial investment there is no reason to expect a high, increasing level of investment in the "greenhouse" economy.

This has two effects in terms of the bubble. Firstly, the overshoot in spending by some agents in the "market" economy (consumers and non-tradables producers in highly concurrent markets) has more likely than not been strongly influenced by the growth in investment during privatizations and the subsequent years, leading to a greater misperception of the trend. Secondly, when the first wave of investment was over, the opportunities for investment suddenly fell, contributing to the collapse of the bubble.

Thirdly, consumption fell less than investment because it was maintained by high-income consumers (the above-mentioned consumers whose

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13 On some of these cases, see Azpiazu and Nochter (1994) and BID 802/OC-AR PID 0035 (1996, 1997).
income depended heavily on the income and profits of the conglomerates and TNCs). The deterioration in income distribution, combined with the low saving propensity of the higher income segments, seems to be one of the factors that pushed consumption after 1995.

Additionally, the fact that the conglomerates and firms in the "greenhouse" economy are those with higher profits and profit ratios, leads to a serious distortion of the signals for investment towards non-tradables and the exploitation of non-renewable natural resources. This is consistent with what we know about investment and current account deficit.

We think that the characteristics and behavior of what we have called the "market" and "greenhouse" economies, when put together and analyzed in the framework of the previous sections, tend to reinforce our hypotheses with regard to the following issues:

- The 1991-1994 expansion was more akin to a bubble than to an initial movement toward long-term dynamism; this bubble was fueled by consumption and the opportunities for one-off investment (in relative terms) in sectors that did not contribute significantly (if at all) to systemic competitiveness nor to an integrated economic system.

- The bubble was caused by the combination of high international liquidity, an overshooting of the consumption and output of non-tradables (and not by an across-the-board overshot), the lack of investment opportunities in most of the tradable sectors, the one-off steep increase in investment in concentrated oligopolistic markets (especially those of public services whose facilities were privatized), neoliberal policies (by action and, even more so, by omission), the neoconservative-populist propaganda, which contributed heavily to producing a wrong evaluation of the current account deficit, and thus to hampering the learning about a steady state level or sustainable growth of domestic absorption. All these circumstances led to a bubble not due to purely exogenous factors, but mainly to the neoliberal institutional shock and policies.

- Most of the indicators already mentioned (principally the growing current account deficit/GDP deficit) suggest that the 1996-1998 recovery may more probably than not be either another bubble or a second stage of a more extended bubble.

In the last two years, several TNCs have taken over the main firms of those sectors with static comparative advantages (and other consumer goods firms), apparently so as to move toward more differentiated products. The problem here is that recent empirical studies (Kosacoff and Porta, 1997) show that the goal of the biggest TNCs in those sectors in Argentina is not to export to the world market (not even to MERCOSUR), but to produce more differentiated goods for the domestic market in order to cover the demand of medium-high and high-income consumers. This tends to confirm the low-trade economy trend and the segmentation of consumption patterns sustained by the severe regression in income distribution that, as we already argued, has changed even the pattern of food consumption as nothing did before (Aguirre, 1997). Up till now, as we have already observed, exports to international markets (excluding MERCOSUR) have been falling. Yet this does not mean that in the future, at least in some sectors (mainly agribusiness and food industries), MERCOSUR might not be the first stage towards a more dynamic penetration of world markets (with the "caveat" introduced in section II.1.2.). The point is that this evolution needs behaviors and policies for enhancing systemic competitiveness, which means (as we will discuss later) that the neoliberal hands-off policies should be changed, and that new policies should modify the orientation not only of new investment, but also of the investment made in recent years. Other wise, the Argentine economy (like those in other Latin American and in Eastern European states) will remain in a state of relative secular stagnation.

This type of stagnation will be analyzed in the following paragraphs.

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64 In fact, between the second quarters of 1996 and 1997, the sales of cars and household equipment underwent a strong and rapid recovery, while the sales of food underwent an incomparably minor one (IDU, 1997). Moreover, within the food sector, low price products kept falling, while there was a rapid recovery in the higher-price ones (information from Nielsen S.A., the biggest firm of consultants in consumer products, especially food and beverages). It should be taken into account that the alimentary pattern has changed drastically, and this affects the relative prices and the monetary demand for food by the different segments of consumers. For example, high-income consumers eat 62 kg of food a month, while the low-income ones consume 36.96 kg the latter eat 3.2 kg of potatoes and 10.12 kg of beef, while the figures for the same products in the first group are 5.2 kg and 5.35 kg (until the mid-eighties, beef consumption remained almost the same regardless of the level of income of each group, except for very extreme cases).

67 Dadone, for instance, currently one of the main companies in the dairy sector oriented to the domestic market, has already invested in Brazil for the Brazilian (and eventually other) markets (Kosacoff and Porta, 1997).
2. The Long-Stagnant Economy

In relative terms, if we understand relative stagnation as the fall in per capita GDP as compared with other countries, Argentina has been a stagnant economy for many decades. The Argentine case has become a standard example of a paradoxical economy which has had the most notable combination of what seem to be the best (natural, economic and social) conditions for growth, and, considering these conditions, the worst performance. As a matter fact, the case has been widely cited as the very opposite of that of Japan (e.g., by Paul A. Samuelson and Simon Kuznets).

There has been considerable discussion about when this backwards process started, and still more debate about the reasons for this relative stagnation. This discussion cannot even be reviewed in this section. Nevertheless, making an almost crude simplification, it is possible to identify two broad lines of explanation.

The first, sustained chiefly by neoclassical economists and some historians, emphasizes the fact that Argentina’s outstanding economic performance, which started between 1860 and 1880 and ended in about 1914 (some say 1929), was first stopped and then turned into relative stagnation by state and other social organizations’ intervention in the markets, which forced the economy in a line opposed to its comparative advantages (agriculture and cattle-breeding).

The other explanation, supported by more heterodox economists and by most historians (especially in the last two decades), maintains that the predominance of large-estate landowners and their social and economic behavior, combined with the specific forms of social and political alliances forged in Argentina (especially between those landlords and the economic elite of the financial, export and service sectors) created, even during the grand expansion already mentioned, the seeds for future stagnation. These scholars tend to distinguish Argentina’s grand expansion from that of other countries with similar endowment factors (mainly in terms of land) which entered the world economy in about the same period (especially Canada, Australia and USA).

The argument of this second line of interpretation may be simplified by saying that the said alliances prevented the emergence of farmers as well as an early convergence between the industrial and the cattle-rearing sectors, and maintained the predominant production function in the agrarian sector. This was inadequate to keep pace with changes in the other countries, and was a constraint on sustained economic growth after the most fertile lands had been occupied. Within this perspective, there is a tendency to emphasize the fact that the said predominant production function of the agrarian sector was totally inadequate to maintain growth after the fertile lands had been occupied, which prevented an evolutionary convergence between the industrial and agrarian sectors as well as technological development in both of them. Some of these authors go still further, putting forward the hypothesis that even the distorted high protection-based industrialization initiated in around the 1940s and ended in the eighties was a


88 The bases for comparing Argentina with these countries in the period from 1850-1860 to 1910-1920 (1890 in the case of the USA) are as follows: a) the agricultural sector (including cattle breeding) was the most (or one of the two most) dynamic sectors during the expansion; b) a massive immigration, principally from Europe, occurred; c) at the start of the expansion, the extension of fertile land was incommensurably larger than that of any European country; d) the economy was not under Ricardoian constraints for many decades (except during transitory periods, due to transport costs); e) the main agricultural products were those of a temperate climate.

89 The main difference between the production function in Argentina and those in the other countries (which evolved much earlier) was that the Argentine predominant production function was extensive (low capital, labor and technology intensity in relation to the land area). Additionally, in Argentina there was a much weaker productive complementariness between agriculture and cattle-breeding. Because of the first factor (and in part also because of the second) the primary sector: a) had a comparatively very low demand for industrial products and equipment, and thus did not induce convergence between industrial and primary production; b) had a low demand for labor, and thus the immigrants (who formed a greater proportion of the population and the labor force than in the other three countries) tended to settle in the main cities, working in services and construction rather than in agriculture; c) all this contributed to maintaining very traditional forms of social relations in the dynamic agrarian sector. Nochleff (1994) argues that this lack of convergence between industry and agriculture, combined with the (geographical and sectoral) population and labor force distribution, tends to create an economy with "scarcely positive externalities", and is thus a constraint to development (considering the relation between externalities and development as presented by e.g., Stewart and Ghaini, 1991). Some leading scholars emphasize one key factor the fact that in Argentina access to land was far more restricted than in Canada and the USA, preventing the formation of a class of farmers, so important for these countries. As a matter of fact, recent research demonstrates that in Argentina the traditional nineteenth-century land-owning families are still the main proprietors of fertile land (Basualdo, 1997).
"soft option" that resulted from that pattern and from the social and economic alliances of the period (Nochette, 1994).

Our hypotheses tend to converge with the second line of analysis. In any case, whichever explanation for stagnation one believes is the most accurate, it is important to describe briefly the features of the Argentine descent.

Starting from the idea of the "short century" defended by some historians (mainly by Eric Hobsbawm, 1994), we consider that if the twentieth century began in around 1914 and ended in about the early nineties, the Argentine economy is one for which the term "secular (relative) stagnation" may be applied literally - a century of stagnation.

Figures for the 1914-1929 period are uncertain and incomplete. In any case, the majority of the most serious and academically respected scholars move between these three. The first is that the grand expansion began to show its weaknesses clearly after 1914, and that the 1914-1929 period was already one of relative stagnation (e.g., Sábato, 1988). The second is that the 1914-1925 period was one of absolute or relative stagnation, but that this backwards movement was partially offset by relative growth in 1925-1929 (e.g. Díaz Alejandro, 1970). The third is that the period of "Argentine progress" began in 1880 and ended in 1914 (e.g., Cortés Conde, 1979, one of the most respected authors in the orthodox line of interpretation).

In short, even though data for the years prior to 1929 are incomplete and debatable, one may conclude that 1914 marks either the end of the grand expansion or the beginning of its end, and that 1914 may be identified as the beginning of the secular (relative) stagnation. For the post-1929 decades, the most recent general appraisal of stagnation can be found in Llach’s work (1987: Table 1), which compares the evolution of Argentina’s per capita GDP with that of other countries. Llach extends his comparison across seven years, namely 1929, 1939, 1950, 1960, 1970, 1975, and 1983, and chooses 28 countries divided into eight groups (the USA, "new agro-temperate-climate countries", industrialized European countries, less developed European countries, Japan, Latin American dual economies, Chile and Uruguay, and South Africa).

Considering Argentina’s per capita GDP as a percentage of that of the other countries/groups of countries, Llach’s data shows that: a) between 1929 and 1983, the Argentine per capita GDP fell (compared with the average of the other 28 countries) from 0.71 to 0.27; b) between those two years, the Argentine per capita GDP fell against all the eight countries/groups of countries; c) compared with the average and still with reference to the above-mentioned years, the worst periods were 1950-1960 and 1975-1983, and the best (though still with relative stagnation), 1929-1939 and 1960-1970; d) the relative backwards movement occurred not only — as suggested — in all the periods considered but also, with few exceptions, in all periods and in relation to all of the eight countries/groups of countries; e) Argentina’s figures for the first and last years and relative to the eight terms of comparison are, compared to the USA, 0.38 and 0.15; to the "new agro-temperate-climate countries", 0.46 and 0.20; to industrialized European countries, 0.47 and 0.18; to the less developed European countries, 1.08 and 0.34; to Japan, 1.16 and 0.20; to Latin American dual economies, 2.95 and 1.37; to Chile and Uruguay, 1.15 and 0.97, and to South Africa, 1.54 and 0.83.

If we supplement these data with the trends in Figure 1 and with the previously quoted analysis of the 1914-1929 period, the fact that the Argentine economy has been a stagnant one for as long as a century (the "short twentieth century") appears as practically beyond doubt.

As we already suggested, there has been (and still is) much discussion about the reasons behind this phenomenon. In the following paragraphs we will try to summarize one group of hypotheses (developed in Nochette, 1994a and 1996). Our intention is to present an explanation for the long-term stagnation in the Argentine economy which converges with and (we think) reinforces the arguments presented in this paper about the specificity and impacts of neocconservative policies, particularly the institutional shock of the nineties which, as argued, seems to have lead to a bubble and not to the initial phase of a movement away from stagnation.

In the context of this paper we will distinguish two basic types of economies. The long-stagnant ones -- of which Argentina has been an example during the twentieth century --, characterized by a long-term trend towards an absolute or relative fall in per capita GDP, and the "development economies" (i.e., economies that develop in a Schumpete-
rian sense\textsuperscript{91}), characterized by a long-term trend towards increasing their per capita income in relative terms, compared with the average of the world economy.

We postulate here that the economy is undergoing a process of development only if technological quasi-rents predominate over other types of quasi-rents (Nochtell, 1994).

The concept of quasi-rent is used here as a tool to analyze the behavior of the economy.

We consider that:

1. In static terms, quasi-rents are analogous to Ricardian rents; in dynamic terms, Ricardian rents ultimately become quasi-rents on natural resources, since the rents derived from natural scarcities and localization tend to disappear because of technological innovation;\textsuperscript{92}

2. quasi-rents obtained more through innovation than through other supply rigidities are typical development quasi-rents in a Schumpeterian sense, and they are eroded from the outset through competition and imitation (their transitory nature is thus endogenous to the functioning of the economy);

3. these features distinguish technological quasi-rents from quasi-rents generated through institutional barriers to entry (market reserves, financial privileges, subsidies). The latter we shall call privilege quasi-rents, and they include those arising from natural scarcities when accompanied by restrictive institutions that maintain that scarcity. Thus, Ricardian rents tend to be privilege quasi-rents when sustained by institutions which create supply rigidities (as occurred with the barriers to the rubber plant seed trade in Brazil, or with the land market institutions in Argentina);

4. privilege quasi-rents and natural resources quasi-rents are not development quasi-rents in a Schumpeterian sense. They are not characterized, furthermore, by a transitory nature endogenous to the functioning of the economy, but may be perpetuated for as long as the natural scarcities and/or the existence of restrictive institutions last (hence the use of the concept of "non-transitory monopolistic positions" in this work);

5. privilege and natural resources quasi-rents encourage the formation of bubbles because they tend to raise the value of assets above the equilibrium level (or, better, above their shadow prices). Although they are not transitory — in that they do not undergo erosion from the outset — in the long term they disappear because insufficient innovation and investment cause them to be crowded out, either because the restrictive institutions do not suffice to compensate for technological backwardness and low productivity, or because the market segments that can be preserved by them diminish until they lose their importance for their captors (which is what typically happens with those acquired through market reserves in dynamic branches).\textsuperscript{93}

In a "development economy", growth is driven by innovations\textsuperscript{94} (and the associated investment) generated by firms and by the national system of innovation which includes them and in which the economic elite is a major and decisive actor. Thus, the dynamism of capitalist development economies is triggered to a great extent by (if we simplify the analysis) the economic elite, who seek to create quasi-rents through innovation, monopolistic positions rendered temporary by creative imitation, competition and technological diffusion\textsuperscript{95}. From the point of view of the economic

\textsuperscript{91} In general terms, we follow the concept of development as first treated by Schumpeter (1911) and the neo-Schumpeterian and evolutionary economy theoretical approaches. The use we make in this paper of concepts drawn from J. A. Schumpeter and some of the authors identified with these traditions of economic thought has been developed in some detail by Nochtell (1994) and, for Argentina in the 1991-1996 period, by Carassai (1998).

\textsuperscript{92} For a concurring approach, although maintaining the term rent, see Kaplinsky (1995).

\textsuperscript{93} On the subject of development rents, see Napoleon (1962, p. 1429 et seq.), Schumpeter (1968) and Kaplinsky (1995). In this text, technological quasi-rents are analogous to extraordinary profits as defined by Ricardo (1825): "... who made the discovery of the machine, or who first usefully applied it, would enjoy an additional advantage, by making great profits for a time but, in proportion as the machine ... of general use, the price of the commodity produced would, from the effect of competition, sink to its costs of production, when the capitalist would get the same money profits as before ...". We have chosen the term quasi-rent in order to emphasize the link between present producer surplus and future cost, in a Marshallian sense.

\textsuperscript{94} In this article, innovation has an broad meaning, including creative imitation and fast learning, minor innovations, and the learning-innovation process of the user of a given innovation.

\textsuperscript{95} These statements are an attempt to synthesize one single aspect of a complex tradition of economic theory that starts with David Ricardo and Karl Marx, is chiefly associated with Joseph A. Schumpeter and has been further developed by authors.
elite's socio-economic behavior, this is a "hard option" in terms of technology, risk, investment and social change. From the point of view of the whole economy, this tends to pull a continuous and endogenously-driven growth process, in which cycles also leave potential for further development (because of the rapid increase of the capital stock in the upswing phase of the cycle and because of Schumpeterian creative destruction).

As is the case in most of Latin America, the Argentine economy seems to have never been a development economy in this sense, but an adaptive, late-imitative economy (using Freeman's terms in a traditional way) whose growth has been a poor result of the economy's passive adjustment to exogenous stimuli or external opportunities created by other economies. The Argentine economic elite adjusted to external influences and to a certain extent forced the whole country's economy to adjust to those opportunities. This elite, moreover, has been sheltered from competition through the consolidation of non-temporary, non-innovation-based monopolistic positions, sustained by government policies and/or institutional barriers to entry. From the point of view of the economic elite's socio-economic behavior, this is a "soft option" in the above-mentioned terms. From the point of view of the whole economy, this is not a development process, but rather a series of "booms" or "bubbles" which, having come to an end, leave only a few isolated "drops" instead of capabilities for the generation of another growth cycle. In other words, the economy is undergoing a development process only if technological quasi-rents predominate over the other types of quasi-rents. If this is not so, periods of expansion are in fact "booms" or "bubbles" within long-term relative stagnation.

It is our hypothesis that, like any other social actor, the economic elite tries to find—or create—soft options, i.e., to obtain natural resources and/or privilege quasi-rents instead of technological ones. They only choose hard options when the institutional system (a result of the action of all social actors) on the one hand tends to close down the opportunities to obtain non-development quasi-rents, and on the other promotes the obtaining of development quasi-rents. From one point of view, this process may be seen as the constitution of a system of economic, social and political checks and balances, and from another, as a combination of competition and cooperation.

In short, we follow the hypothesis that the secular (relative) stagnation of the Argentine economy during the entire "short twentieth century" is "overwhelmingly a story of (an economy) that failed to produce a set of economic rules of the game that induce sustained economic growth" (North, 1990, own parenthesis). This is the case because the predominant rules of the game did not induce a development process (in a Schumpeterian sense) characterized by the predominance of technological quasi-rents over other types of quasi-rents (i.e., non-development ones).

This implies that the only way out of the wasteland of long-term stagnation would be a socially guided (or socially governed, as distinct from a state-guided and -governed process, and from a process guided and governed by big business) evolutionary change of the rules of the game (the institutional framework) through a process of social change which tended to close the economic elite's and other social actors' opportunities to find new soft options and exploit bubbles and, at the same time, to open opportunities for investment and innovation, thus leading to an evolutionary path towards development.

such as Joan Robinson and Michal Kalecki; Christopher Freeman, Charles Cooper and Nathan Rosenberg and, more recently, by Giovanni Dosi, Richard R. Nelson, Keith Pavitt, Frances Sennett, Sanjay Lal or Martin Bell, to name only a few.

These hypotheses are related to the post-1960 "evolutionary" studies on innovation and development, which are associated more with the idea of sustained disequilibrium than with that of the "alternation" between disequilibrium-development and equilibrium-steady state periods (circular flow periods, in the words of J.A. Schumpeter).

When compared with cycles in non long-term stagnant economies (always in relative terms).

In order to explain Argentina's and other similar economies' long stagnation, Nocteoff (1994) tries to establish a distinction between cycles and bubbles by drawing from Michael Kalecki's theories of cycles and dynamics in combination with J. A. Schumpeter's development theory.

Using different terms, Esser et al. (1996) argue that these factors and processes are necessary conditions for systemic competitiveness (see Section IV.2.).

An analysis of Argentine economic history in these terms may be found in Nocteoff (1994). The main soft options identified in that work are the grand agricultural expansion, the imports substitution industrialization and the debt-led bubbles of the late seventies and early eighties. Nocteoff (1996) presents a description of the eighties and (in a preliminary way) of the nineties in terms of bubbles. This author argues that, for a more precise analysis, the post-1976 period may be divided into no fewer than three different subperiods.
As seen in the previous sections, we consider (as a hypothesis) that the neoconservative policies and the neoliberal institutional shock of the nineties seem to have led to another typical Argentine bubble, and not to the above-mentioned evolutionary path. Thus, a way out of the wasteland should be explored with future reforms (and not further shocks) in mind. One could imagine a proxy of a desirable macroeconomic structure, looking at the dynamic economies and taking into account the foreign debt and current account problems of Argentina. A conservative estimate of that desirable structure may be defined as: \( Y = 100 \); \( C = 70 \); \( I = 25 \); \( X = 25 \); \( M = 20^{101} \). This means that the \( I+X/C \) ratio should be about 0.71. In 1996 that ratio was \( I+X/C = 0.33 \) (Table III). This means that a) after six years of neoliberal policies, the current macroeconomic structure is completely inadequate for sustained growth; b) that so as to avoid foreign sector constraints and stop and go, in other words to avoid the combination of long-term stagnation and bubbles, it must increase the ratio \( I+X/C \) by roughly 116%, that is, a reversal of the consumption and low-trade economy created by the neoliberal institutional shock as applied to this historically specific economy (we will return to this question in section IV.3.).

IV. Looking Into the Future

IV.1. Systemic Competitiveness: An Assessment

1. Introduction

Following the concept of systemic competitiveness set out by Esser et al. (1996), it is possible to appraise the structural features which determine, in addition to the macroeconomic environment, the current institutional social, cultural, political and economic capabilities for and constraints on development in Argentina (for example, the factors which impose conditions to the creation of man-made comparative advantages or, related to this, to counteracting the trend towards foreign exchange constraint). Distinguishing between four analytical levels (meta, macro, meso and micro) has the merit of placing the political and social dimensions (in a broad sense) involved in achieving competitiveness at the same level of importance as economic factors (as seen by the “orthodox” mainstream), and of revealing the complexity of systemic competitiveness and development. We think that this is the most suitable framework for the general assessment of the neoliberal shock and policies developed through this work, and for explaining why a "hands-off" and across-the-board-shock at the macro level — regardless of its own virtues and deficiencies — may not end in a process of economic development. As emphasized by Esser et al. (1996), "if macroeconomic reforms are undertaken without the concurrent development of the ability to regulate and steer the economy (state reform, coordination of the strategic actors) and without suitable social structures being established, the tendencies making for social disintegration will become even more pronounced. Systemic competitiveness without social integration is a project without a future. The development of systemic competitiveness, therefore, is a social transformation project involving more than mere adjustment of the macroeconomic framework”.

Thus, this assessment emerges from the combination of the analytical framework proposed by Esser et al. and the analysis and data already presented in this work. This implies repetitions we will try to avoid by reminding the reader in which part of the work each issue has been dealt with, confining reiterations to cases or circumstances that we think should be emphasized.

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101 Assuming that a surplus of 5% of GDP is enough to offset the future non-commercial deficit on the current account.
Systemic competitiveness as analyzed by Esser et al. does not exclusively reflect the marginal productivity of labor in a neoclassical form, nor the competitiveness achieved almost automatically through the exchange rate in the neoclassical synthesis. Competitiveness, as Coriat (1997) would put it, is defined here as the economy’s capability of solving its foreign sector constraints while simultaneously increasing its social welfare. In this sense, systemic competitiveness is indispensable for development in a Schumpeterian sense and is also a way of looking at development while at the same time focusing the attention on certain decisive factors for achieving it. It means, as well, that the economy has developed the capacity to transform its exports mix in order to render sustainable a process of continuous real wage increase – which implies, on the other hand, that the local manufacturing industry is able to move into imperfect international markets, i.e., those markets where the prices are relatively less important than product differentiation. Within this framework, therefore, systemic competitiveness refers to the institutional requirements needed for the achievement of dynamic (man-made) – rather than static (inherited) – comparative advantages, i.e., to the achievement of the necessary capacity continuously to transform products and processes in order to increase the share of national exports in the international markets of differentiated manufactured goods. The latter does not mean disregarding inherited and "natural resource"-based comparative advantages, but to using them as one of the platforms for the development of man-made ones. Indeed, Argentina seems to have passed from "industrialization without vision" (Esser, 1993) to "liberalization and primarization without vision" instead of industrialization with vision, repeating, in new forms, the old lack of synergy between natural resources and industry, and the inwards oriented, low-trade economy.

As shown in the table below, competitive countries have, at the meta level, basic structures of legal, political and economic organization, the social capacity for organization and integration, and the capability of their different actors to achieve strategic interaction that, in turn, depends on social and political integration and on an efficient system of checks and balances. At the macro level, in broad terms, they have a framework which requires the enterprises to be more efficient. At this level one should stress as well the need to develop certain key economic institutions – such as money, credit, complete markets, contracts, and so on – without which any policy attempt made to promote growth and development would be doomed to failure. At the meso level, the state and the social actors develop specific support policies, promote the establishment of physical and industrial infrastructures, and coordinate the learning processes. Finally, at the micro level, these countries share the existence of a large number of enterprises – many of them interconnected in mutual assistance networks – which aim to achieve simultaneously efficiency, quality, flexibility and speed of response.

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Source: Esser et al. (1996).
2. The Meta Level

Considering the meta level in the case of Argentina, we have highlighted the weak division of powers, the "institutional void", and the progressive loss of the "rerum romanum" — as well as the relative absence of mechanisms of checks and balances to the abuse of the concentration of economic and political power by big business (see Sections I and III.2.1.)

Concerning the latter and its relation to socio-cultural factors, scale of values and political capabilities, the unwillingness of this group of actors to engage in dialogue with other social actors - NGOs and other private intermediate associations, SMES, trade unions, the scientific-technological sector, state organizations, political parties (as distinct from politicians or groups of politicians) - establishes an important barrier towards development for, as Esser et al. emphasize, "any attempt to implement a management based on cooperation networks will be doomed to failure if the actors involved have a tendency to operate as lobbies". Instead, as stated in this work, they act almost exclusively as lobbies, searching for privilege quasi-rents.

From this perspective, the basic republican patterns of political and legal organization that began to be reestablished in Argentina after the military coup, during the years 1984 through 1989, have since 1989 suffered a process of backward motion which seems to have weakened the institutional network necessary to achieve both social integration and social and economic cooperation.

Indeed, the government which has applied, since 1989, the neoliberal policy recommendations based on (not equivalent to) the WC cannot be classified, from a political perspective, as a republican-liberal one (in the classic political sense of liberal). The above-mentioned neoliberal - or rather, neoconservative - policy reform package has been applied through "decrees of necessity and urgency", i.e., issued by the executive without the involvement of Congress. In practical terms, the latter was left - as far as economic matters were concerned - as an "ex-post factum" body of approval and legitimation (see Botana, 1997; Oszlak, 1997, and parts I and III.2.1. of this work). One clear piece of evidence of this process is the fact that both the Economic Emergency Law and the State Reform Law which set, in 1989, the statutory basis for the application of the institutional shock, as well as the Convertibility Law which set, in 1991, the above-mentioned currency board scheme, can be characterized as typically non-liberal regime laws, inasmuch as they granted the executive extremely wide-ranging and diffuse powers.

The Economic Emergency Law is still in force - eight years after it was sanctioned, when the hyperinflationary crisis which gave rise to its "emergency" label has been turned into practically zero inflation. In fact, the privatization of the postal service, run by the government until 1997, was recently decided through a "decree of necessity and urgency", while the privatization process of the Argentine airports' service was also (in 1997) based on such a decree. An article of the National Bankruptcy Law has also been vetoed by a decree of the executive, violating fundamental property rights, due to its retroactive application, to the fact that a law sanctioned by Parliament cannot be modified by any other institution than Parliament itself and because it grants the banks the ability to create their own unilateral property-seizing facilities (through the execution of debtor resides in the banks' current accounts). Similarly, but in this case through Congress (Law 24,441), local banks have been conceded, in the case of mortgages, the authority to sell the assets involved without the approval of any judicial executor, thus violating the basic right to a defense in court.

With regard to the power of the judiciary, the expansion of the Supreme Court from five to nine members in 1990 has clearly established a pro-government Court. The "per saltum" juridical institution which allowed the privatization of the Argentine aircraft company is one of the numerous cases which is evidence of the Supreme Court's open dependency on the executive. Even though the reformed constitution of 1994 established

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102 Following Edmund Burke we maintain that "the greater the power, the more dangerous the abuse".

103 "Big business shifted its technical core from productive and technological capabilities towards lobbying techniques" (Nochteff, 1994).

104 Except when declared unconstitutional by the Supreme Court.

105 The "per saltum" is an institution that allows the Supreme Court to avoid normal judicial procedures by withdrawing a case from the competent judge and deciding the question directly. Created for extraordinary emergency situations, from 1990 it came into habitual use (rather, abuse), always to settle conflicts between the judges' decisions and the actions or projects of the executive, always in favor of the latter.
The creation of a Judges Council (Consejo de la Magistratura) in order to promote the judiciary's independence, two years have already passed since the expiry of the legal date for its settlement.

In short, the almost non-existent division of powers which results from the control (or the subjugation) of the judiciary and of Congress by the executive has given way to an unprecedented (in relation to previous elected governments) power for discretionary intervention. The combination of government through "decrees of necessity and urgency" and the above-mentioned "careless lack of regulation" cleared the way for big business's lobbying powers to be flaunted with neither checks nor balances, consolidating what has in this paper been posited as a "dual" economy—a "market" and "greenhouse" economy—whose structural composition is explained to a great extent by political and legal rather than strictly economic causes. In this sense as in others, the Supreme Court's loss of independence is perhaps the most serious problem at the "meta" level. This may be more clearly understood if one takes into account such examples as the importance of the Supreme Court in socio-economic decisions in the case of the USA, or the role of the German Constitutional Court in solving many of the most difficult problems related to the unification of the former GDR and the Federal Republic.

Big business's privileged situation in this political context becomes clear through the particular characteristics which the privatization process assumed in Argentina. These privileges are manifested not only through the undervaluation of the assets sold to the private sector, but most importantly (due to its lasting effects) through the lack of adequate regulatory schemes for naturally monopolistic or concentrated oligopolistic markets, previously dominated by public enterprises106. The fact that the gas, electricity and telecommunications regulatory agencies were established after the public enterprises had been sold to the private sector shows the strong influence of big business lobbying (the local conglomerates and TNCs which acquired the bulk of privatized enterprises) on public policies. The same is true about the more general constitution of oligopolistic or oligopsonistic structures through take-overs without any regulation and/or market-building policies. Social integration is another fundamental facet of the meta level. In this sense, several aspects of the socio-economic sphere should be noted, namely, the labor market, income distribution and the evolution of poverty. Concerning the first of these issues, apart from what has already been posited (Section III.1.3.), a chapter of the 1996 United Nations Report on Argentina ("The crisis of the labor market and the weakening of mechanisms for social integration", see Naciones Unidas Argentina, 1996, original in Spanish) emphasizes the integrating role of labor from a similar perspective as that adopted in this section107. Indeed, it notes the "failure of the labor market as an instance for social integration, inasmuch as an increasing number of workers have access only to unstable and low-paid jobs, thus provoking the impoverishment of the middle and low-income sectors of society"107.

The regressive distribution of income appears also to be an obstacle on the path to social integration and a more competitive economy (à la Co- riat). What is more striking about the regressive character of income and wealth distribution (the latter as a long term result of income distribution as well as an outcome of high concentration levels) is the trend it has seemed to be following since the institutional shock. Besides the long term trends reflected in Figure 2 which show how income distribution has become increasingly regressive during the last twenty years, and the diagnoses set out in Section II.1.3., the said trend may be summarized by the figures which put Argentina (in 1993) in the 15th place out of 155 countries in terms of the share of the richest 20% (PNUD, 1994). More recent data reflect that the above-mentioned trend still continues in the nineties. Since 1993, the share of the richest 20% grew from 51% to approximately 57% of income, while the average per capita income of the lower classes fell by

106 This constitutional reform allowed the President in power to be re-elected for the following term of government (1995-1999). This reform was also applied in a retroactive manner for, strictu sensu, the new constitutional faculties should have been put into practice from the following presidential term onwards.

107 Thence our metaphor about this process being the transference of privileges from the state "nomenklatura" to the private "nomenklatura", since most of the conglomerates were analogous to a "nomenklatura" due to the fact that their quasi-rents had already been protected from market mechanisms for decades.

108 Diamond, Nochette et al. (1994) sustain that the non-traditionally measured costs of unemployment are perhaps more important that the conventionally recognized ones (production losses and the fall in effective demand). Some of the costs these authors emphasize are diminished expectations, loss of working habits, family disruption, psychological problems, problems of family and social cohesion and above all, social disintegration.

109 See Naciones Unidas Argentina (1997, original in Spanish), no italics in the original.
18.7% (FIDE, 1997). The deterioration of income distribution in the last decade is clearly shown in Figure 6, where a comparison between the Lorenz-Gini curves for 1985 and those for 1995 reflects the polarization of society during that decade, inasmuch as all other sectors lose part of their share in the national income in favor of the richest ten per cent of the population (Aguirre, 1997).

The process of social disintegration suggested above is also reflected in the evolution of poverty. Table A.14., which compares poverty figures of 1986 with those of 1995, depicts the increase in the number of people suffering from a lack of basic consumption. Indeed, the figures show that the proportion of people who cannot afford the minimum of nutritionally essential products (the indigent in Table A.14.) more than doubled in the aforementioned decade. While in 1986 1.6% of the population suffered this situation, in 1995 this proportion rose to 3.6%. Besides, the poor (those whose level of income is below the poverty line), who amounted to 11.6% of the total population in 1986, represented 25.8% of the population in 1995 — more than twice the 1986 figure. The poverty line (PL) indicates the level of earnings needed to afford a basic set of goods and services. If we consider the number of people who cannot afford 1.25 PL, figures in Table A.14. show that 35% of the population were in this situation in 1995 (while only 19% suffered this condition in 1986).

Last, but surely not least, social disintegration is reflected in the consumption patterns of different groups of the population. According to the 1993 data (Table A.15.) on the per capita food consumption for low, middle and high-income groups, social fragmentation is clearly revealed in the resulting differentiated consumption patterns. The significance of these figures is shown by the fact that Argentina has traditionally been a "cheap protein" country due to its comparative natural resource advantages. As posited by Aguirre (1997), the Argentine "dietary pattern [used to] run transversally through the social structure, reflecting an integrated society, with no great differences (as in other Latin American countries) between the rich and the poor" (original in Spanish). Therefore, the fact that the per capita consumption of beef in the high-income population is more than double that of the low income sectors; that the consumption of potatoes by the poor is 62% higher than that of the rich (and 22% higher than that of the middle class); that bread consumption by the poor is almost double that of the rich; that the consumption of dairy products by the poor is half of that of the medium and high-income sectors; and that the consumption of fruits and vegetables by the rich is 3.6 times higher than that of the poor (see Table A.15.), eloquently reflects the social gap resulting from regressive income distribution and the increase in the proportion of poor people in the total population. Moreover, it should be taken into account that inadequate nutrition is the principal pre-pathological factor (in medical terms).

3. The Macro Level

At the macro level too, several factors appear not to contribute to the development of systemic competitiveness in Argentina. In the first place, the government's inability to achieve a fiscal surplus without getting its hands on the funds assembled through the sale of public enterprises (see Table A.8.). This implies that the WC recommendation of budgetary equilibrium has been achieved only through extraordinary fund-raising — such as the revenues collected through privatizations — and that a kind of "structural" fiscal deficit problem persists.

In this sense, the low tax burden (reflected by the Government's revenue/GDP ratio) confirms this hypothesis. While the average government revenue/GDP as a percentage of the GDP for the OECD countries amounts to almost 39%, in Argentina that percentage reveals a ratio less than even half that (19%, see Table A.11.). Moreover, if one considers the ratio of tax burden for different categories of taxes (the proportion of direct or indirect taxation, for example, to GDP), it is clear that, while the Argentine indirect taxes/GDP ratio (10.7%) is similar to that of the OECD coun-

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10 It is worthwhile recalling that till the eighties Argentina (and Uruguay) were the only Latin American countries with an income distribution similar to that of the most advanced societies, and nutrition levels and patterns incomparably better than those of any of the other developing countries. These facts were usually explained (to a great extent) through the relative prices of food, and especially of animal proteins. In the nineties we have discovered that when unemployment rises above 15% to 18%, real wages fall by about 50% (compared to the seventies), and public health and other social services fall apart, comparative advantages in food production are not enough to maintain these positive socio-economic conditions.

11 The indirect taxes/GDP ratio reflects the proportion of consumption taxes (on "goods and services" in Table A.11) on GDP.
tries (11.6%), their income tax/GDP ratio (14.1%) is almost seven times higher than that of Argentina (2.3%), meaning that most of the difference in the overall tax burden ratio is explained by the lack of direct (progressive) taxation.

The regressive composition of the government's revenue is shown in Table A.6. The fact that more than two thirds of it is raised through taxes on consumption demonstrates its incapability as a tool for redistribution. Besides, this dependence on consumption taxes gives government revenue a pro-cyclical character. The drop in revenues based on consumption taxes and foreign trade tariffs (mainly import taxes) in the downswing of the cycle was equal to 107% of the drop in total government revenue in that same year, 1995 (see Table A.6.1.). In this sense it should be noted that the increase in the proportion of progressive (income and wealth) taxes' participation in 1995 is fully explained by the fall in consumption and foreign trade taxes, and does not imply a tendency that reaches its peak — in terms of the participation of progressive taxes in total revenue — in 1994, certainly not at a progressive level. It is worth mentioning at this point that consumption taxes (other than VAT) on consumption not related to basic necessities have been reduced or abolished (entertainment, household equipment, Scotch, champagne, etc.).

Both Nobel laureate James Mirrlees and IMF fiscal expert Vito Tanzi, on visiting Argentina in 1997, emphasized the need for a progressive reform in the composition of government revenue112. In this matter it is worthwhile recalling some of the arguments posed in the analysis of the meta level. As we already mentioned (see Sections I, II.1., and III), the institutional reform package was applied to a great extent following World Bank and IMF recommendations. As long as these institutions’ support enabled the foreign and fiscal sector constraints of the Argentine economy to be relaxed, any deviation from the recipes put forward by the executives of these institutions was socially processed — mainly by big business, government and, of course, prosperity peddlers — as the threat of macro-economic chaos — meaning, for Argentina, hyperinflation. The privatizations, deregulations and trade liberalization implemented in this kind of socio-political environment, that is, as a way of conforming to the world-wide rules of the game. No such emphasis was made, however, when the said IMF expert stressed the need to increase the revenue from income taxes. The fact that no attention was paid to this particular IMF recommendation accounts not only for the unchecked influence of big business in public affairs, but for the relative autonomy which, apart from certain real restrictions, the government still enjoys in implementing public policies not necessarily in agreement with those proposed by the multilateral credit institutions. In particular, it shows that Argentina's strict adherence to some (but only some) of the WC recommendations can be explained by the above-mentioned privileges the local conglomerates could glean through — for example — privatizations, rather than by any actual pressure exerted by international financial institutions such as the IMF113.

Several factors concerning foreign trade policy also obstruct the achievement of systemic competitiveness. The adoption, since 1989, of an almost laissez faire policy — applied, as already mentioned, not only across the board but in a chaotic manner (Section III.2.1.) — set aside the possibility of applying any selective trade policy (apart from in the automobile industry). Moreover, not only have no effective organizations for the promotion of exports have been set up, but institutional barriers to the setting up of trading companies still exist. Under the existing law, trading companies have no access to VAT refunds nor to other claw-backs which are available to individual enterprises — which undoubtedly discriminates against SMEs' exports, and also against the emergence of new exporters114.

As far as monetary and exchange rate policies (linked by the currency board scheme adopted since 1991) are concerned, as has already been stressed, the absence of any barrier to, or orientation of, short term capital

112 In Mirrlees' words, "...the most important tax in the government's revenue should be income tax" (Clarín, July 7th, 1997). For an international comparison see Table A.11.

113 In the case of privatizations, for instance, the Brazilian policy results in a much more independent (from foreign "think tanks") program. The same may be said about Chilean policies on short-term capital inflows.

114 The Government has a two-billion dollar debt because of the non-payment of fiscal credits to SMEs. In fact, this is a way of financing Government expenditure at a real interest rate of less than 0% without taxing, for instance, the extraordinary profits made by privatized firms in the hands of local conglomerates and from associations between these and TNCs. Moreover, the Vice-Minister of Economic Affairs announced that the refund of VAT to exporters will be paid with a 180 days time lag (Dr. Carlos Rodríguez at the IV Conferencia Industrial Argentina, Bariloche, September 19, 1997). This is another way to "hide" fiscal imbalance at the cost of an anti-exports bias.
inflows reflects the government's (and big business') short-term criteria when appraising the socio-economic role of foreign savings. In the presence of an extremely inefficient financial sector, a restricted monetary policy (due to the currency board scheme) is not counteracted by any financial policy. This inefficiency is reflected in the high levels of active local interest rates, which are due not only to a lack of technological development for customer assistance and information, but also to a high "rotten credits" index.

Compared with international standards, the financial spread (the principal indicator of the financial sector's efficiency), is also high. Since passive interest rates cannot decrease further due to the balance of payments' constraint (i.e., the need to attract foreign savings), the active rate will also be high, and a decrease in the financial spread - and with it, in active interest rates - would only be possible through X efficiency gains.

Analysts have also stressed the existence of a significant variation in active rates for both different kinds of customers and regions - the SMEs and clients far from the large urban centers (mainly Buenos Aires) being the ones suffering the worst relative conditions. This context has rendered credit to SMEs unprofitable for financial institutions, promoting the concentration of credit supply on consumption - especially low-risk mortgage and personal loans - and on the biggest firms, thus making the already fragile financial situation of SMEs worse, with the resulting negative endogenous consequences in terms of investment, production and employment on a macro scale. What is more important as far as public policies are concerned is that as long as there is no active policy to promote credit supply towards SMEs, the market, left to its own devices, will not direct credit away from the (predominant) consumption loans, and may contribute towards stimulating another consumption-led economic bubble (see Section II.2.1.)

Finally, the almost complete absence of any policy to promote competition also restricts the achievement of systemic competitiveness. According to the existing law (which dates from 1980), the National Commission for the Defense of Competition (which began to be established in 1996, ending a period of sixteen years with no executive agency to apply the 1980 law) can only intervene ex post factum - and not in a preventive manner - if abusive practices are detected. In Argentina, the government does not have to be informed of or authorize even the most important take-over operations, in contrast to the usual practice not only in Europe and the United States but also in Mexico and Brazil. The executives of the aforementioned Commission - after a study carried out by its experts - stated that "if the United States anti-trust laws had been in force in Argentina, the Commission would have had to intervene in 62 of the 128 (in almost 50% of) take-over operations which took place in the country during 1996".

The intensification of the already developed process of technical and - especially - economic concentration within a few local conglomerates and TNCs which has taken place during the nineties (Azpiazu, 1996) does anything but promote restructuring-oriented investments not only in SMEs but also in large independent firms, for it provokes further uncertainty amongst these types of companies. The concentration of retail trade within a few supermarket chains and "mall" chains sets, for example (and regardless of its effect on smaller retail outlets in the same branch), an uncertain horizon for the volume, prices and financial terms of the sales of producers.

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115 As opposed to the case of a successful exports-oriented economy such as the Chilean one.

116 It is worthwhile recalling the fact that the emergence of such a large amount of rotten loans not only prevents a decrease in active interest rates but, by keeping interest rates high, increases loan repayment difficulties, especially in the case of SMEs, which in turn puts pressure on interest rates to remain high. This kind of "circular" explanation - and situation - could only be changed through active public policies designed to break this vicious circle (Barry et al. 1997).

117 The analysis of the financial sector is largely based on Barry et al. (1997).

118 Within a currency board scheme such as the one existing in Argentina since 1991, the domestic passive interest rate is - strictly speaking - an "endogenous variable" (depending on the level of the current account deficit), and not a "policy (exogenous) variable".

119 Large companies, especially local conglomerates and TNCs, satisfy their financial requirements through the - more favorable - international banking system.

120 Nochetto, in a work in progress, has estimated that from mid-1992 through mid-1998 real interest rates paid by SMEs were about three or four times higher than those paid by the TNCs and the firms integrated in big local conglomerates. This difference is largely explained by the fact that the latter have access to foreign financial and capital markets.

121 The Commission is still in a preliminary stage of establishment, facing opposition from strong lobbies which aim to obstruct the passing of a new law which could give the agency operative and preventive powers.

whose main marketing channel are those chains, since the latter are increasingly able to develop monopsonistic and oligopsonistic practices and upstream integration strategies. This source of further uncertainty (economic concentration, and abuse of dominant positions), together with the across-the-board trade liberalization, the chaotic way in which the latter was applied (Section III.2.1.), the relative prices trend in favor of non-tradables (Section III.1.5.), the high active interest rates — charged, especially, to SMEs, which have no access to foreign loans — do not promote an investment-friendly atmosphere for independent (non-conglomerate) industrial manufacturers and other producers (e.g. of fruit, vegetables, etc.) but rather create an environment lacking in investment opportunities (which is consistent with what we know about uncertainty and investment) while reinforcing the political power of big business and thus its non-cooperative attitude123.

4. The Meso Level

The meso level presents a pessimistic scenario as well. In the first place, the absence of a long-term educational or technological program is reflected in their low share in the budget (Table A.7.). In fact, the share in government expenditure of education, science and technology and research and development represents only 8% of the 1998 national budget submitted by the executive for the approval of Congress124 (the same percentage allotted to the armed forces).

Secondly, the absence of any regional development policy, reflected in the regionally uneven unemployment rates (see Section III.1.3. and Tables A.12. and A.13.), also implies a weak scenario in meso terms. According to 1996 figures, unemployment rates in the main industrial locations (the Buenos Aires city suburbs and the provinces of Buenos Aires, Santa Fé and Córdoba) were higher than (or equal to, as in the case of Córdoba) the national figure, while in the poorer provinces (such as La Rioja and Formosa) the figures were much lower than the national unemployment rate.

These regionally unequal figures show not only the deep adjustment resulting from the trade liberalization and privatization policies in the main industrial areas (where the main privatized public utilities are located), but also the migratory inflows from poorer regions to the bigger urban centers125 — which gives rise to the Lewisian pattern suggested above (Section II.3.). Besides, it should be noted that the relatively lower unemployment rates in the poorer provinces basically reflect redundant employment in their public sectors and employment under programs sustained entirely through public expenditure (in most cases, extremely low productivity jobs with no training involved and dependent on government subsidies backed by multilateral credit organizations).

The absence of any effective job-creation policy and the almost non-existent training or qualification program run by the government also reflect the latter’s weak commitment to employment policies in general. Virtually no such policies have been drawn up and, when drawn up, they have seldom been implemented to their full potential. Besides, many government subsidies for job creation within the SME sector were deflected to larger companies, thus resulting in subsidies to big business with no lasting effects on competitiveness and employment (see Cárcar, 1998). These funds, however, could have helped the necessary restructuring processes in the SMEs and prevented a further fragmentation of the subcontracting pyramid.

On the other hand, the virtual absence of a physical and industrial infrastructure policy126, together with a weak political commitment to basic

123 Many small innovative firms (especially in the foods sector) cannot develop, or are taken over, because of oligopolistic and oligopsonistic practices, e.g., agreements between super- and hypermarkets chains and large traditional suppliers.

124 Clarín (July 15th, 1997), based on official information.

125 More than 30% of the present population in Buenos Aires City and suburbs (around 11.6 million) were not born in the area. As a matter of fact, the internal migratory flows have increased in the nineties. While in the period 1984-89 250,000 people arrived in the city of Buenos Aires and its suburbs, from the rest of the country, 340,000 — 36% more — did so between 1990 and 1996 (Clarín, July 15th, 1997, based on official information).

126 No relevant public investment policy has been carried out after the privatization process. It should be noted that public investment stimulates private investment (Eyzaguirre, 1989), contrary to the neoclassical synthesis crowding-out argument, which applies in situations where the financing of public investment increases domestic interest rates, resulting in a lower level of private investment. This could not take place if public investment were "paid for" by an increase in the tax burden. Furthermore, in Argentina the active interest rates are better explained by the spread, which in turn depends on the X inefficiency of the banks, than by passive rates, which are linked to current account deficit and international rates plus country.
environmental issues also obstruct the development of systemic competitiveness from a meso perspective. According to the 1996 United Nations report on Argentina quoted above, “the country’s environmental situation reveals deterioration processes, and natural resources, energy and habitat misuse, as well as acute conditions in the population’s standard of living”\(^{127}\). The budget share for environmental care planned for 1998 (including investment, control and regulatory set-up) is only 0.2%. Besides, a chaotic regulatory scheme, compounded by a lack of enforcement capacity, has been unable to promote a systematic environmental effort which, apart from its consequences in terms of social welfare, would enhance competitiveness in international markets. The Argentine environmental regulatory scheme is characterized by the overlapping of national, provincial and municipal laws, as well as unequal enforcement propensities (both amongst regions and sectors)\(^{128}\). In practice, the pursuit of environment-led restructuring processes has been linked in Argentine firms to the requirements of foreign markets, thus resulting in a (from an environmental point of view) heterogeneous productive structure. In this sense, when describing the Argentine case, Daniel Chudnosky and M. Chidiak (1995) speak of “environmental islands” where, as might be expected, little or nothing is being done by SMEs or by non-exporting sectors (which do not export partly because they do not fulfill environmental standards). The environmental policy, therefore, is left, like other aspects of economic development in Argentina, to the forces of the market – since the only firms which develop ecologically acceptable products and processes are the ones that must adjust to international standards in order not to lose their foreign market share.

5. The Micro Level

Finally, at the micro level, and speaking in broad terms, technological cooperation (or any other) networks are practically non-existent, while the forms adopted by labor market deregulation do not favor the creation of dynamic production networks, where a cumulative learning process is essential (but microeconomically inconsistent in a context which encourages high levels of rotation of the labor force) for an integration of product development, production and marketing within a just-in-time regime and a complex subcontracting pyramid. As argued by Esser et al., “enterprises which are operating in the world market do not compete in a decentralized and even isolated manner ...”, although this seems to be the case with most enterprises in Argentina, especially SMEs, “... but as industrial clusters, i.e., as groups of enterprises organized in cooperation networks.” Moreover, as stressed by Quintar and Boscherini (1997), the recent development in Argentina of “isolated microfirms, i.e. not organized within any productive network, have mostly failed”, especially during the downswing of 1995 (see Section III.2.1.).

The new patterns of competitiveness are based on flexible production processes and speed of response (not only to differentiated demand but also to technological changes). In this sense, they imply interaction and cooperation in technology management, of which both the concentration of economic power in a few local conglomerates and TNC’s\(^{129}\) and the fragmentation of the productive system which seems to have followed the public policies adopted from 1989 onwards, constitute an obstacle. In this case again, the economic elite’s unbalanced power seems to obstruct the chances of achieving such an environment, because the display of a cooperative atmosphere requires the building of a strong consensus to form a national system of innovation.

While this is true, in Argentina the most dynamic restructuring processes carried out in the nineties, mainly based on the acquisition of imported fixed capital, tended to result in production processes intensive in their demand for imported inputs (Kosacoff, forthcoming), thus “breaking” the existing subcontracting pyramids. In other words, in an economy with

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\(^{127}\) Naciones Unidas Argentina (1997, original in Spanish); see Chapter VII, “Argentina’s environmental situation”.


\(^{129}\) These, besides, obtain the highest profit rates in the economy due to privileges and/or uncontrolled exploitation of natural resources (for privilege and natural resources quasi-rents see Section III.2.2.).
such an unbalanced distribution of economic power, there seems to be no "effective demand" for building-up a national system of innovation on the part of the most influential social actor - big business (Nohettef, 1994 and 1994a).

As a matter of fact, the public policies applied in the 1976-83 period and, especially, after 1989, have provoked the involution of a complex (though inefficient, due to its lack of exposure to foreign competition) productive structure, where SMEs played an active role, the result being the disappearance of many of these firms and/or the development of such firms' activities within informal and low-productivity activities, far from any integrated cluster. In fact, the contraction of employment within SMEs added to the increase in microfirm employment and own-account jobs raised the proportion of informal ("off the books") labor to 42% of the total employed population (Cortés, 1996).

The SMEs' ability to enter the productive system can be appraised in three complementary dimensions. First, the macroeconomic environment, which involves the issues posed when analyzing what we have called - following Esser et al. - the macro level. Second, the large firms' commitment to building up a complex subcontracting pyramid, within dynamic production networks. Third and last, the commitment of SMEs themselves to getting involved in a cooperative and interactive environment in order to reduce transaction costs and to be able to take advantage of the externalities generated by network interaction.

Certainly, as mentioned above in this section (and Section III.2.1.), the macroeconomic environment has not been favorable to the development of SMEs, especially those related to importable and/or exportable goods. The larger manufacturing firms, in their turn, have concentrated their - with the exception of the car industry - in the production of scarcely differentiated commodities or low-skill-intensive products, characterized by their low upstream and downstream multiplier effects. The above-mentioned trend towards buying imported inputs has weakened even further the already fragile subcontracting pyramids. On their part, the SMEs representatives also show a low commitment to the possibility of interacting with other social actors (the scientific-technological sector, state institutions and larger firms), partially due to cultural restrictions and, especially since the institutional shock of the nineties, due to the aforementioned uncertainty resulting from the application of the neoliberal package and the difficulties of engaging in medium- and long-term strategies while suffering short-term financial stress, uncontrolled foreign competition and turbulence in relative prices (Section III.1.5.), as well as in the effective rates of protection (Section III.2.1.).

As a result, therefore, the Argentine productive system, rather than being composed of cooperation networks, is an heterogeneous structure of non-connected subsystems within a highly concentrated and fragmented economy (Bisang, 1994). This is clearly shown by the productivity differences between a few "up-to-date" industrial sectors of the Argentine economy (seamless steel tubes and oilseed production, including the first processing for obtaining vegetable oils, for example) and the average productivity levels (e.g., as stated by Jorge Katz, in vegetable oils the productivity is about 95% of that of US producers, while the average for all sectors is below 50%). As in the case of the "environmental islands" quoted above, and inasmuch as an integrated productive network seems not to have developed, one could speak of "productive islands", instead of productive clusters. In other words, there is a serious lack of "interaction between suppliers, producers and users" (using the terms of Esser et al.).

6. Progressive and Regressive Relations between Levels

The systemic appraisal of competitiveness proposed by Esser et al. emphasizes the relationship between the four levels of analysis. This means that, for example, a weak macro environment (regressive composition of government revenue, absence of competition policies, inefficient financial sector) could be more easily counteracted if the division of powers, the institutional mechanisms of checks and balances and social integration (at the meta level), public policies to promote educational, technological, environmental and regional development (at the meso level) and cooperation networks (at the micro level) were "functioning correctly".

It is obvious that this sort of synergistic process also functions in a regressive way. As has been stressed, the unbalanced influence of the economic elite in the design and implementation of public policies has obviously been the main cause of the maintenance of a most regressive composition of government revenues (the above-mentioned resistance to any attempt to increase the raising of progressive taxes) which deepens the polarization in income distribution - with its effects on social disintegration. Of course, this inequality strengthens the economic elite's position as re-
gards social and economic matters and explains — as long as no direct positive effect is perceived by this group of actors, the "scenario makers" — the non-existence of attempts by the government to contribute to the building of cooperation networks or to develop educational, technological or regional policies, which are not only necessary for the building of such industrial clusters but also positive in terms of social integration and the development of political and strategic capabilities in actors who do not belong to the economic elite.

In short, an analysis of systemic competitiveness using the framework proposed by Esser et al. is consistent with an analysis that looks at the foreign sector of the economy (Section III.1.)

IV.2. Systemic Competitiveness. Suggestions for Reform

1. Introduction

In the previous section we have indicated the structural features which obstruct the achievement of systemic competitiveness in Argentina. Some of these features — such as the economic elite's tendency to operate through lobbies — are beyond immediate policy control, but must be seriously and openly discussed, taking into account the fact that those who are affected by that lobbying attitude and power as economic agents, citizens and stakeholders cover a wide socio-economic spectrum. This range covers not just the bulk of consumers, tax-payers, the press, the historically important "middle class" (and chiefly the impoverished fractions of it, who are still decisive at the time of elections), but also the popular classes who are losing their historical attachment to the Peronist party, the unemployed and employees "without a future". SMEs, and even large but independent

firms — including some TNCs and foreign investors (who are interested in long-term productive and/or export projects but find all kinds of barriers and problems caused by the alliance forged between the neoconservative-populist politicians and the concentrated local conglomerates in association with some TNCs, e.g., lack of accountability and transparency, high transaction costs, high public services and infrastructure costs).

Other features, on the other hand, such as the regressive composition of government revenue, could be changed, or better yet, may start a process of sustained change in the short run. Although the set of measures involved in restructuring, for example, the composition of government revenue, is certainly affected by the aforementioned unchecked power of the economic elite, in this section we will suggest the policy instruments whose development should be considered in relation to each of the issues in order to achieve systemic competitiveness.

Nevertheless, it must be noted — although it is implied in the historical perspective which underlies the theses posited in this paper — that the viability of the policy reforms which will be suggested in this section depends on the actual development of a deeper social and political transformation, involving the strengthening of certain key social actors, not only modern non-bureaucratic trade unions, but also the emergence of new political actors and intermediate social organizations (both at the national and regional levels). Of course, the actual occurrence of such a social change, which would amount to the possibility of building a democratic political structure and progressive social and economics institutions, can only be pointed out as a necessary but not predictable condition as regards the policy reforms that follow.

Our approach to the different policy recommendations will not depart from the distinction of the meta, macro, meso and micro levels of analysis, as defined in Section IV.1. Rather, we have chosen several key policy issues whose consideration would lead to systemic competitiveness and, in each case, we suggest the way in which the resulting recommendations could relax the restrictions on the achievement of systemic competitiveness

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130 After the first consumption boom, pari passu with the worsening income distribution, the persistence of high unemployment rates and the creation of precarious jobs, the shrinkage in public goods, the alimentary problems, etc., the "middle" and impoverished "middle classes" (the so called "new poor") and some of the lower classes have changed their attitude towards the neoliberal shock and the neoliberal-populist alliance. Thus, in the election for half the members of the lower chamber of Congress (October 1997), an alliance formed by the main opposition parties (some of them new, created in the last five years) won by an ample margin, not only at the national level but also in the main political district (Buenos Aires Province) traditionally the electoral stronghold of the government party. As yet, this alliance's basic line rests on two main pivots, namely maintaining the basic macroeconomic fundamentals and goals (monetary stability, convertibility, fiscal equilibrium). The strongest emphasis is placed on the political and meta questions as well as on issues of state reform (accountability, transparency, independence of the judiciary, corruption, etc.). This program may be defined as a "light" version of Britain's "New Labourism".
in each of the above-mentioned levels of analysis (meta, macro, and so on). In this sense, we have concentrated the policy recommendations on matters related to fiscal and budgetary administration; to the promotion of competition and market building; to policies oriented to prevent, in the short run, crises related to the foreign sector constraint and, in the medium-long term, a steady movement towards a high-trade economy; to the financial sector; and to the labor market.

Of course, these suggestions do not pretend to be direct policy recommendations in the sense of a recipe, but lines and criteria that should be explored and discussed to build a different state and social agenda. As a matter of fact, one positive indicator is that this discussion seems to be gaining public space pari passu with most of the above-mentioned social actors and classes’ dissatisfaction both with the outcome of the neoconservative economic and social policies, and with the current political and institutional behavior and structure, e.g., in terms of regressive distribution of income, public safety, big business’s power to raise public service prices, and corruption (for example of the executive). This last became one of the most important issues on the agenda of both press and public, and is seen as closely related to the lack of checks and balances and the "lobbying-ukase" style of state action, i.e., as one result of big-business-executive relations.

Since the forthcoming policy recommendations seek to achieve systemic competitiveness, they are put forward in a long-term perspective, which does not mean that expansive policies should be discarded ab initio, especially when expansion through investment in and production of exportables and importables is needed, but that they must be designed within a long-run development perspective — i.e., short-term social and economic policies should be compatible with a long-term sustained development objective.

Following this criterion, one may define a certain "macro objective" as a sort of economic goal that may be useful both as a guide or pattern for economic public policies and a possible subject for public discussion of the economic agenda of most social actors. As seen in the previous sections, we consider that the neoconservative policies and the neoliberal institutional shock of the nineties seem to have led to another typical Argentine bubble, and not to the above-mentioned evolutionary path. Thus, the way out of the wasteland should be explored thinking in terms of future reforms (and not of further shocks). One could imagine a model of a desirable macroeconomic structure which took into account — in the quest for development — Argentina’s foreign debt and current account problems. A reasonable (even conservative) estimate of that desirable structure may be defined as: \( Y = 100 \); \( C = 70 \); \( I = 25 \); \( X = 25 \); \( M = 20 \), which means that the \( I+X/C \) ratio should be equal to 0.71. But in the 1991/96 period that ratio \((I+X/C)\) was 0.31, which in turn means that the current macroeconomic structure (resulting from the neoliberal institutional shock) is completely inadequate for sustained growth, and that so as to avoid foreign sector constraints and the stop and go pattern of growth and development — i.e. to avoid the combination of long-term stagnation and bubbles — the ratio must be increased by roughly 130%.

This could be achieved by simultaneously increasing \( I \) and \( X \), and reducing \( C \) (always relative to GDP). Yet if the share of the richest 20% of the population in the GDP amounts to 57%, and the savings ratio is lower than 0.2, then — assuming (also conservatively) that 80% of domestic savings is attributable to the richest 20% — the savings attributable to this sector of society amount to no more than 16% of GDP, while its consumption is never less than 41%. Given the poverty and nutrition problems mentioned in the previous section, these figures show the need to tackle the higher-income sectors’ high consumption propensity if an increase in savings and investment (directed, predominantly, to exportables and importables) is needed to revert the stop and go behavior. This is the only possible option, inasmuch as no further decreases in lower-income sector consumption are sustainable (moreover, such consumption levels ought to be increased, given the poverty and nutrition conditions of this social sector).

In short, the forthcoming policy suggestions are based on such a "macro objective", i.e., an increase in the investment/GDP ratio, on the one hand — with special attention to the destiny of such investment (whether it contributes or not to solving the foreign sector constraint in the long run) — and, on the other hand, an increase in the savings/GDP ratio, mainly through the promotion of lower consumption propensities in the high-income sectors of society, such as that established, as mentioned above, in the recovery of 1996/97, should be avoided.

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131 What it does mean is that expansion through over-consumption by the higher income sectors of society, such as that established, as mentioned above, in the recovery of 1996/97, should be avoided.

132 Assuming that a surplus of 5% of GDP is enough to offset the future non-commercial deficit in the current account.
come sectors (for example, as will be suggested, by a heavier tax burden on non-invested income).

2. Fiscal and Budgetary Policies

As suggested in Section IV.1.2., the government has not been able to achieve a fiscal surplus without resorting to extraordinary fund-raising (i.e., privatization). Besides, the composition of government revenue is profoundly regressive, which in turn results in a pro-cyclical evolution of the fiscal deficit. As long as tax collection is largely dependent on taxes on the consumption of goods and services, the fiscal gap is widened pari passu the level of consumption diminishes with the stagnation of the GDP (or with a decrease in its growth rate), thus inhibiting the potential anticyclical character of fiscal policy — not to speak of its socially disintegrative character.

The achievement of systemic competitiveness (à la Esser et al.) implies that the solution to macroeconomic imbalances should not be designed at a socially regressive cost, since social integration is of equal importance as macroeconomic stability. In fact, and regardless of this last consideration, the restructuring of the government's revenue composition happens to be the most — technically, one could say — adequate solution to the aforementioned "structural" fiscal deficit. As shown in Section IV.1.2., the indirect (regressive) tax revenue/GDP ratio hardly differs from that of the developed countries, while the direct (progressive) income and wealth revenues/GDP ratio is more than seven times higher in developed countries than in Argentina. This means that the explanation of the low overall tax burden in Argentina is to be found in the almost non-existent progressive taxation of high income sectors of society — not only on their income and wealth but also, as will be suggested, of their high consumption levels (which, given the regressive distribution of income, largely explains Argentina's low savings ratio). In other words, a first (broadly sketched) policy measure to be undertaken would be one which resulted in the re-structuring of the composition of government revenue. Whereas nowadays two thirds of government revenue is derived from indirect (regressive) taxation (Table A.6.), a reform which allowed government to raise two thirds of its revenue through progressive taxes should be encouraged — thus reversing the present 2/3-1/3 relation between indirect and direct taxation in the composition of government revenue.

Therefore, an increase in the rate of income tax could be a first measure to undertake. Following this same fiscal policy line, the possibility of imposing a higher rate of income tax on persons than on enterprises should be studied. In this way, non-cumulative (non-invested) profits would face a heavier burden than those which could eventually contribute to expanding the economy's productive capacity. In addition, this measure could attenuate the macroeconomic impact of the strong consumption propensity of Argentina's high-income social sectors. In fact, such a measure, by taxing consumption (of the rich) rather than investment — i.e., persons rather than enterprises — could simultaneously encourage investment and improve income distribution.

Certainly, the consequences of such a reform largely surpass the bounds of the macro level of analysis. Although the closing of the structural fiscal gap and the potential increase in public investment which could be derived from the proposed measures constitute primary level issues to be tackled, the improvement in income distribution and social integration (considered at the meta level) could certainly be posed as more relevant than the budgetary problem seen from the narrow short-term orthodox perspective, which focuses fiscal policy design in short-term foreign sector imbalances, paying no attention to the composition of government revenues and expenditure, nor to its consequences in terms of income distribution and investment. In other words, the regressive composition of government revenue should be a question to tackle even if no serious fiscal imbalance emerged (though, as already shown, the regressive structure of government revenues is actually linked to the fiscal imbalance and, in this sense, progressively reformed by restructuring indirect taxation alone). While at present no distinction is made between the VAT rates on luxury and basic consumer goods, a higher VAT rate applied to the former would certainly be a progressive fiscal policy instrument. Since the current uniform VAT rate is 21% (among the highest VAT rates in the world), a reduction in the

133 Under the currency board scheme existing in Argentina, an increase in the fiscal deficit should not be considered as an expansive measure (in the Keynesian tradition). Rather, inasmuch as it cannot be sustained for too long, the decrease in public expenditure needed to close the fiscal gap ultimately stimulates rather than counteracts the depression which had originally given rise to the decrease in government revenue, and so on. That is why we speak of a pro-cyclical composition of government revenue.
VAT rate on basic goods (especially food and medicines), leaving the rate for luxury goods unchanged (21%), could be a most progressive measure. Besides, if the income and wealth tax rates were simultaneously increased, there could certainly result a progressive reform and an increase in the overall tax burden ratio (government income/GDP).

From the same viewpoint that encourages the imposition of two VAT rates, taxes should be charged on the consumption of certain luxury goods, or goods not linked to basic necessities, such as yachts, cars, or high-price domestic electrical appliances, especially in an economy which has a serious investment, and particularly savings, problem. In other words, within the current (regressive) distribution of income, and as the improvement of income distribution is a necessary condition for achieving systemic competitiveness, the need to reestablish domestic savings can only be tackled through policies oriented to reducing the consumption of the higher-income sectors.

Besides, such taxes, which used to be charged in Argentina and were abolished in the nineties, have the advantage of being — technically — easy to collect (they are high-yield taxes), which is shown by the fact that they are still imposed on cigarettes and gasoline and other fuels. They contribute to improving income distribution; they discourage imports of such goods without increasing the protection on consumer goods which have neither static nor dynamic comparative advantages and the demand for which encourages the allocation of resources to non-exportable, high-price consumer goods instead of capital goods or exportables; and, finally, they increase government revenues. In other words, such a measure could exert a positive influence both on the macro and the meta levels of systemic competitiveness. The same could be said about progressive rates of taxation on real estate, golf links, etc.

The transfer of taxation to consumers by imposing a differentiated rate of VAT and of taxes on the price of certain goods and services is desirable because the goal is to reduce their consumption and/or (depending on the price elasticity of demand) to reduce certain types of consumption so as to deflect income to savings and achieve a less regressive income distribu-

134 Given the regressive distribution of income, and the resulting poverty and nutrition problems pointed out in Section IV.1, many such goods — which are not usually considered luxury articles — can only be afforded, in Argentina, by the high- and medium-high income sections of the population.

135 In Argentina, where a kind of "structural" hard currency supply problem persists (Section III.1.2.), this argument is reinforced because a heavy burden on income and wealth could inhibit foreign direct investment, and aggravate the foreign sector constraint. Nevertheless, no such argument was put forward by the government (nor by big business) when raising the VAT rate from the already high 16% to 18%, and then to 21%, from 1989 onwards (it seems, then, as if the government considered the Laffer curve argument to be valid only in the case of income taxes and not in that of consumption taxes).

136 In other words, such a policy would affect both the meso (environmental issues) and the meta (scale of values) levels of systemic competitiveness.
cerned, it complements the regulatory schemes – especially with regard to prices and tariffs – relating to such activities.

The concentration of taxation on the high-income sectors of society lowers administration costs and increases tax efficiency (revenues/collection costs ratio) and government efficiency (revenues per public agent employed), since an “army” of public inspectors is needed to control VAT collected from retailers compared with the number of public agents needed to raise the same amount from large enterprises and the high-income population. The need for an efficient public tax-collection agency has not been considered relevant in the Argentine public agenda. This definitely constitutes another essential area of reform, for efficient administration of the DGI (Dirección General Impositiva, the national tax collection agency) would not only decrease the fiscal gap, but would also result in a demonstrative positive effect on taxpayers, regardless of their socio-economic position.

On the other hand, and complementary to the last recommendation, taxation of the rich would legitimate the raising of indirect taxes. The current high VAT rate and the anemic atmosphere stimulated by the extremely low tax burden on the high-income sectors contribute strongly to the high level of tax evasion.

In short, the increase in progressive taxation (through higher rates of income and wealth tax as well as “Ricardian” taxes), the decrease in the VAT rate, and the differentiation – at least – between VAT rates charged on basic consumer goods and services on the one hand and luxury goods and services on the other, are simple though essential measures which would contribute to solving the structural fiscal deficit, improve income distribution and render tax collection more efficient, which also indirectly alleviates the fiscal deficit. Moreover, such a reform affects the meta level both by helping to avoid social disintegration by improving income distribution, and by its potential effect on the scale of social values and socio-cultural factors. This will be true as long as a less regressive tax-collection regime can develop in a society where regressive taxes account for the greatest proportion of government revenues. The reform affects the macro level as well, due both to the narrowing of the fiscal sector gap and to the possibility of enhancing economic growth through public investment (and its “crowding-in” effects, i.e., the stimuli exerted by public investment on private investment). Finally, it acts on the meso level, since the increase in government revenue would permit the development of currently almost non-existent environmental, regional, educational, technological, physical and industrial infrastructure policies.

This last issue should also be considered as part of an appraisal of possible reform measures for, as we suggested in Section III.1.4., current public expenditure has a regressive impact on income distribution, regardless of the structure of government revenues. Indeed, public expenditure benefits the high-income sectors of society 44% more than it does the low-income population. Given the regressive composition of government revenues discussed above, public social expenditure explicitly aimed at the lower-income population is actually paid for (though not always received) by the beneficiaries themselves. The latter, moreover, are apparently paying – in relative terms – the fiscal expenditure destined for the high-income sectors. Thus, budgetary policy seems to be functioning as an instrument of redistribution policy, but in a regressive way, deflecting the poor sector’s income to the rich, and not vice versa.

In this sense, a profound appraisal of the social impact of public expenditure should be encouraged, in order to redirect such expenditure towards education, health, technology, environmental and regional policies. Of course, such a reform would permit a reversal of the social dualization process resulting from the patterns of development in the nineties by promoting equal opportunities, thus affecting the meta level (social integration) and the meso level (the aforementioned environmental, regional, educational, technological, physical and industrial infrastructure policies).

3. Competition Policy

By competition policy we understand the set of social and economic institutions (as well as the political commitment) necessary to tackle the regressive consequences of the above-mentioned (Section III.2.2.) historic characteristics of long stagnant and closed economies such as the Argentine one. In these economies, markets are segmented and incomplete and, therefore, incapable of promoting an endogenously driven growth process where technological quasi-rents predominate over the other kinds of quasi-rents.

In Argentina, therefore, extraordinary profits and high incomes are earned mainly either through a heedless exploitation of natural resources or through privileges which usually involve market reserves – as is the case
of the privatized public utilities – giving rise to the “greenhouse” sub-system described in Section III.2.1. The “careless lack of regulation and guidance” within which the institutional shock of the nineties was applied reveals the government’s lack of concern as regards the creation of competitive markets and the regulation of oligopolies, especially in the most concentrated markets sheltered from external competition and geared only to domestic demand – once again, the privatized public services.

In short, a competition policy should be centered on the creation of competitive markets and on the regulation of oligopolies. In this sense, we will first discuss the necessity for an anti-trust scheme, including an independent and capable agency for the defense of competition and, secondly, the need to restructure the agencies which regulate the activities of privatized public enterprises.

Concerning the first of these issues, the weak role currently assigned to the Commission for the Defence of Competition must certainly be reversed. As mentioned above (Section IV.1.3.), the Commission can only intervene ex post factum if abusive practices are detected, thus resulting in a non-existent regulation of concentration and centralization of business, which (indirectly) promotes the creation of further market reserves (and their negative effects on growth). The anti-trust law is still at its preliminary stage of debate in Congress and, although the passing of this law is facing strong opposition from lobbies which aim to obstruct the institutional design of an agency (the aforementioned Commission) with real operative and preventive powers, historically the opportunity for the emergence of such a normative and institutional framework exists.

Of course, such a reform could vastly help to alter the economic elite’s as yet unchecked power, and thus to reduce the resulting disproportionate influence of big business in public affairs. In this sense, even though the competition policy has been defined as relevant in the context of the macro level of analysis, its influence on the meta level is as important, since the predominant non-cooperative patterns of political, legal and economic organization have been reinforced by the extreme weakness of public (as distinct from just government) governance capabilities and by the degree of concentration of economic – and therefore political – power. In this case, the relationship (see Section IV.1.6.) between the different levels of analysis is clearly revealed. The absence of any effective control over economic concentration and centralization clears the way for the economic elite to operate as lobbies (i.e. in a non-cooperative way, with no interaction with other social agents), which promotes, in turn, the executive’s tendency to control the judiciary and legislature to its own benefit and that of big business. That is why an essential and complementary step towards the constitution of an effective Commission for the Defense of Competition within an adequate anti-trust law emerges, namely, the need to support and encourage the development of intermediate associations. The latter include consumer protection organizations, political parties, scientific associations, regional public agencies and NGOs, and so on, which may contribute to the building of a mechanism of checks and balances to control the economic elite’s power. In fact, these social actors were recently able to contest – though with weak positive results – some of the abusive tariffs and price increase practices operated by the privatized public service enterprises.

As to the privatized public utilities sector, for both institutional and political reasons the official regulatory agencies have not fulfilled their main tasks as defined in developed countries. In this area, the case of the privatization of the national telecommunications company (ENTel) and the establishment of the Argentine National Telecommunications Commission (in Spanish CNT) constitutes a leading case.

Indeed, as emphasized in Section III.1.5., the characteristics of ENTel’s privatization process reflect the strong influence big business exerts on public affairs, which leads to the aforementioned “dirty job” of the privatization process. Its most lasting effect was the fragmentation of the public telephone company into two different enterprises (which would operate within predetermined geographical areas), to be sold as independent monopolies with market reserves for at least seven years. The absence, in this case, of any policy to promote the emergence of competitive markets (which is being enhanced by the use of new technologies worldwide) demonstrates the effect of the general lack of a policy to promote competition.

The executive’s discretionary intervention in the CNT’s activities reinforces this last argument. In the first place, two years had passed after the privatization when the CNT finally assumed its functions\[17\]. Secondly, a

\[17\] A belated setting up of regulatory agencies was a feature of the privatizations of the natural gas and electricity enterprises as well. In Brazil, where the public telecommunications company is about to be privatized, the government has set up the corresponding regulatory agency before handing the enterprise to the private sector. It should be stressed as well that the new Brazilian regulatory framework for telecommunications establishes that competition among companies will be possible as
continuous reduction in the Commission's powers began immediately after it started operating, the most important regulatory aspects of its functions being assumed systematically by the Ministry of Economic Affairs. This situation lasted until 1996, when the government established that the Commission would operate under the direct supervision of the presidential office.\footnote{113}

The situation described above led to the establishment of an incapable regulatory agency, not only as a result of the continuous cuts in its main powers, but due to the fact that in such an unstable institutional context it was impossible to acquire the technical skills necessary to regulate telecommunications companies. As a result, the classic "principal-agent" problem in this sector (as well as in the rest of the privatized public utilities sector)\footnote{119} did not arise in the "traditional" way in Argentina, inasmuch as the telephone companies displayed their lobbying capabilities directly in the sphere of the executive, and not through the regulatory agency's board of directors. Moreover, the fact that competition in the telecommunications sector must be allowed by no later than in the year 1999 (if the current legislation is enforced) -- and considering that the regulatory capabilities which such an environment requires are even more complex than those required for the regulation of natural monopolies -- raises the urgent need of reestablishing, and not only in the telecommunications sector, the independence and technical skills of the various regulatory agencies in Argentina.

Summarizing, we have emphasized the need to do the following: a) sanction an effective anti-trust law to promote market-building and the search for technological quasi-rents (and its long term development consequences); b) establish a powerful Commission for the Defense of Competition with special attention paid to its preventive powers; c) stimulate the activities of intermediate associations; and d) restructure the regulatory agencies (not only telecommunications, but also natural gas, electricity and other sectors in which public utilities have been privatized).

This last recommendation includes the possibility of re-siting the existing regulatory agencies within the sphere of Congress and/or the judiciary, in order to prevent the interference of the executive's "short-term" interests in the long-term instruments to be designed and applied by the aforementioned agencies, especially if one of their main tasks is to be the building of competitive markets. Besides, a positive effect of such a competition policy which should not be underestimated is the possibility, as mentioned in Section IV.2.4, of reversing the uncertainty resulting from economic concentration, especially that which affects the investment decisions of SMEs and large non-conglomerate firms.

Furthermore, another positive consequence of an adequate regulation of the privatized public utilities enterprises is the possibility of transferring the productivity gains of such enterprises to the rest of society. On the one hand this would improve social welfare, since it alleviates the burden resulting from abnormally high prices for public services. On the other hand, it would make importable and exportable locally manufactured goods more competitive, thus helping to relax the foreign sector constraint (which will be discussed below). In fact, one of the consequences of the lack of regulation of the privatized public utility enterprises is the already noted (Section III.1.5.) bias of investment towards non-traded goods, which results from the vastly higher profits made in the non-tradable sectors. In short, an effective price regulation and a differential taxation of the privatized private utilities enterprises should be encouraged.

Finally, as already noted, strong government support to the consumer protection associations is an essential and complementary requirement. The insistence on this issue has to do with the importance given in this paper to the rebuilding of the weakened checks and balances institutions, with its consequences at the meta level. Besides, the development of consumer protection associations has other positive effects, in addition to those related to public utilities. Firstly, it improves social welfare in the low-income sectors of society, for they cannot afford acceptable quality goods, inputs and processes for the production of which are supposedly healthier, especially where the food industries are concerned.

Secondly, it may narrow the foreign sector gap by inhibiting the import of unhealthy or low quality products and by stimulating the production -- and eventually the export -- of differentiated manufactured goods. The possibility of institutionalizing such quality requirements marks the difference between a "careless", across-the-board trade liberalization policy (like

\footnote{113} Interference by the executive similar to that in the functions of the CNT has also taken place in other public utility sectors, such as water supply or highway tolls.

\footnote{119} See Azpiazu and Nochette (1994).
the one applied in Argentina), and a selective trade policy, which could be based on the imposition of a strict control of and eventually specific taxation of imports of extremely bad quality products (i.e., the avoidance of "quality dumping"), especially those coming from countries that do not follow international trade regulations (e.g., non-members of the WTO). Such a measure could be complemented by encouraging the submission of local producers to international production standards (such as ISO norms), which would minimize "trash imports" and simultaneously encourage exports to international markets of differentiated goods. This last suggestion involves the building of public, private, and mixed organizations (and the search for international cooperation) for technology and quality diffusion.

Thirdly, this government support will contribute to a more efficient development of environmental policies which, as mentioned in Section IV.1.4., and for similar reasons as those explained in the previous paragraph, also contribute to healing the foreign sector constraint. In short, quality assurance and environmental regulation is therefore one of the (typical) competitiveness policies which should be prioritized (but which are currently omitted from the government agenda).

4. Foreign Trade Policy

As suggested above (Section III.1.2.), the Argentine economy does not seem to have solved the traditional "stop and go" short-run pattern of macroeconomic behavior which characterized its post-war import substitution industrialization period (ISI). Indeed, given this economy’s structural features, expansion periods keep generating recession periods due to the adjustment of certain imbalances which, in the long run, tend to produce relative stagnation.

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the emergence of balance of payments crises, usually counteracted by real devaluations and restrictive monetary and fiscal policies that (in this type of economy) led to recessions, since devaluations act more through their effect on income than on prices (see Braun, 1973; Diamand, 1978; Díaz Alejandro, 1970). This specific economic pattern has also been analyzed by Nicholas Kaldor, Richard Nelson, Dudley Sears, and others.
given the inverse relation between the balance of trade and the phase of the cycle described above. Within such a macroeconomic context, Diamand (1978) stresses that foreign capital’s ability to stimulate production – or to prevent it from falling by temporarily healing the foreign sector gap – is related to the fact that it alleviates the foreign currency supply problem, rather than to its complementing of domestic savings. Therefore, foreign capital in countries such as Argentina plays a double role. First, as long as it provides the economy with hard currency, it offsets the foreign sector constraint caused by low exports and high levels of imports, both by preventing the adjustment (recession) needed to reestablish a non-deficit trade balance, and through the extra savings derived from the economic growth which they help to fuel. Second, it broadens the local savings supply. Diamand stresses the fact that in foreign exchange constraint-prone economies capital inflows alleviate the foreign gap distortions in the search for FDI as a source of increase in savings (and/or technology, export capabilities, etc.), since they are seen mainly as short-term supplies of hard currency.

Any expansion process experienced within such structural patterns will give way to further increases in the current account deficit level in the following years. This means that the foreign sector constraint is aggravated by the gradual and cumulative effect of an increasing foreign debt. That is why the use of foreign savings to solve the foreign sector gap is a short-term solution that usually makes things worse in the long run, as it constitutes a flow which must be maintained year after year in order to prevent a recession from arising. As long as the structural trade imbalance is not reversed, foreign savings in the following years would not only have to “correct” the trade imbalance, but also the negative financial flows resulting from the increased foreign indebtedness. Unless foreign savings are targeted to increase future repayment capabilities (on hard currency conditions), the story will necessarily end with a foreign sector crisis. This implies that it is not enough to target foreign capital to productive investment in general. It must be assigned to the productive activities likely to generate hard currency supplies directly or indirectly, increasing the exports/GDP ratio more than the imports/GDP one. In other words, a policy which systematically increases the level of production of exportables and importables at a higher rate than that at which GDP rises emerges as an essential strategy towards the resolution of the structural foreign sector constraint, and is therefore imperative for the achievement of systemic competitiveness. By the way, this is the only way towards an open economy in the Argentine case (as in other cases).

Hence, the absence of an active export promotion (and importables production) policy certainly constitutes an important barrier towards the achievement of sustained growth, as long as the only way to alleviate the foreign sector gap in the short run would still be an induced recession. Within a fixed exchange/currency board scheme (where devaluations of the local currency are inhibited), the foreign sector crises resulting from structural trade imbalances can only be reversed by strong reductions in the levels of domestic demand and the resulting increase in the unemployment rate (the latter followed by a reduction in the level of real wages, and a deterioration in income distribution, as revealed by the 1995 downswing of the cycle).

The fact that a major proportion of foreign savings were targeted, during the 1991-94 upswing, to personal consumption loans, reflects, as indicated above, the government’s and big business’s misperception of the balance of payments constraint. Following Diamand’s diagnosis, and given the structural macroeconomic features posited above, a first essential suggestion emerges, namely, the need to develop sterilizing policies to promote the deflection of foreign savings towards productive investment (although the neoliberal view held by the government and big business would consider such a measure typically interventionist) and which could, as in Chile, minimize the inflow of short-term speculative capital.

An exports promotion policy seems to be another required instrument towards the improvement, in the long run, of the trade balance. In this sense, several measures should be considered. First, the implementation of policies which helped to diversify the exports markets (we have already pointed out the fact that Argentine exports are highly dependent on the

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141 In the case of foreign direct investment, the problem persists, inasmuch as dividend payments also require hard currency availability, especially when, as during the import substitution period and the nineties, they are not oriented to the production of tradables.

142 For example, foreign direct investment destined for the privatized public utilities sector could indirectly narrow the foreign sector gap if the X efficiency gains resulting from the new management led to a decrease in the cost of inputs (electricity, natural gas, and so on). Hence the need for adequate regulation of this particular sector, as stressed in the previous section, is again posited as an essential component of any industrial policy.
When positing the need for an industrial policy, the difference between a supply-side perspective and a systemic approach should be noted (see Sirlin, 1997). Indeed, while the former assumes that entrepreneurs have a neoclassical profit-maximizing rationale, which implies the complete absence of transaction costs and a quick response to changes in relative prices, the latter bases its policy design on evolutionist microfoundations — thus taking into account transaction costs, setting the institutional requirements as of prime importance, and recognizing the fact that entrepreneurs are prone to misperceive and/or respond with delay to alterations in relative prices, especially within incomplete and segmented markets, as is the Argentine case. While in the supply-side approach distorted price signals are ascribed to capital market failures, to externalities (technological, and others) and/or to a bias towards non-tradables induced by the relative prices and profits in the economy, the systemic perspective emphasizes the need to consider the existence of coordination failures and limited entrepreneurial foresight.

Hence, while the supporters of supply-side-inspired policies concentrate policy instrument design on measures affecting price signals and stimuli, the systemic-inspired measures — which do not ignore the need to counteract non-trade biased relative prices — concentrate on the need to improve entrepreneurial performance as regards coordination and information problems, and seek to achieve cooperative solutions within collective restructuring processes which could strengthen productive networks. While the former type of measures involve a low institutional framework (concentrating on the design of traditional macroeconomic policy instruments) the latter require a strong institutional context. This implies competitive market-building, enforcement capabilities and cooperation between different social actors (government, the technological-scientific sector, trade unions, big business, SMEs and other intermediate associations, including consumer protection associations, political parties, and so on).

The policy instruments suggested in this section, therefore, should be appraised within such a systemic framework. In other words, any active industrial policy which does not simultaneously tackle the low-trade economy bias brought about by relative prices and the required institution-building, will certainly be doomed to failure. Since Argentina’s markets keep proving to be incomplete and segmented, the promotion of interaction amongst different social actors and the encouragement of institution-

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143 As an outstanding example of this, in the city of Buenos Aires (which in 1996 achieved a relative autonomy similar to that of provinces) some academic experts and members of the new city government are discussing the fact that the city has never been considered as a productive space, and exports practically none of its own products. They are positing the need to explore how to develop engineering industries (including specialized software) through coordination, assistance and information-oriented policies rather than direct subsidies, in order to exploit the city’s comparative advantages, derived not only from its cultural, economic, and scientific-technological level but also from its privileged infrastructure. The point here is to mention only one example of the potential for the constitution of new service-production spaces (in the case we just described, local economies already exist with a level of potential), the emergence of which is hampered by information and coordination problems which are not even considered either by the prevailing neoliberal approach or by the traditional approach to industrial and export promotion.
building could be posited as a policy priority (or as a necessary condition) for the success of any industrial policy.

That is why, under the aforementioned assumptions, an active promotion policy geared to a diversification of the exports mix, especially designed to increase the proportion of differentiated goods in the total of foreign sales, should be implemented. In fact, Argentina's weak performance in the export of such goods reveals a lack of systemic competitiveness. Although the description of a detailed export promotion program goes beyond the objectives of this paper, the removal of the above-mentioned institutional barriers to the emergence of trading companies – in which SME exports could be stimulated – appears to be an essential, concrete and immediately applicable measure.

Moreover, downstream processes and products in which dynamic comparative advantages could be developed – such as vegetable oils, shoes or differentiated dairy products – should be encouraged. Since the relative prices problem constitutes only one of the obstacles towards such an achievement, the an interactive institutional context should be fostered, in particular because one of the cultural patterns of local entrepreneurs which encourages price-oriented (supply-side) policies is their tendency to conceive active policies only in relation to their access to public subsidies. Hence a policy instrument hardly used in Argentina, and one which should be considered thoroughly, is access to international technical assistance.

It is clear from this analysis that the traditionally macro-level perspective from which the foreign sector constraint is usually appraised should be complemented with a micro-level diagnosis, and that policies which could resolve the structural stop and go pattern of development should include an active promotion of institution building, the development of meso-level policies (education, health, science and technology) and the encouragement (in this case at the meta level) of the development of intermediate associations which could help to rebuild the weakened checks and balances to the economic elite's activities. At the meta level of analysis the tackling of non-Schumpeterian cultural features manifested by local entrepreneurs should be considered – while a political commitment towards institution-building appears to be essential.

5. Monetary and Financial Policies

The design of monetary and financial policies goes beyond the aims of this paper. Nevertheless, several aspects of the present monetary system should be considered within a long-term framework, while many negative characteristics of the financial system should be reversed, and two of these may be pointed out here.

In the first place, the absence of a monetary policy resulting from the fixed dollar/peso exchange rate and currency board scheme does not constitute a desirable macroeconomic context for all the times and circumstances, but marks a transition period in the building of a solid local currency. In this sense, the intermediate steps which could lead the Argentine economy away from such a restrictive condition – in terms of the macro-economic steering of the economy – must be designed. This issue has never been included in these terms on the public agenda. The discussion – when it took place – presented a fundamentalist (“eternal”) attachment to the present monetary scheme on the one hand, and technically inconsistent rejections which urged the need to abandon the scheme immediately on the other.

While the former assumed that the government would remain permanently incapable of responsibly steering monetary policy, the latter focused on the relative prices problem, regardless of the impact which a sudden change in the currency board scheme could have in an institutionally immature context. From different perspectives, both views avoid the institution-building problem and the evolutionary path of economies: the first, by taking for granted (assuming as a sort of invariable) the government’s institutional and political incapability in everything concerning the macro-economic steering of development; the second, by ascribing – in a reductionistic way – foreign sector constraint to the bias of relative prices, i.e., to the low level of the exchange rate, regardless of relative profits and costs.

Secondly, the aforementioned tendency shown by financial institutions to direct credit to personal consumption loans reveals the need, given the foreign sector constraint, to build a set of sterilizing instruments in order to deflect savings – both local and foreign – towards productive investments. Of course, such a policy does not guarantee any effective demand for credit from the productive sphere, but it could certainly constitute an obstacle towards productive investment if it were not applied (a sort of
“crowding-out” between consumption and investment). A whole set of policies designed to increase the financial sector’s X-efficiency should also be promoted for, as previously mentioned, the high level of active domestic interest rates is largely explained by the sector’s inefficiency.

Finally, it should be stressed that the financial policy package—the detailed design of which goes beyond the objective of these paragraphs—should be consistent with industrial policy and set within an institution-building strategy (micro), both from a sectoral perspective (macro) and a regionally determined development promotion perspective (meso).

6. Labor Market

The labor market situation is strongly determined by the high levels of unemployment in the nineties, especially after the 1995 downswing. The market is characterized by low real wages, precarious working conditions, increasing informal contracting patterns (with no social security), and so on. Its external flexibility, moreover, is currently the main feature derived from the macroeconomic consequences of the institutional shock applied in the nineties and from the legitimation of precarious “no future” labor contracts.

It should be stressed that—as already argued—we consider that this negative impact on the labor market as well as that which affected the behavior both of macroeconomic aggregates and of the foreign sector, was caused mainly by the forms, the rhythm and “the spontaneous efficient assumption by markets, institutions and organizations” of the neoliberal approach with which the package was applied. In other words, this twofold negative impact does not necessarily result from trade liberalization, deregulation and privatization per se.

In this sense, the labor market’s institutional framework is strongly involved in the micro dimension of systemic competitiveness. The cumulative learning processes on which technological cooperation networks are based require labor contract stability linked to continuous training and retraining (both in-house and in networks). However, as long as the institutional and macroeconomic context encourages high levels of workforce rotation, the required integration of product development and production (between and within firms) is replaced by the “productive islands” described in Section IV.1.5. We should take in account here the distinction between “high” and “low” roads to competitiveness (Coriat, 1997; Kaplinsky, 1993 and 1995). In fact, as long as competitiveness is based on the relative advantage given by the labor market’s external flexibility—meaning lower real wages, the “low” road to development—no interactive or cooperative network could develop. Simultaneously, there is always the potential risk of facing the competition from goods produced in more regressive social conditions (an even “lower” road) in the local and/or international markets, thus encouraging an intensification in local regressive conditions, and so on.144

Several convergent measures could be adopted in order to counteract the above-mentioned tendencies. Firstly (in broad terms), the design of an institutional framework which, by restricting external flexibility, promoted training and qualification programs within firms and districts, i.e., technological and internal flexibility. The government itself should develop training programs especially directed to those sectors (SMEs) whose financial stress inhibits them from devising medium and long-term personnel qualifying strategies. Thus, the currently irresponsible labor contracts that stimulate and encourage high levels of workforce rotation constitute one of the main obstacles to the upgrading of working skills, and a political and institutional reversal of this situation should be given priority over the suggested direct training programs.

Additionally, at the meso level of analysis, a general upgrading of the basic education level should be attempted. This affects, of course, the meta level, due to the integrating—and longer-term—effects of a highly educated society. In short, measures relating to both the supply and demand of the workforce should be simultaneously implemented. Regardless of the promotion of investment opportunities in the manufacture of differentiated goods, policies should include the restriction of current external flexibility “through precariousness” and the promotion of internal technological flexibility with regard to the “demand side” of the problem, as well as a

144 The competition for competitiveness through devaluation, tax rebates, and low salaries leads to a vicious circle (Kaplinsky, 1993). Using Kaplinsky’s (1995) terms, one may say that this is the “lowest road” to competitiveness, and a totally erroneous one in the case of intermediate income level economies, with intermediate (though decreasing) educational levels, such as the Argentine one, which still enjoys comparative advantages as a result of its professional and skilled workers, at least vis à vis other LCDs (for the question of absolute advantages see Dosi et al., 1990).
general (basic education) and specific (training programs) qualification strategy as regards the “supply side” of the labor market. Of course, the mere improvement of working conditions affects the meta level of systemic competitiveness, since eventual improvements of income distribution as well as continuous increases in the real wage level contribute to social integration and social welfare, i.e., systemic competitiveness.

7. The MERCOSUR Opportunity

MERCOSUR constitutes a new opportunity for development. Until now, the experience of MERCOSUR, with its successes and failures (see Section III.1.2.), may be seen as a “careless rush”. Nevertheless, it laid some necessary foundations for a virtuous process. For instance, an underrated achievement is the elimination of the armed forces’ main traditional “war hypothesis” (that of an armed conflict between Argentina and Brazil). No matter how ridiculous this “war hypothesis” may have been, it had at least two important negative impacts, namely, the constant creation of barriers to the development of very important areas of Argentina (e.g., through the armed forces’ opposition to the building of infrastructure in important economic “corridors” that were regarded as “war corridors” facilitating Brazilian invasion – again, no matter how crazy the “hypothesis” actually was –), and more importantly, a long term climate of distrust and lack of cooperation between the MERCOSUR countries (especially between Argentina and Brazil) which may be summarized as a “zero sum relations pattern”. In turn, this hampered the idea of the extension of Latin American markets to other countries north of Brazil.

So complex a problem as MERCOSUR cannot be tackled in this paper. Nevertheless, there are some obvious points which neoliberal policies disregard. Firstly, MERCOSUR constitutes a stronger base (if used as one) for the discussion of US proposals for Latin America. Secondly, it offers important opportunities to increase economies of scale and scope and systemic competitiveness in general, through industrial, trade and technological cooperation. Thirdly, this economic space may yield all the advantages which follow from considering it as an extension of the market. Fourthly, the extended market could be a basis for attracting FDI not merely on the basis of tax rebates and low salaries, and thus, a different kind of FDI (especially from the technological viewpoint and with regard to the investors’ horizon, i.e., moving towards a long-term one). Of course, all these opportunities depend on one’s approach to MERCOSUR. The neoliberal approach tends to pay attention only to the most traditional views relating to “Ricardian” static comparative advantages (efficient static allocation), i.e., to “one-off” and not tendential effects (to use Solow’s concepts). Additionally, the “spontaneous efficient markets and institutions assumption” already discussed in this work, together with the “soft option” propensity of most political and economic actors (and especially of local big business)\textsuperscript{145}, constitutes a barrier to MERCOSUR’s long-term mutual adjustment and institution-building, and thus to cooperation efforts aimed at gaining dynamic efficiencies (often called “Keynesian” and “Schumpe-
terian” efficiencies).

Nevertheless, one might expect a different, virtuous road for the MERCOSUR insofar as a “positive sum” attitude emerges (and in some aspects it is emerging). Our hypothesis is that the main factors that may ensure a longer but more solid and virtuous road are, on the one hand, big business’s and the policy makers’ change of view about the above-mentioned opportunity, and on the other hand, and perhaps to a greater extent, the much more positive attitude shown by those actors (provincial governments, regional economic and social actors, intermediate questions that have been discussed, the most important issue here is to prevent – associations) who are beginning to see MERCOSUR not as a space for short-term profits but as a chance for development (and, even survival)\textsuperscript{146}. As with all the other questions which have been discussed, the most important issue here is to prevent – through federalist and meso-conscious attitudes – the erection of barriers to the road as traditional concentrated big business sectors encourage. This is a problem which is largely dependent on the meta and macro levels. These obstacles notwithstanding, policies at the meso and micro levels might have increasingly positive results if they tend to produce better conditions for the creation (or accumulation) of political, social and economic resources by intermediate organizations and what one may call the actors at the meso level. In this respect, the study of successful

\textsuperscript{145} Once again, no matter how crazy it is, there are still influential Argentinean politicians, economists and, especially, entrepreneurs who consider Brazil as a “a non fair playing Braganza Empire”\textsuperscript{(sic)}.

\textsuperscript{146} Not only in Argentina, but also in Brazil.

\textsuperscript{147} Not surprisingly, those in the above-mentioned “war corridor” regions.
experiences in the EU\textsuperscript{148} and the efficient use of the existing channels for, and resources of, foreign aid, technical assistance and advice from foreign experts seems to be, as mentioned above, one of the instruments to be explored.

V. Lessons from the Argentine Experience.
From Industrialization without Vision to the Shock without Vision

The "Long Nineteenth Century" began with history's largest property transaction (as Alexis De Tocqueville saw the French Revolution). The "Short Twentieth Century" (Hobsbawm, 1994) began with a process of change of world economic institutions and "rules of the game" (Polanyi, 1957) and with massive property transactions as well. It ended with still larger, and much more extended, property transactions and a new changing process involving the "rules of the game". Most of these transactions (the privatization and deregulation processes) took place in Eastern Europe, and took the form of largely unavoidable institutional shocks. Certainly, neither the magnitude of those transactions nor the depth of the shocks can be compared with those that occurred in Western and Latin American countries. The reasons for these differences cannot be discussed in this work, but some of them are obvious, such as the change from centrally planned economies to mixed ones, or the magnitude of the property transactions in terms of GDP.

Nevertheless, as in Argentina, those processes and transactions have been carried out, with some exceptions (e.g. Eastern Germany), following neoliberal theories and recipes (what may be called "the neconservative revolution") in quite a linear way, and in most cases they implied across-the-board institutional shocks. As we have already seen, the privatization process in Argentina was the most massive and fastest in the Western World (with the exception of the German one, Azpiazu and Vispo, 1995).

\textsuperscript{148} Metaphorically, it may be said that MERCOSUR needs many socially accepted "German army parades passing under the Arc de Triomphe".

Besides, we can distinguish both "shock based" from "reform based" (or shock and reform) transitions of economic systems, and unavoidable from avoidable shocks. We think that those facts and distinctions enable us to draw lessons from the Argentine experience which might be useful for other cases only if the historical, social and economic specifics are not ignored.

Our hypotheses are as follows:

- All transitions are a blend of shock and reform, and the particular mix of shocks and reforms is what differentiates shock-based from reform-based transitions. Simultaneous shocks on different institutions should be avoided - if possible - because they are too difficult (if not impossible) to manage and coordinate; because the costs of rectifying them when wrong are very high (in this sense, policy makers should recall the arguments in favor of what Karl Popper called "social engineering").

- This does not mean that reforms are always and universally better than shocks, since there are situations in which some shock policies are a necessary basis for successful reforms. Some crises, furthermore, are so generalized that they almost exclude reforms, at least in the first stages of the transition. In other words, a sudden collapse of political, social and economic institutions leads to an across-the-board "de facto" institutional shock independent of intentions and policies. We think that the fundamental characteristic of a crisis is the lack (or extreme weakness) of institutions that might be used as firm bases and levers for change.

- The meta level is perhaps the most important one to guarantee successful transitions (when, as should be the case, social costs are calculated in the evaluation of success) precisely because a number of solid and relatively efficient institutions and organizations are needed as levers to change others without falling into an institutional void that amounts almost to a "jungle game".

- Last, but not least, building strategies render the transition successful in the medium and long run, and they should be launched from the very beginning (and not merely as "second generation").

Following the definition already given, we consider that at the end of the eighties Argentina was not in a generalized crisis, but rather in a process of monetary crisis that could be stopped (and in fact was stopped) through a monetary shock, in order to begin the recovery of the local currency. This means that most of the other shocks were avoidable.
All the arguments developed through the previous sections point to the same conclusion, i.e., that the neoliberal policies applied in Argentina ignored (and that the neoliberal approach tends to ignore) most of these distinctions and conditions necessary for a successful transition. As a consequence, deliberate and simultaneous (avoidable) shocks were brought about which in turn had high (and avoidable) costs, and instead of building the basis for development and increasing systemic competitiveness, seem to have induced a succession of bubbles. We also argued that the neoliberal approach to transition generated not only costs that have already been paid, but also increasing costs that are still being generated and that will have to be paid in future. The latter, moreover, might have been avoided through reform and building policies (one clear example is the vicious circle of careless trade liberalization-foreign exchange constraint-downwards adjustment-foreign indebtedness-foreign exchange constraint-downward adjustment).

Besides, we have analyzed the costs and negative impacts and trends relating to the neoliberal across-the-board shock (in terms of wild regressive distribution of income, low investment\textsuperscript{149}, low-trade economy, incomplete markets, profit distortion, social disintegration, etc.). We should try to avoid these consequences by drawing attention to the roots of the Argentine neoliberal approach to transition connected with those results.

We might consider the following as the main roots of the neoliberal approach to the transition of economic systems.

1. It overrates the importance of competitive attitudes (which do not always lead to competitive markets) and disregards or underrates cooperative attitudes, which are all the more important when society is emerging from a long period of zero sum game.

2. It pays special (and justified) attention to the "horizontal dimension"\textsuperscript{150} of economic systems (i.e., to those relations established voluntarily in the markets), especially to those competitive relations established in efficient markets, but ignores the "vertical dimension" or "command dimension", i.e., that of the power relations that affect the markets' social efficiency and their ability to solve socio-economic problems. Clear examples of this are the negative impacts of deregulation on some markets, such as the pharmaceuticals market; the privatizations without efficient and independent regulation agencies, and the lack of competition policies.

3. It ignores the "time dimension" or "change dimension", i.e., the dynamic or "Schumpeterian" one that encompasses the ways in which the social and economic fabric is built and changed, perhaps the most important dimension in terms of development (again, we have analyzed examples like the careless and turbulent trade liberalization without restructuring policies, or the almost complete lack of policies at the "micro" level).

These core aspects of the neoliberal approach are, to a great extent, at the base of the problems that resulted from Argentine neoliberal policies (akin to others, such as most of those of the countries of the former Soviet Union, those of Bolivia, Poland, Bulgaria, Albania).

One set of problems may be placed at the "meta" level, especially those that affected "the basic patterns of political, legal, and economic organization". The neoliberal approach has been basically an economist one, even though references to institutional and organizational problems were made, the neoliberal approach paid attention to only strictly economic institutions (and even then, only to some of them) and its view of these issues was rather mechanical and did not pay any attention to the "vertical" - or command - dimension (for example, the distortion of policies through lobbying and that of most of the basic markets, e.g., public services, through the abuse of dominant positions).

By giving the economic institutional shock priority, the neoliberal approach utterly disregarded the importance of political and legal organization, especially in questions related to the "vertical" and "time, or change" Schumpeterian dimensions. This attitude, moreover, led to a bias against the liberal-democratic institutions, which were implicitly or explicitly considered as a real or potential barrier to change. In a society that was coming from decades of economic power concentration, of progressive damage to the state and other social organizations, and of increasingly weaker political and social checks and balances, neoliberal economism heavily contributed to creating what has been defined as a "private state" (Oszlak, 1997). The latter's main trait was an unmediated relationship

\textsuperscript{149} Especially when measured in terms relative to the high age of the capital stock, to other dynamic non-advanced economies and to consumption.

\textsuperscript{150} For a treatment of the dimensions of economic systems as used in this work see Bowles and Edwards (1985).
between big business and the executive, which led to the brink of an institutional and organizational void (Botana, 1997).

The negative impacts of this process reached almost all aspects of economic and social life, from the constitution of "greenhouses" where privileged non-development quasi-rents are obtained, to social disintegration associated with a regressive income distribution, as well as the loss of public spaces and questions (the above-mentioned "rerum romanum"), to the diverting of subsidies and to the lack of regulation of oligopolistic and oligopsonistic practices. (A clear example is the power gained by big retail conglomerates over independent producers, reinforced by the cross takeovers through which hypermarkets and the biggest producers formed vertical integrated groups which displaced competitors and encouraged income and profit transfers at the cost of consumers and independent firms, typical abuses of dominant positions).

In all those respects, the question of the Supreme Court is perhaps the most outstanding example of these impacts. With an independent Supreme Court the rights of the majority of consumers and producers might have been preserved, and this includes — directly or indirectly — questions such as the abuse of dominant positions in the markets and the accountability and transparency of public officials and policies. The latter are in turn related to the building of more efficient markets, the control over the creation of "greenhouses", and the problems of the diversion of subsidies and distortion of government policies (as in the case of funds for training and the creation of jobs in the SMEs, Cárcar, 1998).

Even though the German case must be looked at taking into account all the specific features that distinguish it from both the Latin American and the Eastern European ones, the decisively positive role played by the Constitutional Court in some of the hardest-to-solve problems of massive property transactions (e.g., the ways in which the Constitutional Court avoided shocks on the institution of property and on welfare structures, Quint, 1997) and in the preservation of social market economy orientation shows the importance of independent political institutions as necessary (though not sufficient) conditions for the successful transition of economic systems (i.e., for the "vertical" or command and "change" dimensions of the economic system).

Like all the other questions, this one is related to historical, evolutionary, cultural, political and social patterns. Our point is that the neoliberal economist approach in fact worsened the fragility and the negative aspects of those patterns, amongst other reasons because of the prioritization of the economic "horizontal dimension" of the transition, because the change towards efficient markets was conceived as a question of mere "hands-off" shocks, because — and especially the market — were not seen as socially embedded, and because "spontaneously generated" competitive markets were seen as the best and supreme regulators of even political and social patterns (the opposite, one might say, of a social market economy approach).

Thus, essential political and social institutions were, and still are, considered not only as of secondary importance, but rather as an obstacle to efficiency (clear examples of this are the way in which the privatization of the postal service was carried in 1997, or how the privatization of airports has been pushed in 1997-1998). In this respect, the neoliberal economists' attitude is akin to that of the central planners, to the extent that it suffers from the "Superman syndrome" combined with the "intellectual cogitation" way of designing and carrying out public policies, as opposed to the "muddling through" and "mutual adjustment" style of transactions defined in Anthony Downs' classic work (Downs, 1967)131. In other words, the neoliberal administration starts from the assumption that it has the single and complete solution to each and every problem, that this solution is only a question of implementing technically designed policies, and that there is no need for any mutual adjustment or adjustment with the political organizations fundamental to democracy (especially Congress, the political parties, and the judiciary), nor with the organizations at the "meso" level, the social actors and the stakeholders. The basic concept is that the right policies are born complete and fully developed in all their details of the "intellectual cogitation" of technicians (the origin of Downs' concept of the bureaucratic "Superman syndrome"), and the only problem to be solved is how to enforce them without adjustment and as soon as possible. This is why neoliberal policies did not gain momentum "pari passu" a liberal political process and the discretionary power of the executive proved to be essential for the neoliberal institutional shock. Besides, since the actual implementation and enforcement problems are not so simple, the "natural" trend has been to discuss the policies with the "fewer and more powerful

131 Nochleff (1984) has already drawn from Downs' theoretical framework for his analysis of ultraconservative policies in Argentina during the military dictatorship period (1976-1983).
the better" social actors, which confines the mutual adjustment process only to big business, which in its turn is (almost) the only social actor with the ability to alter, or deflect in its favor, the policies designed by the neoliberal technical bureaucracy (not in a Weberian sense). A clear example of this is that the Minister of Economic Affairs tried to push forward the privatization of the Banco de la Nación Argentina (Argentine National Bank), the biggest bank in the country, just a few weeks after the Opposition won the election for the partial renewal of the lower chamber of Congress (in October 1997), rejecting any debate over the process either with the members who would enter Congress in December 1997, or with the organizations which represent the bank's principal clients (the population of small and medium urban settlements and the bulk of the agricultural producers).

The main economic problem resulting from all this is that political and social institutions necessary for systemic competitiveness and for development under democracy are weakened. When the process of concentration of political and legal power in the executive runs simultaneously with a concentration of economic and lobbying power in big business, some of the virtuous processes (of development and systemic competitiveness) and the corresponding building policies are hampered, e.g., the promotion of competition, the building of complete markets, the emergence of new entrepreneurs, consumer rights and social integration. This affects not only economic efficiency and dynamism, but also the legitimation and consensus required for a sustained long-term process of economic and social reform, especially in a liberal-democratic political regime.

These meta level questions are related to the neoliberal notion that the across-the-board institutional shock is the only alternative to ineffective gradual reform. If such a shock must be produced, there is no room for mutual adjustments and muddling through the problems, and an extreme concentration of decision-making power is required. This approach has several flaws. Firstly, there is no such "iron option": some shocks, in fact, are avoidable, and others not. Secondly, building shocks (with the partial exception of the case of money) are a mere illusion, since economically efficient institutions and organizations are the result of evolutionary processes. It is possible to destroy overnight, but not to build overnight (evolutionary processes do not exclude shocks, but evolutionary development processes are negatively affected by across-the-board shocks). Thirdly, as suggested, change needs to be supported by some institutions and organizations that act as levers for the change of others, and are, once again, changed by the latter within a process of mutual adjustment and feedback.

In the Argentine case, the one unavoidable shock was that which affected the monetary regime. There was no general catastrophic collapse of the whole institutional system, as seems to have been the case in the Eastern European countries, but what basically happened was the virtual disappearance of money. That one institutional crash needed immediate recovery, or rather rebuilding. With the abundant international liquidity, the pegging of the peso to the dollar at a fixed exchange rate plus the free convertibility of the peso, should have been enough to shock-start the progressive recovery of that most important economic institution (money). The other changes did not need to be carried out as shocks. Neoliberal economists argued that other shocks were needed to regain the "confidence of investors" overnight. This argument, however, is extremely weak, and the reasons are: a) due to the way in which a currency board adjusts, if that confidence were not rapidly and fully restored, the consequence would not be a failure of recovery in the demand for money, but a higher interest rate and lower domestic absorption (which, in fact, overshoot); b) the positive income shock brought about by stabilization may itself have balanced out, at least in part, the restrictions in the recovery of domestic absorption132.

Without going into a full macroeconomic discussion – presented, to a certain extent, in previous sections –, it seems clear that the cost of producing the unavoidable shock (the monetary one) without the others (the deregulation, trade liberalization and privatization ones) would have been a lower level of domestic absorption (not in comparison with 1989-1990 but with 1991-1994). Was this cost measured against the costs of simultaneous massive property transaction, deregulation and trade liberalization shocks?

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132 Assuming that the capital inflow would have been lower if confidence had not been rapidly regained because, among other reasons, an "infinite" rise in the interest rate cannot solve the problem of money supply by itself, since, over a certain level, the rise in interest rates leads to a higher national risk. As to the foreign exchange constraint, it would have been controlled by a less sharp growth in domestic absorption and a less rapid, and more export-oriented, trade policy. The fiscal imbalance would also have been manageable because of the positive (though smaller) income shock brought about by stabilization and the sudden "inversion" of the Oliva-Tanzi effect would have reinforced fiscal revenues. Moreover, the growth of government consumption could have been much more gradual (since it was a policy decision, not an endogenously determined effect of monetary stabilization itself).
Across the board, simultaneous and extremely rapid changes, impossible to coordinate and to manage, were pushed forward when they were avoidable. It seems that the main reasons for this were the neoliberal assumption that efficient markets, institutions and organizations appear spontaneously and overnight, the search for wide political support for the shock (the neoconservative-populist alliance) and the pressure of big business.

The neoliberal assumptions and policies proved to be erroneous in three respects.

Firstly, neither efficient markets nor efficient institutions and organizations appeared out of the blue (or out of the shock). Secondly, the price paid for the neoconservative-populist alliance (overshooting of consumption, consolidation of a typical populist leadership at the core of the executive) was required precisely because a shock-based transition needs that kind of political support (at least in a democratic regime), and thus was in part a consequence of the neoliberal shock approach itself. Thirdly, the lobbying power of big business is one of the social features that should be changed (like the power of the nomenklatura in Eastern Europe), and thus the point is not to do whatever big business wants and more (the neoconservative-populist over-reaction) and to weaken the institutions and organizations that can provide checks and balances to its power, but to preserve and upgrade legal and political institutions at the meta level (here again, the economics of the neoliberal view is a handicap).

The oversimplification of the social and economic processes which led to the lack of distinction between unavoidable and avoidable shocks was repeated in almost all the policies which formed the core of the neoliberal package. In the case of trade liberalization, the idea that it leads, whatever the way and context in which it is carried out, to similar (and always positive) results, combined with the "shock bias" led, as we have seen, to a careless trade liberalization that failed in several respects (investment in tradables, orientation to a high-trade economy).

At this point, one may draw a certain parallel with what happened in some Eastern European countries. During a shock, those with more power are likely to have better chances of turning the shock to their favor. As suggested in previous sections, one may say that big business, traditional politicians and the orthodox "technocrats" of former military dictatorships (the Peronist party has been in government through the neoliberal shock, and economic administration has been conducted by those "technocrats" and big business managers) amounted to what may be identified as the old "nomenklatura". Those politicians, trade unionists and technocrats have a long tradition of political rent-seeking, and big business one of obtaining privilege quasi-rents (the counterpart of those political rents) through lobbying (the main conglomerates were formed during the import substitution period, and some even during the "grand expansion" of the XIX century). The other part of the "neoconservative-populist" alliance were the traditional landlords who have been obtaining "Ricardian" rents (Basaldo, 1998).

In short, the neoliberal shock was carried out by old, traditional social actors, the same ones who triggered and supported the natural resource rent period and the "industrialization without vision" (Esser, 1993), and who in this period led a "shock without vision" based on foreign indebtedness, consumption and massive property transactions and deregulation. Again, short term profits and growth (the bubble) replaced (and displaced) long-term development and systemic competitiveness. Again, our point is that successful transitions should have a bias towards the emergence of new actors (as should any evolutionary process) and that this emergence was hampered by the across-the-board institutional shock. This problem leads to another, namely, the opposition between shock and building processes.

In the Argentine case, it is clear that the neoliberal shock completely disregarded (always with the exception of the monetary question) the "building question". At the "meta" level, because of the disregard for the importance of democratic-liberal institutions and the power of the traditional political and economic structures, there were no building policies but, as argued, a clear backwards movement. This lack of concern indirectly affected all the other levels ("macro", "meso" and "micro"), and the negative impacts of the shocks were reinforced by the lack of building policies at all those levels (thence the "shock without vision").

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135 The Peronist party and the trade union bureaucracy (perhaps the main force within that party) constituted perhaps the principal political force linked to the import substitution industrialization. From 1989 to the present, this party led the neoliberal shock, in alliance with big business and the neoliberal "technocrats" who were the economists of the military governments before 1983. From 1989, the Peronist politicians "turned upside down" the traditional line and economic proposals of their party, but kept the "populist leader" political style of the party and most of its traditional politicians and trade union bureaucrats.
At the "macro", "meso" and "micro" levels, the neoliberal "spontaneous efficient markets, institutions and organizations assumption" was reinforced by the trend towards "soft options". In other words, the concept (and the traditional practice) that no social building efforts are required for development and systemic competitiveness is reinforced by the notion of a "magic" transformation achieved only by hands-off and across-the-board shocks.

In the previous sections we have analyzed different negative impacts of this ideological and social attitude (in questions like trade liberalization, investment opportunities, consumption boom, and careless deregulation). Nevertheless, it is worthwhile highlighting some examples. One is the assumption that price signals are enough for investment and export-oriented attitudes, and that state intervention is needed only to "emphasize" market price signals. Thus, the neoliberal approach presumed that high profits were enough to trigger investment in the privatized firms, disregarding market structures and regulation problems. The automobile regime is another clear example. It was assumed that a virtuous, complex subcontracting system and technological-industrial development could be rapidly achieved by increasing (through subsidies and a quasi-reserve of the market) the profits of the main firms. The same was assumed in the case of exports and the emergence of new and dynamic exporters. This implies a total disregard of: information and coordination problems, the burden of existing business practices, incomplete capital markets, traditional practices in the banking system, lack of contacts and information flows between the local firms, and especially comparison with the international "best practices", etc. (for a complete appreciation and analysis of market flaws in relation to industrial-technological development see Lall, 1993). This is most serious when the economy is coming from decades of inefficient or even non-existent markets.

In this last sense, we think that the across-the-board neoliberal shocks (again, with the exception of monetary stabilization) worsened the information and coordination problems. Moreover, the virtuous impacts of the one unavoidable and successful shock (the pegging of the exchange rate to the US currency and the free convertibility) were not only underexploited, but jeopardized by the above-mentioned lack of vision (see the analysis of the foreign sector fragility and the low and non-tradable-oriented investment process).

As suggested, the disregard of the "command" or "vertical" dimension of the economy was one of the blind spots that explain the shock without vision. Following Leontief (1972) it may be said that the income and wealth controlled by any group, in relation to other groups, decisively determines the power they can exert to influence — or even steer — government activities. Thus, since the neoliberal institutional shock in fact exerted such influence (chiefly in the economic sphere), a small group of citizens came to control a high and disproportionate part of the national income, and a greater one of the national wealth. This has an obvious effect not only on income and wealth distribution, but also on the direction of public policies and on the efficiency of the markets.

During the "industrialization without vision" period, and during the regressive eighties, there was a vicious combination of economic concentration without (in general terms) important gains in terms of scale, scope and competitiveness. With such a background, (with the recovery of money) the most important building policies necessary for a true and successful reform are the promotion of competition, and the enhancement of institutions and organizations aimed at avoiding the bias towards public decisions guided by lobbying. As we have already said, this implies preserving and reinforcing checks and balances at the "meta" level, developing a modernized and efficient regulation of the non-competitive markets, (especially at the "meso" level), searching for a greater equilibrium between social actors and organizations and paying attention to the "command" (power) or "vertical" dimensions of the markets. Additionally, with regard to the "change" dimension, it means not only developing active policies (pari passu a reform towards a more efficient and less clientelistic state), but also identifying the main constraints to change.

Neoliberal policies failed in all these respects, as we have argued in detail in this paper (on the fiscal, foreign exchange, investment and savings gaps, on the low-trade economy, on the consolidation of "greenhouses" that obtain quasi-rents from privilege or non-renewable natural resources, on the finding of a way out of secular relative stagnation, etc.).
We think that the basic causes of this failure — from the point of view of public policy — were:

- The lack of any distinction between unavoidable and avoidable shocks, and thus between shock and reform.
- The lack of any distinction between inefficient or unnecessary regulation, and necessary efficient regulation.
- The lack of concern for the "vertical or command" and the "change" dimensions of the economic system which, in turn, affected the "horizontal or competitive markets" dimension which was the most explicit goal of the neoliberal reform (i.e., a market-oriented economy).
- The fact that an across-the-board institutional shock badly required a great concentration of power (and a consumption "boom" for gaining political consensus), and that this implies, more probably than not, an alliance with the most traditional and powerful political and economic actors, i.e., an alliance with those whose behavior should be changed.
- A central "pars pro toto" fallacy, by which the "meta", "meso" and "micro" levels are considered as a mere consequence of what occurs at the "macro" level.
- A proton pseudo: the "spontaneous efficient market and institutions assumption" that displaces the fundamental problem in a transition period, i.e., the process of building institutions and organizations for enhancing systemic competitiveness and an acceptable distribution of income as basis for development.

We think that the detailed analysis of specific aspects of the Argentine experience in the nineties developed in this work may be useful for other economies in transition. Nevertheless, at the most general level, the four main lessons that may be derived from the Argentine experience are:

- Social market economy biases and systemic and "non-economicist" approaches are necessary to counterbalance the costs and the failures of the unconcerned conservative "shocks without vision".
- Even when these shocks have already occurred, the reduction in their present and future costs and the search for systemic competitiveness, social integration and equilibrium, and development (all of them face the same question) call for fewer avoidable destructive shocks and more institution- and organization-building policies.

- The neoliberal approach is totally inadequate for such a task, because its very roots determine a serious blindness to — or disregard for — most dimensions of socio-economic development. One cannot seriously call a "market-oriented economy" an economy in which an increasing part of the population is left out of the market because its effective demand is negligible, and — at the other extreme — another growing part of the population (in terms of income, consumption and wealth, though by no means in terms of numbers) is out of the market because its economic power and its lobbying capabilities shelter it from market competition.
- As seen in the Argentine case, neoliberal policies seem to have missed the one central question, namely, the fact that the success of any economic system should be measured in terms of the sustained long-term increase in the welfare of the entire population, which implies a continuous movement towards equal individual opportunities and social integration.
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TABLE I.
THE ARGENTINE ECONOMY IN THE NINETIES
SELECTED GROWTH RATES IN 1986 PRICES
(in %)

<table>
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<tr>
<td>GDP</td>
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<td>6.0</td>
<td>7.4</td>
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<tr>
<td>Consumption</td>
<td>10.8</td>
<td>5.1</td>
<td>5.7</td>
<td>-5.7</td>
<td>5.3</td>
</tr>
<tr>
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<td>13.7</td>
<td>19.0</td>
<td>-15.9</td>
<td>8.1</td>
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<tr>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Exports</td>
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<td>5.0</td>
<td>14.8</td>
<td>22.0</td>
<td>6.3</td>
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<tr>
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<td>11.0</td>
<td>20.8</td>
<td>-12.0</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Economic Affairs.

Note: In this, as in all the following tables, the macroeconomic aggregates correspond to the national account figures prior to the revision made in the last two years. The “new” calculations for the 1990-1997 period—that would lead to changes in the figures and ratios presented in the tables—were not used because the debate on their accuracy and methodology is just beginning.

TABLE II.
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TABLE II.1.
YEARLY VARIATIONS IN CONSUMPTION, INVESTMENT,
EXPORTS AND IMPORTS AS % OF YEARLY VARIATIONS
IN GDP* (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>89.3</td>
<td>72.2</td>
<td>71.4</td>
<td>86.1</td>
<td>85.9</td>
<td>81.6</td>
</tr>
<tr>
<td>Gross Investment</td>
<td>24.8</td>
<td>32.7</td>
<td>36.1</td>
<td>77.4</td>
<td>23.9</td>
<td>23.6</td>
</tr>
<tr>
<td>Exports**</td>
<td>3.0</td>
<td>3.2</td>
<td>12.4</td>
<td>-47.0</td>
<td>10.9</td>
<td>12.0</td>
</tr>
<tr>
<td>Imports</td>
<td>17.2</td>
<td>8.1</td>
<td>19.9</td>
<td>16.5</td>
<td>19.0</td>
<td>16.0</td>
</tr>
</tbody>
</table>

* The yearly monetary values of the increases/decreases in each aggregate are given as percentages of the monetary value of the increase/decrease in the GDP (for example, the share of the variation in consumption in the variation in GDP from (C1-C0)/(GDP1-GDP0) *100).
** In 1995 all the aggregates fell except for exports; thus, for this year, the percentage contribution of exports has a minus sign.
### TABLE II.2. FOREIGN SECTOR
(in US$ billions and absolute figures)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>13.9</td>
<td>15.3</td>
<td>16.2</td>
<td>19.2</td>
<td>24.6</td>
<td>27.6</td>
</tr>
<tr>
<td>Total Foreign Debt</td>
<td>58.4</td>
<td>59.1</td>
<td>67.8</td>
<td>79.5</td>
<td>89.7</td>
<td>99.7</td>
</tr>
<tr>
<td>Total Foreign Debt/Exports</td>
<td>4.2</td>
<td>3.9</td>
<td>4.2</td>
<td>4.1</td>
<td>3.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

### TABLE II.3. UNEMPLOYMENT RATE (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate***</td>
<td>6.5</td>
<td>7.0</td>
<td>9.6</td>
<td>11.5</td>
<td>17.5</td>
<td>17.3</td>
</tr>
</tbody>
</table>

*** As percentage of economically active population (annual average).

Source: Own calculation based on FIDE (Foundation of Research on Development), INDEC (National Institute of Statistics and Census) and Ministry of Economic Affairs.

### TABLE III. THE ARGENTINE ECONOMY IN THE NINETIES MACROECONOMIC STRUCTURE (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Consumption</td>
<td>83.6</td>
<td>84.8</td>
<td>83.4</td>
<td>82.4</td>
<td>82.2</td>
<td>82.9</td>
</tr>
<tr>
<td>Gross</td>
<td>14.6</td>
<td>16.7</td>
<td>18.4</td>
<td>20.0</td>
<td>17.5</td>
<td>18.1</td>
</tr>
<tr>
<td>Investment</td>
<td>7.7</td>
<td>6.7</td>
<td>6.3</td>
<td>6.9</td>
<td>9.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Exports</td>
<td>5.9</td>
<td>8.2</td>
<td>8.2</td>
<td>9.2</td>
<td>8.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Imports</td>
<td>13.6</td>
<td>14.9</td>
<td>14.5</td>
<td>16.1</td>
<td>18.1</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: Own calculations based on FIDE (Foundation of Research on Development).

### TABLE IV. THE ARGENTINE ECONOMY IN THE NINETIES. PRICE TRENDS

#### TABLE IV.1. RELATIVE PRICES IN TERMS OF INDUSTRIAL TRADEABLES. GROWTH RATES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-tradeables</td>
<td>48.2%</td>
<td>-3.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Simple exportable tradeables</td>
<td>3.5%</td>
<td>-0.7%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Protected tradeables</td>
<td>10.2%</td>
<td>-1.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Public services</td>
<td>27.4%</td>
<td>-3.8%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Toll highways</td>
<td>0.5%</td>
<td>-9.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Electricity</td>
<td>28.8%</td>
<td>-3.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Gas</td>
<td>15.5%</td>
<td>-5.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Telephone</td>
<td>25.0%</td>
<td>-5.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Industrial wages</td>
<td>43.9%</td>
<td>3.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>5.4%</td>
<td>6.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Wholesale Price Index</td>
<td>5.4%</td>
<td>6.5%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

### TABLE IV.2. INFLATION FIGURES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Price Index</td>
<td>36.9%</td>
<td>3.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Wholesale Price Index</td>
<td>5.4%</td>
<td>6.5%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

### TABLE IV.3. VARIATIONS IN THE COST OF LABOR

For the analysis of relative prices we have divided products and services into the following groups: (a) industrial tradeables: those goods that, even when protected through tariffs, are freely importable, and have been imported in large quantities relative to domestic production (most primary products are importable, but are not imported because of the country's comparative advantages); (b) non-tradeables: usual non-tradeables, with the exception of the main privatised public services; (c) protected tradeables: those goods that are protected through tariffs and other barriers to imports (natural and/or legal), and are not imported, except when imported by the same firms which produce them (as in the special car industry promotion scheme), and thus cannot be imported in significant quantities by individuals or commercial importers (they are under a market reserve or quasi-reserve); (d) exportable tradeables: those products that are Argentina's main exportables, which have a large and permanent X+M ratio, and/or which imports are negligible without protection; (e) public services rendered by companies privatised after 1989, and for which prices and rates are available (the sources for such prices and rates are BID OICAR 802, PID 0035, 1996, and Aspiauch, Bang and Nocatoff, 1995).

Source: Own calculation, based on INDEC (National Institute of Statistics and Census) and data from regulatory agencies.
### TABLE V.
THE ECONOMIC ELITE IN 1995
SECTORAL DISTRIBUTION OF SALES AND PROFITS IN THE
BIGGEST 200 FIRMS* (US$ billions and %)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Firms</th>
<th>% of firms</th>
<th>Sales</th>
<th>% of sales</th>
<th>Profits</th>
<th>% of profits</th>
<th>Rate of profit (profits/sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>110</td>
<td>55.0%</td>
<td>33.51</td>
<td>45.5%</td>
<td>0.77</td>
<td>16.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Oil</td>
<td>15</td>
<td>7.5%</td>
<td>9.52</td>
<td>12.9%</td>
<td>1.39</td>
<td>30.5%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Public utilities</td>
<td>38</td>
<td>19.0%</td>
<td>16.71</td>
<td>22.7%</td>
<td>1.74</td>
<td>38.2%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Holdings**</td>
<td>6</td>
<td>3.0%</td>
<td>2.21</td>
<td>3.0%</td>
<td>0.44</td>
<td>9.6%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Commerce</td>
<td>31</td>
<td>15.5%</td>
<td>11.70</td>
<td>15.9%</td>
<td>0.22</td>
<td>4.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100.0%</td>
<td>73.65</td>
<td>100.0%</td>
<td>4.56</td>
<td>100.0%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

* The biggest 200 firms were selected according to their sales.
** "Holdings" include those local conglomerates which diversification makes it impossible to classify them under any of the other sectors; it is important to highlight that these conglomerates obtain more than 50% of their profits from public utilities and more than 90% in oligopolistic concentrated markets.


### TABLE VI.
THE ECONOMIC ELITE IN 1995
DISTRIBUTION OF SALES AND PROFITS OF THE 200 BIGGEST* FIRMS ACCORDING TO THEIR PARTICIPATION IN THE PRIVATISATION PROCESS (US$ millions and %)

<table>
<thead>
<tr>
<th></th>
<th>Firms</th>
<th>% of firms</th>
<th>Sales</th>
<th>% of sales</th>
<th>Profits</th>
<th>% of profits</th>
<th>Rate of profit (profits/sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant firms</td>
<td>67</td>
<td>33.5%</td>
<td>28903.0</td>
<td>39.2%</td>
<td>3773</td>
<td>82.8%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Non-participant firms</td>
<td>133</td>
<td>66.5%</td>
<td>44750.7</td>
<td>60.8%</td>
<td>783.2</td>
<td>17.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100.0%</td>
<td>73653.7</td>
<td>100.0%</td>
<td>4556.2</td>
<td>100.0%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

* The biggest 200 firms were selected according to their sales.


### TABLE VII.
DIRECT INVESTMENT (FOREIGN AND DOMESTIC) PERIOD 1990-1996 (in %)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Expansion</th>
<th>Take-overs</th>
<th>&quot;Greenfield&quot;</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing industry</td>
<td>36%</td>
<td>32%</td>
<td>25%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>Infrastructure and communications</td>
<td>7%</td>
<td>89%</td>
<td>1%</td>
<td>3%</td>
<td>100%</td>
</tr>
<tr>
<td>Extractive activities</td>
<td>73%</td>
<td>25%</td>
<td>2%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>41%</td>
<td>57%</td>
<td>2%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Commerce and services</td>
<td>12%</td>
<td>42%</td>
<td>45%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Transport</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Construction</td>
<td>15%</td>
<td>0%</td>
<td>65%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Others</td>
<td>0%</td>
<td>7%</td>
<td>93%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>34%</td>
<td>50%</td>
<td>14%</td>
<td>3%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: CEP (Production Research Centre, Ministry of Economic Affairs).

### TABLE A.1.
CURRENT ACCOUNT 1991/1996 (in millions of US$)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (X)</td>
<td>11,978</td>
<td>12,235</td>
<td>13,117</td>
<td>15,839</td>
<td>20,984</td>
<td>23,774</td>
</tr>
<tr>
<td>Imports (M)</td>
<td>7,615</td>
<td>13,685</td>
<td>15,543</td>
<td>20,078</td>
<td>18,726</td>
<td>22,162</td>
</tr>
<tr>
<td>X-M</td>
<td>4,363</td>
<td>-1,450</td>
<td>-2,426</td>
<td>-4,239</td>
<td>2,238</td>
<td>1,812</td>
</tr>
<tr>
<td>Real services</td>
<td>-1,475</td>
<td>-2,210</td>
<td>-2,660</td>
<td>-2,856</td>
<td>-2,175</td>
<td>-2,436</td>
</tr>
<tr>
<td>Financial services</td>
<td>-3,940</td>
<td>-2,404</td>
<td>-2,372</td>
<td>-2,590</td>
<td>-2,941</td>
<td>-3,523</td>
</tr>
<tr>
<td>Interest</td>
<td>-3,135</td>
<td>-1,559</td>
<td>-1,099</td>
<td>-1,320</td>
<td>-1,070</td>
<td>-1,417</td>
</tr>
<tr>
<td>Profits</td>
<td>-805</td>
<td>-845</td>
<td>-1,273</td>
<td>-1,270</td>
<td>-1,871</td>
<td>-2,106</td>
</tr>
<tr>
<td>Total services</td>
<td>-5,415</td>
<td>-4,614</td>
<td>-5,032</td>
<td>-5,446</td>
<td>-5,116</td>
<td>-5,959</td>
</tr>
<tr>
<td>Transfers</td>
<td>793</td>
<td>661</td>
<td>411</td>
<td>320</td>
<td>432</td>
<td>334</td>
</tr>
<tr>
<td>Current account</td>
<td>-259</td>
<td>-5,403</td>
<td>-7,047</td>
<td>-9,365</td>
<td>-2,448</td>
<td>-4,013</td>
</tr>
</tbody>
</table>

Source: Ministry of Economic Affairs.
### TABLE A.2.
**INDUSTRY-GENERATED TRADE IMBALANCE. PERIOD 1991-96**
(in US$ millions and %)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industrial trade balance</td>
<td>-3,072.2</td>
<td>-9,369.6</td>
<td>-10,367.0</td>
<td>-13,395.3</td>
<td>-9,262.2</td>
<td>-12,720.7</td>
</tr>
<tr>
<td>2. Non-industrial trade balance</td>
<td>6,774.7</td>
<td>6,732.6</td>
<td>6,699.0</td>
<td>7,644.1</td>
<td>10,103.9</td>
<td>12,769.6</td>
</tr>
<tr>
<td>3. Trade balance</td>
<td>3,702.5</td>
<td>-2,637.0</td>
<td>-3,668.0</td>
<td>-5,751.2</td>
<td>841.7</td>
<td>48.9</td>
</tr>
<tr>
<td>4. Industrial GDP</td>
<td>46,197.7</td>
<td>49,975.8</td>
<td>52,593.1</td>
<td>56,482.8</td>
<td>53,376.2</td>
<td>58,207.9</td>
</tr>
<tr>
<td>5. GDP</td>
<td>189,440.2</td>
<td>228,837.9</td>
<td>255,504.9</td>
<td>279,595.7</td>
<td>274,389.4</td>
<td>289,929.0</td>
</tr>
<tr>
<td>(1/4)</td>
<td>6.7%</td>
<td>18.7%</td>
<td>19.7%</td>
<td>23.7%</td>
<td>17.4%</td>
<td>22.6%</td>
</tr>
<tr>
<td>(1/5)</td>
<td>1.6%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.8%</td>
<td>3.4%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: FIDE (Foundation of Research on Development).

---

### TABLE A.3.
**FOREIGN TRADE WITH USA, EUROPEAN UNION AND BRAZIL** (in US$ millions and %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>11,978</td>
<td>12,235</td>
<td>13,118</td>
<td>15,839</td>
<td>20,963</td>
<td>23,811</td>
<td>53,170</td>
<td>44,774</td>
</tr>
<tr>
<td>Imports</td>
<td>8,275</td>
<td>14,872</td>
<td>16,784</td>
<td>21,590</td>
<td>20,122</td>
<td>23,762</td>
<td>61,521</td>
<td>43,884</td>
</tr>
<tr>
<td>(X-M)</td>
<td>3,703</td>
<td>-2,637</td>
<td>-3,668</td>
<td>-5,751</td>
<td>841</td>
<td>49</td>
<td>-8,351</td>
<td>890</td>
</tr>
<tr>
<td>(X-M)/(X+M) (%)</td>
<td>18.28</td>
<td>-9.73</td>
<td>-12.26</td>
<td>-15.37</td>
<td>2.05</td>
<td>0.10</td>
<td>-7.28</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>1,244</td>
<td>1,349</td>
<td>1,278</td>
<td>1,737</td>
<td>1,804</td>
<td>1,958</td>
<td>5,608</td>
<td>3,762</td>
</tr>
<tr>
<td>Imports</td>
<td>1,871</td>
<td>3,226</td>
<td>3,859</td>
<td>4,928</td>
<td>4,207</td>
<td>4,738</td>
<td>13,884</td>
<td>8,945</td>
</tr>
<tr>
<td>(X-M)</td>
<td>-627</td>
<td>-1,877</td>
<td>-2,581</td>
<td>-3,191</td>
<td>2,403</td>
<td>2,780</td>
<td>-8,276</td>
<td>-5,183</td>
</tr>
<tr>
<td>(X-M)/(X+M) (%)</td>
<td>-20.13</td>
<td>-41.03</td>
<td>-50.24</td>
<td>-47.88</td>
<td>-39.98</td>
<td>-41.52</td>
<td>-42.46</td>
<td>-40.79</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>3,956</td>
<td>3,732</td>
<td>3,646</td>
<td>3,891</td>
<td>4,466</td>
<td>4,555</td>
<td>15,225</td>
<td>9,021</td>
</tr>
<tr>
<td>Imports</td>
<td>2,033</td>
<td>3,633</td>
<td>4,139</td>
<td>6,210</td>
<td>6,025</td>
<td>6,899</td>
<td>16,015</td>
<td>12,924</td>
</tr>
<tr>
<td>(X-M)</td>
<td>1,923</td>
<td>99</td>
<td>-493</td>
<td>-2,319</td>
<td>-1,559</td>
<td>-2,344</td>
<td>-790</td>
<td>-3,903</td>
</tr>
<tr>
<td>(X-M)/(X+M) (%)</td>
<td>32.11</td>
<td>1.34</td>
<td>-6.33</td>
<td>-22.96</td>
<td>-14.86</td>
<td>-20.46</td>
<td>-2.53</td>
<td>-17.79</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>1,489</td>
<td>1,671</td>
<td>2,814</td>
<td>3,655</td>
<td>5,484</td>
<td>6,657</td>
<td>9,829</td>
<td>12,051</td>
</tr>
<tr>
<td>Imports</td>
<td>1,526</td>
<td>3,339</td>
<td>3,570</td>
<td>4,286</td>
<td>4,175</td>
<td>5,300</td>
<td>12,721</td>
<td>9,475</td>
</tr>
<tr>
<td>(X-M)</td>
<td>-37</td>
<td>-1,668</td>
<td>-756</td>
<td>-631</td>
<td>1,309</td>
<td>1,267</td>
<td>-3,092</td>
<td>2,576</td>
</tr>
<tr>
<td>(X-M)/(X+M) (%)</td>
<td>-1.23</td>
<td>-33.29</td>
<td>-11.84</td>
<td>-7.95</td>
<td>13.55</td>
<td>10.68</td>
<td>-13.83</td>
<td>11.97</td>
</tr>
</tbody>
</table>

Source: CEP (Production Research Centre, Ministry of Economic Affairs).
## TABLE A.4.
**ROTATION OF FIRMS WITHIN THE ECONOMIC ELITE**, **PERIOD 1991-1995** (in absolute figures and %)

<table>
<thead>
<tr>
<th>Position in the 1995 Ranking</th>
<th>A. New Firms***</th>
<th>Privatised Public Utilities</th>
<th>Oil</th>
<th>Manufacturing Industry</th>
<th>Commerce</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the first 50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between position 51 and 100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between position 101 and 200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in the total sales of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the first 200 firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in the total sales of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the 97 “new firms”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE A.5.
**DIRECT INVESTMENT IN INDUSTRY**, **FOREIGN AND DOMESTIC**, **PERIOD 1990-1996** (in %)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>In %</th>
<th>Accumulated %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>31.1%</td>
<td>31.1%</td>
</tr>
<tr>
<td>Chemical and petrochemical ind.</td>
<td>29.0%</td>
<td>60.0%</td>
</tr>
<tr>
<td>Car Industries</td>
<td>17.4%</td>
<td>77.5%</td>
</tr>
<tr>
<td>Paper industries</td>
<td>6.1%</td>
<td>83.6%</td>
</tr>
<tr>
<td>Iron and steel industries</td>
<td>5.1%</td>
<td>88.7%</td>
</tr>
<tr>
<td>Building materials and ceramics</td>
<td>3.5%</td>
<td>92.2%</td>
</tr>
<tr>
<td>Electric households appliances</td>
<td>1.4%</td>
<td>93.6%</td>
</tr>
<tr>
<td>Textile industry</td>
<td>1.4%</td>
<td>95.0%</td>
</tr>
<tr>
<td>Wood products</td>
<td>1.1%</td>
<td>96.1%</td>
</tr>
<tr>
<td>Metallic products (exc. machinery)</td>
<td>1.1%</td>
<td>97.2%</td>
</tr>
<tr>
<td>Other metals’ industries</td>
<td>0.8%</td>
<td>98.0%</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.5%</td>
<td>98.5%</td>
</tr>
<tr>
<td>Tobacco industries</td>
<td>0.5%</td>
<td>98.9%</td>
</tr>
<tr>
<td>Rubber industries</td>
<td>0.3%</td>
<td>99.3%</td>
</tr>
<tr>
<td>Non-metallic minerals ind.</td>
<td>0.2%</td>
<td>99.5%</td>
</tr>
<tr>
<td>Leather and subproducts</td>
<td>0.2%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Plastic products’ industries</td>
<td>0.2%</td>
<td>99.8%</td>
</tr>
<tr>
<td>Printing industries</td>
<td>0.1%</td>
<td>99.9%</td>
</tr>
<tr>
<td>Other manufacturing industries</td>
<td>0.1%</td>
<td>99.9%</td>
</tr>
<tr>
<td>Optics and photography industries</td>
<td>0.1%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

**Total** | 100.0% | 100.0% |

* Figures include “greenfield”, take overs and expansion investments.

Source: CEP (Production Research Centre, Ministry of Economic Affairs).

---

* The economic elite is made up of the 200 biggest firms according to sales data.

*** “New Firms” are those which did not exist in 1991, or which occupied a place below the position 200 in that year.

*** “Drop-outs” include the firms which “disappeared” between 1991 and 1995, due to acquisitions –as in the case of public enterprises- or because of a descent in the ranking (to a place below position 200).

**TABLE A.6.**
COMPOSITION OF GOVERNMENT REVENUE

**TABLE A.6.1.**
IN ABSOLUTE FIGURES ($ at December 1995)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption taxes</td>
<td>11,607.2</td>
<td>20,667.9</td>
<td>20,112.5</td>
<td>20,993.1</td>
<td>16,520.0</td>
<td>91,900.7</td>
</tr>
<tr>
<td>Income and wealth taxes</td>
<td>2,745.6</td>
<td>3,860.3</td>
<td>4,859.0</td>
<td>6,390.6</td>
<td>6,397.8</td>
<td>24,254.3</td>
</tr>
<tr>
<td>Foreign trade*</td>
<td>1,768.2</td>
<td>2,270.6</td>
<td>2,497.9</td>
<td>2,843.8</td>
<td>2,024.6</td>
<td>11,405.1</td>
</tr>
<tr>
<td>Others</td>
<td>1,915.4</td>
<td>2,059.8</td>
<td>2,030.6</td>
<td>1,760.5</td>
<td>1,965.5</td>
<td>9,761.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18,037.4</td>
<td>28,888.4</td>
<td>29,500.0</td>
<td>31,988.0</td>
<td>28,907.9</td>
<td>137,321.7</td>
</tr>
</tbody>
</table>

**TABLE A.6.2.**
STRUCTURE (in %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption taxes</td>
<td>64%</td>
<td>72%</td>
<td>68%</td>
<td>66%</td>
<td>64%</td>
<td>67%</td>
</tr>
<tr>
<td>Income and wealth taxes</td>
<td>15%</td>
<td>13%</td>
<td>16%</td>
<td>20%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Foreign trade*</td>
<td>10%</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Others</td>
<td>11%</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* 95% of the foreign trade taxes (average 1991/95) result from import taxes (59% in 1995).

Source: Own calculations based on IDDPC (Institute for State and Participation Studies).

**TABLE A.7.**
COMPOSITION OF GOVERNMENT EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>1993 (US$)</th>
<th>1994 (US$)</th>
<th>1995 (US$)</th>
<th>Average 1993-95 (US$)</th>
<th>Average 1993-95 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government administration</td>
<td>3,502.8</td>
<td>3,449.4</td>
<td>4,444.4</td>
<td>4,090.3</td>
<td>8.2%</td>
</tr>
<tr>
<td>2. Defence and security</td>
<td>595.5</td>
<td>2,410.0</td>
<td>2,239.2</td>
<td>1,904.4</td>
<td>3.8%</td>
</tr>
<tr>
<td>3. Social services</td>
<td>2,261.9</td>
<td>2,365.3</td>
<td>2,293.2</td>
<td>2,309.0</td>
<td>4.6%</td>
</tr>
<tr>
<td>4. Economic debt servicing</td>
<td>2,643.8</td>
<td>4,258.4</td>
<td>4,187.3</td>
<td>4,008.3</td>
<td>8.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>37,455.9</td>
<td>42,374.4</td>
<td>43,326.9</td>
<td>41,308.5</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Ministry of Economic Affairs.
### TABLE A.8.
**PUBLIC SECTOR SURPLUS. 1991-1995**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Current government income</td>
<td>10,544</td>
<td>12,533</td>
<td>12,688</td>
<td>12,717</td>
<td>12,518</td>
</tr>
<tr>
<td>(2) Current government expenditure</td>
<td>12,532</td>
<td>12,496</td>
<td>13,726</td>
<td>15,854</td>
<td>16,082</td>
</tr>
<tr>
<td>Public sector surplus before privatisations (1-2)</td>
<td>-1,988</td>
<td>37</td>
<td>-1,038</td>
<td>-3,137</td>
<td>-3,564</td>
</tr>
<tr>
<td>Public sector surplus after privatisations</td>
<td>1,018</td>
<td>1,760</td>
<td>2,385</td>
<td>592</td>
<td>-74</td>
</tr>
</tbody>
</table>

Source: IDEP (Institute for State and Participation Studies).

### TABLE A.9.
**NOMINAL AND EFFECTIVE PROTECTION RATES FOR SELECTED GROUPS OF IMPORTABLE TRADABLES. 1990-1995**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NPR</td>
<td>EFR</td>
<td>NPR</td>
<td>EFR</td>
<td>NPR</td>
<td>EFR</td>
<td>NPR</td>
<td>EFR</td>
</tr>
<tr>
<td>Intermediate industrial inputs</td>
<td>23.9</td>
<td>27.4</td>
<td>15.9</td>
<td>20.6</td>
<td>17.9</td>
<td>20.1</td>
<td>11.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Intermediate agricultural inputs</td>
<td>21.2</td>
<td>24.0</td>
<td>12.0</td>
<td>14.7</td>
<td>16.3</td>
<td>18.8</td>
<td>10.8</td>
<td>12.9</td>
</tr>
<tr>
<td>Capital goods</td>
<td>26.3</td>
<td>31.6</td>
<td>23.5</td>
<td>34.0</td>
<td>31.8</td>
<td>7.4</td>
<td>8.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Semi-durable consumer goods</td>
<td>26.4</td>
<td>29.1</td>
<td>21.9</td>
<td>29.5</td>
<td>26.7</td>
<td>32.9</td>
<td>19.3</td>
<td>24.3</td>
</tr>
<tr>
<td>Non-durable consumer goods</td>
<td>16.4</td>
<td>15.1</td>
<td>10.3</td>
<td>12.1</td>
<td>16.5</td>
<td>18.5</td>
<td>13.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Durable consumer goods</td>
<td>25.5</td>
<td>28.6</td>
<td>21.8</td>
<td>30.0</td>
<td>22.7</td>
<td>25.8</td>
<td>16.1</td>
<td>19.0</td>
</tr>
</tbody>
</table>

* NPR: Nominal protection rates.
** EFR: Effective protection rates.

Source: Lifschitz et al. (1995).

### TABLE A.10.
**EVOLUTION OF TARIFFS. 1989-1991 (absolute values and %)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Average nominal rate</td>
<td>28.88</td>
<td>26.46</td>
<td>20.72</td>
<td>18.36</td>
<td>15.47</td>
<td>16.15</td>
<td>18.32</td>
<td>18.45</td>
<td>17.93</td>
<td>17.29</td>
<td>18.15</td>
<td>9.73</td>
<td>9.75</td>
</tr>
<tr>
<td>(2) Standard deviation (2)/(1)</td>
<td>0.48</td>
<td>0.49</td>
<td>0.51</td>
<td>0.51</td>
<td>0.58</td>
<td>0.52</td>
<td>0.28</td>
<td>0.28</td>
<td>0.29</td>
<td>0.31</td>
<td>0.46</td>
<td>0.98</td>
<td>0.98</td>
</tr>
<tr>
<td>Maximum tariff</td>
<td>40.0</td>
<td>37.0</td>
<td>30.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>22.0</td>
<td>20.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Minimum tariff</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Number of sectors with:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum tariff</td>
<td>2335</td>
<td>11</td>
<td>2311</td>
<td>3139</td>
<td>3020</td>
<td>3110</td>
<td>3110</td>
<td>3113</td>
<td>3114</td>
<td>3821</td>
<td>9177</td>
<td>3808</td>
<td>15</td>
</tr>
<tr>
<td>Minimum tariff</td>
<td>849</td>
<td>777</td>
<td>783</td>
<td>783</td>
<td>1419</td>
<td>783</td>
<td>795</td>
<td>795</td>
<td>799</td>
<td>926</td>
<td>1946</td>
<td>5165</td>
<td>5165</td>
</tr>
<tr>
<td>Ad valorem tariff</td>
<td>10305</td>
<td>10331</td>
<td>10247</td>
<td>10247</td>
<td>10247</td>
<td>10255</td>
<td>10257</td>
<td>10257</td>
<td>10255</td>
<td>11213</td>
<td>11223</td>
<td>11745</td>
<td>11745</td>
</tr>
<tr>
<td>Specific duties*</td>
<td>119</td>
<td>129</td>
<td>327</td>
<td>327</td>
<td>327</td>
<td>325</td>
<td>325</td>
<td>325</td>
<td>328</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous approval</td>
<td>1056</td>
<td>122</td>
<td>118</td>
<td>118</td>
<td>118</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Not ad valorem.

Source: FIEL (Foundation of Latin American Economic Research).
### TABLE A.11.
**COMPOSITION OF GOVERNMENT REVENUE INTERNATIONAL COMPARISON**
(as % of GDP)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Total</th>
<th>Social Security</th>
<th>Income</th>
<th>Goods and Services</th>
<th>Wealth</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>29.4%</td>
<td>2.1%</td>
<td>15.7%</td>
<td>8.7%</td>
<td>2.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>USA</td>
<td>29.7%</td>
<td>7.7%</td>
<td>12.6%</td>
<td>5.1%</td>
<td>3.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>France</td>
<td>44.2%</td>
<td>20.3%</td>
<td>7.8%</td>
<td>12.0%</td>
<td>2.3%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>34.9%</td>
<td>13.1%</td>
<td>10.0%</td>
<td>9.9%</td>
<td>1.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>46.5%</td>
<td>17.1%</td>
<td>15.8%</td>
<td>11.5%</td>
<td>2.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Average OECD</td>
<td>38.7%</td>
<td>10.5%</td>
<td>14.1%</td>
<td>11.6%</td>
<td>2.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>(1993)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>18.6%</td>
<td>4.2%</td>
<td>2.3%</td>
<td>10.7%</td>
<td>0.8%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>27.1%</td>
<td>10.6%</td>
<td>3.5%</td>
<td>10.9%</td>
<td>1.7%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Chile</td>
<td>18.5%</td>
<td>1.6%</td>
<td>4.3%</td>
<td>12.3%</td>
<td>0.0%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: Durán, V. et al. (1997).

### TABLE A.12.
**DEMOGRAPHIC AND EMPLOYMENT FIGURES**
(in thousands and %)

<table>
<thead>
<tr>
<th></th>
<th>Total urban population (1)</th>
<th>Full time employed (2)</th>
<th>People with employment problems (3)*</th>
<th>2/1 (%)</th>
<th>3/1 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May '89</td>
<td>27,018</td>
<td>9,036</td>
<td>1,814</td>
<td>33.44</td>
<td>6.71</td>
</tr>
<tr>
<td>October '89</td>
<td>27,243</td>
<td>9,023</td>
<td>1,681</td>
<td>33.12</td>
<td>6.17</td>
</tr>
<tr>
<td>May '90</td>
<td>27,560</td>
<td>8,837</td>
<td>1,929</td>
<td>32.06</td>
<td>7.00</td>
</tr>
<tr>
<td>October '90</td>
<td>27,790</td>
<td>9,179</td>
<td>1,647</td>
<td>33.03</td>
<td>5.93</td>
</tr>
<tr>
<td>May '91</td>
<td>28,160</td>
<td>9,406</td>
<td>1,724</td>
<td>33.40</td>
<td>6.12</td>
</tr>
<tr>
<td>October '91</td>
<td>28,347</td>
<td>9,632</td>
<td>1,556</td>
<td>33.98</td>
<td>5.49</td>
</tr>
<tr>
<td>May '92</td>
<td>28,677</td>
<td>9,692</td>
<td>1,735</td>
<td>33.80</td>
<td>6.05</td>
</tr>
<tr>
<td>October '92</td>
<td>28,916</td>
<td>9,873</td>
<td>1,755</td>
<td>34.14</td>
<td>6.07</td>
</tr>
<tr>
<td>May '93</td>
<td>29,253</td>
<td>9,872</td>
<td>2,270</td>
<td>33.75</td>
<td>7.76</td>
</tr>
<tr>
<td>October '93</td>
<td>29,496</td>
<td>9,818</td>
<td>2,249</td>
<td>33.29</td>
<td>7.63</td>
</tr>
<tr>
<td>May '94</td>
<td>29,840</td>
<td>9,700</td>
<td>2,563</td>
<td>32.51</td>
<td>8.59</td>
</tr>
<tr>
<td>October '94</td>
<td>30,088</td>
<td>9,495</td>
<td>2,774</td>
<td>31.56</td>
<td>9.22</td>
</tr>
<tr>
<td>May '95</td>
<td>30,438</td>
<td>9,127</td>
<td>3,851</td>
<td>29.99</td>
<td>12.65</td>
</tr>
<tr>
<td>October '95</td>
<td>30,692</td>
<td>9,000</td>
<td>3,698</td>
<td>29.32</td>
<td>12.05</td>
</tr>
<tr>
<td>May '96</td>
<td>31,049</td>
<td>8,953</td>
<td>3,781</td>
<td>28.83</td>
<td>12.18</td>
</tr>
<tr>
<td>October '96</td>
<td>31,308</td>
<td>9,061</td>
<td>4,054</td>
<td>28.94</td>
<td>12.95</td>
</tr>
<tr>
<td>May '97</td>
<td>31,672</td>
<td>9,420</td>
<td>3,907</td>
<td>29.74</td>
<td>12.34</td>
</tr>
</tbody>
</table>

* It includes the unemployed and the people who cannot find full time jobs.

Source: FIDE (1997).
### TABLE A.13.
**REGIONAL UNEMPLOYMENT RATES (1996)**
(in %)

<table>
<thead>
<tr>
<th>Area</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buenos Aires (city)</td>
<td>12.4</td>
</tr>
<tr>
<td>Buenos Aires (city suburbs)</td>
<td>20.8</td>
</tr>
<tr>
<td>Buenos Aires (province)</td>
<td>21.3</td>
</tr>
<tr>
<td>Catamarca</td>
<td>14.6</td>
</tr>
<tr>
<td>Córdoba</td>
<td>17.2</td>
</tr>
<tr>
<td>Corrientes</td>
<td>14.2</td>
</tr>
<tr>
<td>Chaco</td>
<td>13.4</td>
</tr>
<tr>
<td>Chubut</td>
<td>12.7</td>
</tr>
<tr>
<td>Entre Ríos</td>
<td>11.3</td>
</tr>
<tr>
<td>Formosa</td>
<td>8.2</td>
</tr>
<tr>
<td>Jujuy</td>
<td>12.5</td>
</tr>
<tr>
<td>La Pampa</td>
<td>10.2</td>
</tr>
<tr>
<td>La Rioja</td>
<td>10.5</td>
</tr>
<tr>
<td>Mendoza</td>
<td>7.0</td>
</tr>
<tr>
<td>Misiones</td>
<td>7.6</td>
</tr>
<tr>
<td>Neuquén</td>
<td>12.7</td>
</tr>
<tr>
<td>Salta</td>
<td>18.0</td>
</tr>
<tr>
<td>San Juan</td>
<td>11.6</td>
</tr>
<tr>
<td>San Luis</td>
<td>10.6</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>6.8</td>
</tr>
<tr>
<td>Santa Fé</td>
<td>19.0</td>
</tr>
<tr>
<td>Santiago del Estero</td>
<td>12.1</td>
</tr>
<tr>
<td>Tierra del Fuego</td>
<td>10.7</td>
</tr>
<tr>
<td>Tucumán</td>
<td>20.2</td>
</tr>
<tr>
<td>Total</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Source: INDEC (National Institute of Statistics and Census).

### TABLE A.14.
**EVOLUTION OF POVERTY (1986 and 1995) (in %)**

<table>
<thead>
<tr>
<th></th>
<th>1986</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>15.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Indigent</td>
<td>1.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Up to 0.75 PL*</td>
<td>6.2</td>
<td>12.3</td>
</tr>
<tr>
<td>From 0.75 to 1 PL</td>
<td>7.4</td>
<td>9.9</td>
</tr>
<tr>
<td>Non-poor</td>
<td>84.8</td>
<td>74.2</td>
</tr>
<tr>
<td>Up to 1.25 PL</td>
<td>9.7</td>
<td>8.3</td>
</tr>
<tr>
<td>From 1.25 to 2 PL</td>
<td>20.6</td>
<td>21.7</td>
</tr>
<tr>
<td>More than 2 PL</td>
<td>54.5</td>
<td>44.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Poverty intensity index</td>
<td>0.30</td>
<td>0.36</td>
</tr>
</tbody>
</table>

*PL: Poverty line (indicates the level of earnings needed to afford a basic set of goods and services). Average gap between poor homes' incomes and the poverty line.


### TABLE A.15.
**COMPOSITION OF FOOD CONSUMPTION FOR LOW, MEDIUM AND HIGH INCOME SECTORS (1993) (in kgs.)**

<table>
<thead>
<tr>
<th>Product</th>
<th>Low income</th>
<th>Medium income</th>
<th>High income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread and cereals</td>
<td>10.23</td>
<td>7.6</td>
<td>5.34</td>
</tr>
<tr>
<td>Meat</td>
<td>5.35</td>
<td>9.25</td>
<td>10.12</td>
</tr>
<tr>
<td>Potatoes</td>
<td>5.2</td>
<td>4.25</td>
<td>3.21</td>
</tr>
<tr>
<td>Milk products</td>
<td>4.12</td>
<td>8.2</td>
<td>8.72</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>3.65</td>
<td>9.25</td>
<td>13.22</td>
</tr>
<tr>
<td>Non-alcoholic beverages</td>
<td>3.15</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>2.05</td>
<td>3.15</td>
<td>3.52</td>
</tr>
<tr>
<td>Sugar and sweets</td>
<td>1.3</td>
<td>2.17</td>
<td>2.63</td>
</tr>
<tr>
<td>Oils</td>
<td>1.15</td>
<td>1.32</td>
<td>1.4</td>
</tr>
<tr>
<td>Eggs</td>
<td>0.5</td>
<td>1.07</td>
<td>1.2</td>
</tr>
<tr>
<td>Coffee, tea, etc.</td>
<td>0.5</td>
<td>0.91</td>
<td>0.94</td>
</tr>
<tr>
<td>Spices</td>
<td>0.26</td>
<td>0.32</td>
<td>0.58</td>
</tr>
<tr>
<td>Total</td>
<td>37.46</td>
<td>57.49</td>
<td>61.88</td>
</tr>
</tbody>
</table>

Source: Aguira (1997).
Figure 1
Argentina. Trends in Selected Development Indicators, 1975-1995
Index 1975 = 100

Source: Own calculations based on data of FIDE (Foundation for Research on Development), INDEC (National Institute of Statistics and Census) and IFIE (Institute for Fiscal and Economic Studies).

Figure 2
Index 1974 = 100

Source: Own calculations based on FIDE (Foundation for Development Studies).
Note: The annual averages have been adjusted to the straight line of least squares.
Figure 3. Exports and Imports (Total for period 1990-1996)

Source: Own work, based on INDEC (National Institute of Statistics and Census).

Figure 4
Nominal Protection Rates for Selected Importable Tradables

Figure 6
Effective Protection Rates for Selected Importable Tradables


Figure 6

Source: Aguirre (1997).
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BID</td>
<td>Banco Interamericano de Desarrollo (= IADB)</td>
</tr>
<tr>
<td>CNT</td>
<td>Comisión Nacional de Telecomunicaciones</td>
</tr>
<tr>
<td>CONICET</td>
<td>Consejo Nacional de Investigaciones Científicas y Técnicas</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DGI</td>
<td>Dirección General Impositiva</td>
</tr>
<tr>
<td>ENTel</td>
<td>Empresa Nacional de Telecomunicaciones</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIDE</td>
<td>Fundación para la Investigación del Desarrollo</td>
</tr>
<tr>
<td>FLACSO</td>
<td>Facultad Latinoamericana de Ciencias Sociales</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IADB</td>
<td>Inter-American Development Bank (= BID)</td>
</tr>
<tr>
<td>IDI</td>
<td>Instituto para el Desarrollo Industrial</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ISI</td>
<td>Import Substitution Industrialization</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
</tr>
<tr>
<td>LDC</td>
<td>Less Developed Countries</td>
</tr>
<tr>
<td>ME</td>
<td>Ministerio de Economía y Obras y Servicios</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>Mercado Común del Sur</td>
</tr>
<tr>
<td>MREyC</td>
<td>Ministerio de Relaciones Exteriores, Comercio Internacional y Culto</td>
</tr>
<tr>
<td>MTSS</td>
<td>Ministerio de Trabajo y Seguridad Social</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PL</td>
<td>Poverty Line</td>
</tr>
<tr>
<td>PNUD</td>
<td>Programa de las Naciones Unidas para el Desarrollo (= UNDP)</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprise</td>
</tr>
<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
</tr>
<tr>
<td>UNA</td>
<td>Unión Industrial Argentina</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program (= PNUD)</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WC</td>
<td>Washington Consensus</td>
</tr>
</tbody>
</table>
Zusammenfassung

In den neunziger Jahren kam es in Argentinien zu einem umfassenden institutionellen Schock, der auf dem basierte, was Ralf Dahrendorf einmal als den „Konservatismus der Sorglosigkeit“ bezeichnet hat. Dieser Schock leitete weder einen neuen Entwicklungsprozess ein noch förderte er eine Zunahme des systemischen Wettbewerbs. Er akzentuierte vielmehr die Gründe für den relativen, seit jeher bestehenden Stillstand des Landes; er konzentrierte und zentralisierte die wirtschaftliche und politische Macht; er wirkte durch systematische Verletzungen der verfassungsmäßigen Normen; er löste eine zutiefst regressive Einkommensverteilung und einen rapiden Anstieg von Armut aus; er führte zu einem Prozess der Auslandsverschuldung und Zahlungsbilanzdefiziten, wodurch eine nachhaltige Entwicklung verhindert wird; er verdreifachte die Arbeitslosigkeit und verschärfte die Situation unvollständiger Güter-, Dienstleistungs- und Kapitalmärkte.


Resumen en Español

En la década del noventa se indujo en la Argentina un amplio shock institucional basado en lo que Ralf Dahrendorf denomina "conservatismus of unconcern". Este shock no inició un proceso de desarrollo ni de incremento de la competitividad sistémica sino que acentuó las causas del estancamiento secular relativo del país; concentró y centralizó el poder económico y político; actuó mediante violaciones sistemáticas de las normas constitucionales; indujo una distribución profundamente regresiva del ingreso y un rápido incremento de la pobreza; llevó a un proceso de endeudamiento externo y déficit de la cuenta corriente del balance de pagos que impidieron el crecimiento sostenido; multiplicó por tres el desempleo y acentuó la existencia de mercados incompletos de bienes, servicios y capitales. El gran logro del sistema de currency board instituido en 1991 fue la eliminación de la inflación, pero todos los demás resultados del shock hacen que ello sea difícilmente sustentable debido a la fragilidad externa de la economía, salvo que se realicen importantes reformas, algunas de las cuales se esbozan en el libro. Los efectos negativos del shock se vinculan, sobre todo, con una destrucción de instituciones existentes sin intentar desarrollar nuevos sistemas institucionales eficientes. Ejemplos de ello son: la desregulación de algunos mercados sin políticas de market building; la liberalización comercial abrupta sin políticas de reestructuración; o las concesiones de índole mono o oligopólicas de servicios públicos sin la construcción de organismos y reglas de juego que controles presios, eficiencia ni inversión.