# THE TRANSITION OF THE ARGENTINE ECONOMIC SYSTEM

## A REPORT OF RESEARCH FINDINGS[1]

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> "...this produce.....bears a greater or smaller proportion to the number of those who are to consume it ..... this proportion .... (is) ..... regulated ..... first, by the skill, dexterity and judgment with which its labour is generally applied; and secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed."....."The number of useful laborers .... is in proportion to the quantity of capital stock .... and to the particular way in which it is employed."
>
> Adam Smith
> The Wealth of Nations. Introduction and Plan of the Work

> "....who made the dicovery 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... (becomes)...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..."
>
> David Ricardo
> Principles of Political Economy and Taxation. Chapter XXXI.

## INTRODUCTION, SUMMARY AND PRELIMINARY CONCLUSIONS

This paper is a brief report of some of the research findings and preliminary conclusions of a research on the transition of the Argentine economic system during the last two decades, with special reference to the structural reforms policies of the nineties.

Each of the three sections of the paper is based on works, some published and some forthcoming, made during the research, listed in "Works published during the research" at the end of this document. The references to those works will be made quoting only the number they have in that list. Of course, an important part of the research findings is based on the works of authors not mentioned in this summary, but quoted in those works.

The first section[3] presents the main general hypotheses about constraints on innovation and development in Argentina, with special reference to the weaknesses of scientific, technological and industrial efforts and policies. It argues that those constraints should be explained -mainly, though not only- more in terms of low effective demand for technology than in terms of inadequate or scarce supply of technology.

This low demand por scientific and technologic efforts and policies seems to be rooted in: i) the long-term characteristics and trends of the economy, and mainly in the socio-economic behaviour of the Argentine economic elite[4] which persists in different economic periods; ii) the characteristics of the import substitution industrialisation (ISI) -that were determined by that behaviour and by the specific socio-economic problems faced by Argentine society at the time in which the ISI began-; iii) the neoconservative policies applied since 1976 and specially during the years 1976/1983 and 1989/1995. The section concludes that these policies induced a regression in the economic structure: from tradeables to non tradeables; from more to less complex industries and exports; and

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[3] This section is based on the works No 1, 2, 3, 4, 5 and 7.

[4] Defined as the group or segment of individual entrepreneurs, corporations and entrepreneurial organizations of greater economic and political weight within the country, which in each period, and to a certain extent, shape the enviroment and opportunities of the rest of the economic agents.

from industries more technology and skills based to those more related to comparative advantages sustained by the natural resources endowment. It also argues that the core of the economic elite formed conglomerates that shifted to low technology demanding sectors, to non-tradeable oligopolic markets, and to "greenhouses" protected and/or strongly subsidized, and that this shift implied a fall in the demand of innovation and investment efforts, and to the displacement of the scientific, technological and industrial policies[5] from the public and private agendas.

This sector allocation of the big conglomerates followed a path almost opposite to that of the big corporations and conglomerates of the developed countries (characterized by the concentration in one or few high technology clusters) and also to that of the Assian NIEs conglomerates (diversified towards a wide spectrum of industries, most of them highly dynamic in technologic and world market terms, and export-oriented).

Moreover, it shows that the bulk of the profits of the largest and most profitable firms are concentrated in the privatized sectors: public services and petroleum companies. By itself this trend in profit allocation in favor of sectors limited to the domestic market and/or producers of non renewable natural resources (petroleum) induces -ceteris paribus- an allocation of resources highly inneficient in terms of competitivity, macroeconomic equilibrium[6], stimulii for innovation and investments for approaching the best practice frontier, and -worse of all- in terms of long term growth possibilities.

The second section presents the more general outcomes of the post 1976 period -characterized by the predominance of the neoconservative diagnoses and policies- through a survey of some of the main development indicators. It shows: the fall of the GDP per capita, the investment/product ratio, and the real wages, the sharp increase of unemployment and poverty, and a steady regressive shift in the income

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[5] Understood as sets of strong and deliberately inter-related policies which act on most of the components of an industrial system, and are designed to promote growth, productivity increases and quality improvements, as occurs in the more industrialised countries and in the more successful economies of recent industrialisation.

[6] Their main macroeconomic impact is that they led to a sort of Dutch Disease (see work 1) and, to that extent, to a imbalance of payments prone economy.

distribution.

The third section[7] is focused on the policies and the process of privatization and deregulation adopted since 1991, a process that has been probably the most rapid and massive of the Western world (see work 8). This policies, together with the combination of a currency board scheme -similar to a gold standard-, and a rapid trade liberalization have been the pillars of the structural reform policies, that followed the "Washington Consensus" diagnoses and recommendations. Based on the analysis of the privatization and deregulation processes, and on some of their impacts on relative prices and competitivity, the section argues that this policies did not led to a shift of the regulation power from the State to the market but rather from the State to a small group of concentrated oligopolies and conglomerates. Moreover, it argues that the absence or weakness of regulation, and the abscence of antitrust and competition promotion policies, led to a serious distorsion of relative prices in favour of the concentrated oligopolic non tradeable sectors[8], and against the tradeable ones. This distortion have had a strong negative effect on competitiveness and is a mayor constraint for the transition of a simultaneously open and dynamic economy.

The research led to think that the merely "hands off" policy patterns inspired in the Washington Consensus do not appear as capable of changing the socio-economic behaviour of the economic elite. One may say that Argentina (and Latin America) is today dominated by a form of "conservatism of unconcern", "a form of the free market economy which has triggered a carefree lack of regulation and guidance in all sectors of the economy and a lack of concern for the development of the national competition base, on which the competitiveness of industry is increasingly based today". Thus, the ideological wave from the Washington establishment converges with the socio-economic behaviour of the economic elite of Argentina (and of most of the Latin American countries), reinforcing the trends that -again- preventing the transition to a more open and innovative development economy.

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[7] Based on works 1 (third part), 6, 8 and 11.

[8] In this distorsion, the currency board, trade liberalization and financial policies were also of great influence.

The task of leading with these constraints seems to be an extremely complex one, including the building up of the capability for acting not only through macroeconomic policies, privatization, de (or re) regulation and trade policies, but also through social, scientific, technological, industrial, and "market building" (for example, antitrust) policies.

Finally, our research findings suggest the importance of two subjects for future research and policy reform. First, the problem of how to regulate efficiently the privatized corporations and the concentrated oligopolic markets and, related to that, how to promote competition. Second, which are the more adequate policies for structural reform and sistemic competitiveness. In both subjects, the lessons of Western Europe, of the reestructuring of certain Eastern European regions and of the Assian NIEs experiences seem the most important. Moreover, the lessons of the European Union -closely related to those subjects- are of special importance for the future of the MERCOSUR.

## SECTION I. DEVELOPMENT AND TECHNOLOGY IN ARGENTINA. WITH SPECIAL REFERENCE TO THE IMPACT OF THE STRUCTURAL REFORMS OF THE NINETIES.

### 1. Development economy or monopolic non-technological quasi-rents?

In a "development economy" growth is driven by the innovations[9] (and the associated investment) generated by the firms and the national system of innovation of which the first are part and in which, anyway, the economic elite is a major and decisive actor. Thus, the dynamism of development capitalist economies is -to a great extent- triggered by -simplifying the analysis- the economic elite, who seek quasi-rents creating, through the innovation, monopolic positions which creative imitation, competition and technological diffusion make temporary[10]. From the point of view of the socio-economic behaviour of the economic elite, 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 each cycle leaves a certain capacity por generating another endogenous development cycle[11].

The Argentine economy (like most of the Latin American ones) seems to have never been a development economy in this sense, but -instead- an adaptative, late imitative economy (traditional using Freeman's terms) which growth have been -and still is- a poor result of a passive adjustment of the economy to exogenous stimulii or external opportunities created by other economies. The Argentine economic elite had adjusted itself, and to a certain extent forced the adjustment of the whole economy, to those opportunites, and have been sheltered from competition through the consolidation of non temporary non innovation based monopolic

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[9] In this document, innovation has an ample meaning, including creative imitation and fast learning, minor innovations, and the innovation process of the user of a given innovation.

[10] This statement tries to synthesise one single aspect of a complex tradition of economic theory that starts with David Ricardo and Karl Marx, is specially associated with Joseph A. Schumpeter and has been further developed by authors like Joan Robinson and Michal Kalecki; Christopher Freeman, Charles Cooper and Nathan Rosemberg; and -more recently- by G. Dosi, R. R. Nelson, K. Pavitt, F. Stewart, S. Lall, M. Bell and others.

[11] These hyphoteses are related to the post-1960, "evolutionary" studies on innovation and development, which are more associated with the idea of sustained disequilibrium than with the "alternation" between disequilibrum-development and equilibrium stationary periods.

positions, sustained by govermental policies and/or institutional barriers to entry. From the point of view of the socio-economic behaviour of the economic elite, this is a "soft option" in the terms mentioned above. From the point of view of the whole economy this is not a development process, but rather a series of "booms" or "bubbles" that, when finished, leave only a few isolated "drops", instead of capabilities for generating another growth cycle.

Because of these characteristics of the socio-economic behavior of the economic elites, and because of the weakness of the social and political checks and balances capable to limit, influence or change that behaviour:

a) In development economies science, technology, industrialization and investment, and thus the corresponding public policies, are high on the agendas of the governments and the economic elite, and science and technology efforts are closely related to the product, investment and foreign trade patterns;
b) In the adaptative, late imitative, or "traditional" ecomomies all these questions and policies are secondary in those agendas, science is loosely related to the said patterns, and technology efforts are loosely related to the foreign trade structure and dynamics.

The first important "soft option" for the Argentine economic elite, as the primary exports led growth cycle, or more strictly the primary exports led bubble, during which "natural" comparative advantages, exogenous technological and economic changes and market imperfections (the inexistance of an international land market) allowed to obtain oligopolistic non-technological rents (see work 1).

## 2. The TNCs led Import Sustitution Industrialization and the Evolutionary Dutch Disease.

The transnational corporations-led import sustitution industrialization (TNCsISI) induced a highly Heterogeneous Productivity Structure, or Evolutionary Dutch Disease (EED). In extremely simplified terms, the main features of that EED economy were (see works 1 and 2):

a) An important gap between the costs of the primary sectors (and of

the industrial ones closely related to natural resources) and those of the more complex industrial sectors, that may be simplified in terms of primary and industrial sectors. In other words, marginal costs did not increase smoothly from one kind of primary sector to another and then to the more natural resources dependant industrial sectors and to other industrial activities but, instead, there was one or more discrete and significant step (or steps) in comparative advantages;

b) The exchange rate tended to be fixed by the economic policy about what may be called the Primary Sector Cost Parity;

c) Given (a) and (b) the costs and prices of the industrial sector were high by international standards, and the industrial activities survived and grew because they work under what may be called an Industrial Sector Cost Parity for imports only, formed by tariff and non-tariff protection[12]. As the export incentives were not equivalent to the internal market effective protection rates, there was no such industrial cost parity (or exports effective rates) for industrial exports (the extended neutrality system of most of the Assian NIEs);

d) Given (a), (b) and (c) the industrial sectors did not export, and were internal market oriented activities. The economy was formed basically by two sectors: i) the primary one, that was a tradeable export sector; ii) the secondary and terciary sectors that were both non tradeable, but imports demanding ones (thus, Argentine macroeconomists formulated what is called the "two sectors model").

This basic features have several and important macro, micro, technological and policy impacts. To mention only four of them.

First. They created an "stop and go" external sector constraint prone economy, because the exporting sector grew more slowly than the non tradeable -secondary plus tertiary- sectors, and thus hard currency demand grew faster than hard currency supply[13].

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[12] It should be stressed that in absolute free trade conditions the EDD is simply impossible.

[13] The cycle is not necessary, but a result of policies that try to achieve full employment in an EDD economy. If the product/employment level determined by the primary-tradeable sector is "accepted", the economy may remain stagnated, or grow slowly, mantaining high unemployment rates.

Second. Microeconomic performance in the industrial sector depended heavily on exchange rate and trade policies. Changes in trade policy were much more important for most of the firms than any technological change.

Third. Technological efforts were not oriented to the best practice frontier, but to minor adjustements of existing (and usually out-dated) foreign technologies, introduced mainly through imports of also out-dated capital goods to local conditions. This tended to practically exclude efforts towards innovations and learning processes oriented to compete in the world markets.

Fourth. Because of this effects, in the EDD economies exchange rate, subsidies and trade policies, and in general any policy that preserves non technological oligopolistic quasi rents were (and still are) in the centre of the goverment and the economic elite agendas, and scientific, technology and industrial policies were secondary in these agendas.

Fifth. There was no synergy between the primary and the industrial sectors. The main result of this was, on one side, that industrial dynamic comparative advantages were not developed; on the other, that the technology (hard and soft) lag of the primary sector widened, and that this sector did not advance to more differenciated products.

Our research suggests that the EDD pattern: i) was an outcome of the socio-economic behaviour of the economic elite; ii) was the second great "soft option" for that elite, leading to a second "bubble", the transnational corporations led import sustitution industrialization one; iii) reinforced the consequences of the adaptative, late imitative economy pattern, i.e. the constraints on technological change and on the emergence of a development economy.

## 3. The post-1976 period: debt led bubble and industrial regression.

Even within its limitations, and partly because of learning processes and partly because of a social and political "stalemate" that posed limits to the traditional behaviour of the economic elite, during the last decade of the import substitution industrialization period there was a partial correction of the policies that led to the EDD, and a more or less dynamic industrialization process. The military coup of 1976 broke that stalemate and the economic elite regained the social and political power eroded during the ISI. In that context, the economic elite adjusted

itself to take financial advantages of the sharp increase in credit and the drop of the international interest rates (from the mid seventies to the early eighties) and forced the adjustment of the whole economy to that goal. This was the third great "soft option", that led to the third "bubble", the debt-led one. During this period the highest profit rates were concentrated in financial activities, in non-tradeables and in the obtaining of State privileges, which enabled those profits to be gained and offered protection from foreign competition during a deep and biased trade liberalization process. The outcomes of this period, the "drops" of the "bubble" were:

First. The creation, consolidation and/or reinforcing of non temporary non innovation based monopolic positions, that helped to form "greenhouses" sustained by trade, subsidies and financial policies.

Second. A new and much more intense shift of the technical core of the local and transnational conglomerates operating in Argentina, which had formed the economic elite since the end of the 1970s, from innovation-production-investment-exports and towards the capacity for financial operation and lobbying.

Third. A regressive industrial and economic reestructuring, in which there was a sharp drop in the share in the GDP of the science based, the specialized suppppliers, the skill intensive sectors, and the more diferentiated products sectors, while the non tradeable, the scale intensive and/or natural resources dependant, and the less product differentiated sectors, dramatically increased their share in the GDP. These sectors are the ones controlled by the economic elite, and those that received protection and subsidies during most of the period. All this implied a destructive process of the productive and technological tissue (see the IBM case below).

Fourth. The technology and industry questions related to the capacity of innovation and fast "learning from the best", which have never been a priority, were displaced from the goverment and economic elite agendas and, with them, the science, technology and industrial policies (as defined above) almost dissapeared.

Thus, the still "softer option" adopted by the economic elite since the mid 1970s prevented again the emergence of a development economy, and the "drops" of the "bubble" became additional constraints for the transition towards a dynamic economic system.

4. The neo-conservative policies since 1990: debt and privatization led bubble.

From the begining of the 1990s economic policies shifted again, this time reflecting, at least more explicitly than ever, what has been called the Washington Consensus. To the present, the main features and outcomes of these policies are the following.

# First. The combination of very high interest rates and a sharp appreciation of the currency, within a currency board scheme (the Convertibility Plan launched in 1991), led to what seems to have been be another debt (and in this case also privatization) led bubble, during which the bulk of capital inflow has been used:

a) to finance the buying of private and public enterprises by the conglomerates and some transnational corporations that form the economic elite -75% of the total increase of private foreign debt in the period 1990-1994 is concentrated by the conglomerates involved in the privatization process-;

b) to finance consumption, which share in the GDP grew to a peak of more than 90%.

Second. The high interest rates and the currency board scheme[14] was combined with a rapid trade liberalization that, added to the aforementioned appreciation, induced another shift of value added and profits towards non-tradeables.

Third. The deregulation policies, in the abscence of anti-trust regulations, and during a privatization process that implied the purchase of some of the biggest corporations in Argentina may bee seen, not as a shift of the regulatory power from the State to the market, but mainly as the transference of the regulatory power from the State and the market to a small number of interrelated conglomerates -i.e. to the economic elite-. This is aggravated by the fact that the conditions and legal framework of the privatizations not only did not prevent the consolidation of the non-temporary non-innovation based oligopolies, but in fact gave strong monopolistic or oligopolistic advantages to the conglomerates (see Section

[14] Despite the theoretical assumptions linked to the monetary approach to the balance of payments, the monetary policy was not totally endogenous, and -through fiscal and financial policies- the administration pushed the the interest rates up.

I and works 1, 6, 8, and 11).

Fourth. The combination of the abovementioned processes pushed - paradoxically, at least given the explicit goals of the policy reforms- a trend towards an semi-closed economy, and a regression in the exports pattern. Some data may highlight this point.

a) The structure of internal relative prices changed in favour of non tradeables and protected tradeables, and against tradeables, both in terms of consumer and wholesale prices (Table 1).

b) At current prices, the X+M/GDP ratio during the peak years of the upswing phase of the cycle (1992-1993) was of about 0.15, the lowest since 1984, and lower than the 1980-1990 average.

c) Before the 1995 downswing phase, the only five sections of the 18 main foreing trade ones with a growing superavit were: animal products in their first elaboration stages; agricultural products; vegetable oils (mainly exported in bulk); petroleum and some first stage derivates; and leathers and pelts. In these foreign commerce sections the X/X+M ratio was between a maximum of 0.98 and a minimun of 0.67, while in those corresponding to the more complex manufactures, like the metalic manufactures, the electric and electronic machinery and equipment, or the transport equipment, the X/X+M ratio was between a maximun of 0.19 and a minumun of 0.09. It is important to highlight that while the X/X+M ratio in leathers and pelts was 0.96, in shoes and other leather manufactures the same ratio was 0.33, thus reflecting a severe weakness even in comparative advantage industries. One dramatic example of the regression of the industrial and foreign commerce structure, linked directly to the shift towards non tradeables and the decline of the industrial and technological tissue is the IBM case. From 1960 to the mid-eighties, the industrial plant of IBM in Argentine was one of the three IBM plants producing printers and tape-unities for the world market (the other two were Harrisburg, USA, and Harfalla, Sweeden). During some years of that period, IBM was the main exporter of Argentina. From the late eighties the IBM plant suffered the deteriorarion or dissapearance of its local suppliers, towards the early nineties its exports began to decline, and the plant was increasingly destinated to less complex and quality demanding products for the internal and Latin American markets. Finally, in 1995, IBM announced that the plant will be reformed in order to

dedicate it to offices for real estate commercialization operations.
d) Between the end of 1994 and 1995 there was a sharp fall of internal demand and employment (the unemployment rate rocketed from about 9.4% in May 1994 to almost 19% in May 1995). Following the usual anticiclical behaviour of Argentine exports during the long semi-closed economy years, the downswing phase help to trigger an export boom. This boom (an increase of about 46% in exports during the first quarter of 1995) is explained mainly by three factors:the sharp fall of internal demand; the increase of the prices of commodities (initiated in 1994); and the recovery of the Brazilian demand combined with an appreciation of the Brazilian currency. In fact, almost 52% of the increase in exports are explained by the MERCOSUR imports, 44,1% by the Brazilian ones, and almost 75% of the industrial exports by MERCOSUR (58% by Brazil). This situation follows the trend of the whole 1990-1994 years, during which 90% of the increase in industrial exports are explained by MERCOSUR (basically Brazil). All this reinforces the hypotheses that the export performance depends heavily on the internal recession and the behaviour of highly unstable economies (mainly the Brazilian one), and much less on the productivity gains and the up-grading of industrial products.
e) In 1994, the last year of the upswing phase of the cycle, almost 40% of the total profits of the 20 firms with biggest profits was concentrated in public non tradeable services. Another 45% was concentrated in gas and oil companies, and only less than 13% in industrial firms[15]. As the bulk of this firms have been privatizated in the previous years, and their oligopolic concentrated markets deregulated, this distribution of profits tends to confirm the statement that the privatization-deregulation process in Argentina did not shifted the regulatory power from the State to the market, but from the State to a small group of conglomerates in conditions of obtaining non-technological monopolistic quasi rents. On the other side, it constitutes a clear signal for the allocation of resources in non tradeable sectors and in the exploitation of non renewable natural resources (petroleum and gas). Furthermore, it shows that the highest profits are again obtainable in the internal

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[15] In the USA the corresponding shares were in the same year: public non tradeable services 7.6%; gas and oil companies 17.6%; industry 50.8%.

market and primary products, reproducing, in a new form, the two sectors macroeconomic structure typical of the EDD-ISI period. Besides the fact that this distribution of profits induces a trend towards a semi-closed economy, it should be stressed that it allocates resources in non-dynamic sectors.

Fifth. The scientific, technological and industrial policies are still as relegated as in the 1980's[16]. One of the proxys of the importance of science and technology (S&T) in the public agenda is the S&T public spending. The share of spending in S&T in public expenditure fell from a meager 0.27% in 1980-1987 to 0.24% in the early nineties, and its share in the GDP fall sistematically between 1992 and 1994. In 1994, the share of total (public plus private) S&T expenditure in the GDP is of about 0.29%, about 10 times lower than in developed countries, and about 4 to 7 times lower than in the Assian NIEs. Moereover, the share of the private expenditure in the total S&T one is of about 15%, between 3 and 5 times smaller than the same share in most developed countries and NIEs. The share of S&T in the GDP and the contribution of the private sector to the S&T efforts are only a half of those of Chile, a country which trade and growth performance (vis a vis the Assian one) has been criticized because of its lack of technology policies. Even without taking into account other indicators, these ones tends to confirm that S&T and S&T policies were of a very low importance in the public and private agendas, especially during the post-1976 period, and that the new neoconservative structural reforms of the nineties have displaced them even more.

In short, the economic elite has seized another "soft option", a debt and privatization led "bubble". The characteristics of this fourth "bubble" seem to place additional constraints on the emergence of a development economy.

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[16] With the exception of some "new" forms of protection policies that preserve -again- some of the conglomerates from the exposure to foreign competition and some technological policies with meager resources and even less coordination.

## SECTION II. THE GENERAL OUTCOME OF THE WASHINGTON CONSENSUS POLICIES. SELECTED DEVELOPMENT INDICATORS.

Development has -according to the prevailing consensus in the social sciences- not less than four contents: economic growth measured through the GDP per capita, investment -as one of the main conditions for grouth-; increasing degree of equality in the income distribution; and a sustained decrease of poverty. A review to the development report of the World Bank confirms these four minimal contents.

In Argentina, at least from 1976, the term development term has been loosing prestige. However, the problems of growth, investment, income distribution and -to a much lesser extent- poverty, continued in the center of the political speechs and of the academic discussions.

What changed was the prevailing diagnosis about the restrictions on development and the recommendations to surpass them. The diagnosis and the recommendations that mastered the speech and the economic policies since 1976 can be summarized easily: less State intervention and more market, internal and external, because the intervention prevented the private initiative to display its creativity and investment propensity; less consumption and more austerity, in order to increase saving and investment; less leisure and technological lag and more modernization and work, in order to increase productivity. Privatization, trade liberalization, deregulation, and present sacrifice for the future welfare, that other forms of saying the same.

Furthermore, since the military coup of 1976, the sequence first investement, then growth, then distribution, was at least the explicit goal of economic policy[17]. The promise was that with no more than less intervention, more market, less regulation, much privatization, rapid trade-liberalization, and less distribution pretensions, investment will appear, grouth will result and, finally, the distribution of income will

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[17] Price stabilization was the other, often the main one. Despite this, the annual cummulative rate of inflation (measured through the CPI) was of 34.3% between 1960 and 1975, and of 169.7% between 1976 and 1993. It should be recalled that since 1991, under the currency board scheme, the stabilization goal was accomplished, but at the cost of a serious price distorsion against non protected tradeables (see work 3), an increasing current account deficit and a growing external sector fragility, which led to the 1995 downswing of the cycle.

improve and poverty will decrease. In short, development will happen.

The following paragraphs try to confront the diagnosis, the recommendations and the forecasts with the results.

From 1976 the GDP per capita decreased. With is ups and downs -as Alfred Marshall would have said- the trend to the fall of the GDP per capita is nitid (see Figure 1)[18].

From 1976 the investment also rate fell. Again, in spite of the peaks and valleys, the trend to the fall of the investment rate, expressed as percentage of the product, is clear (see Figure 2).

These results do not confirm neither the diagnostic, nor the virtues of the policies. However, they are mutually consistent since when the investment rate decreases, the product -in the short or in the long run- also decreases. On the other hand, these trends also lead to doubt about the efficiency of the abovementioned policies in terms of productivity and modernization, since the global social productivity -following Adam Smith, as quoted above- is the ultimate source of welfare (the GDP per capita). And "modernization" means basically technical progress in a wide sense ("hard", "soft", and sistemic), and, finally, it can only be measured, at a national scale, by the long term growth of the GDP per capita. In this sense it could be said that, since 1976, the productivity of the Argentine society is falling.

During these twenty years, the neoconservative explanation of the low investment rates has been that labor costs and wages were too high. However, from 1976 the wages fell almost sistematically. In 1976 the real wages fell 33,6%; in 1994, almost two decades after, the real wages were a half of what had been before 1976. In the 1976-1994 period the year of

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[18] In this and the following figures, the behaviour of each variable (in annual index numbers, year 1975= 100) is represented by a curve adjusted to a straight line. It should be noted that: i) this does not imply that the strong fluctuations of investment, product, etc. during the period are ignored, but rather than from a long term point of view, these are the relevant trends; ii) this method introduces a simplification that hiddens such short term phenomena as: the increase in hidden unemployment and the decrease in open unemployment in 1980; the sharp fall of real wages in 1976; the increases of GDP, investment and unemployment in the 1991-1994 period (followed by a fall of GDP and investment in the first quarter of 1995, and a sharp increase of unemployment, from about 12% in October 1994 to almost 19% in May 1995).

in 1975. Furthermore, since 1976 the GDP per capita, the investment/GDP ratio and the real wages fell together (Figure 2). Again, the results are far from confirming the neoconservative arguments and policies.

Since 1976, and especially since 1991, the unemployment rate rose. The predominant neoconservative argument has been -as about the fall in the investment ratio- that the main cause was that the labor cost was too high[19]. However, since 1976 the trend has been to rising unemployment and decreasing real wages and labor costs[20] (Figure 3). Again, real trends seem to contradict the neoconservative arguments and policies, and -since investment per capita also fell- they are much more in line with arguments centered on the low propensity to invest, innovate and "learning from the best" (see Section I), and the Phillips curve.

As mentioned above, the rationale for the neoconservative policies was the sequence investment-growth-income distribution. As we have seen, neither the investment nor the growth appeared. Nevertheless, the distribution did. Only that it has been a regressive income distribution (Figure 4). In 1993 the share of the richest 10% of the population was 29% higher than in 1974; the share of the next 60% of the population -the middle class that was considered as one of the most specific features of Argentine society vis a vis other developing countries- was 11% lower, and that of the next 30% was almost 28% lower .

Finally, together with higher investment, higher product, and better distribution, the fourth explicit goal of neoconservative policies was

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[19] During the nineties, rising unemployment was attributed also to technical change (for example, to the introduction of robots, even when there are less than 25 robots installed in Argentina). To judge this argument, it should be taken into account that: i) Despite the sharp increase in investment from the 1989 hiperinflationary valley, in 1994 the investment/product ratio (20.0%) was lower than in 1980, and lower that the 1950-1975 average; ii) It has been estimated that investment in machinery and equipment explains no more that 25% of the increase in investment. Furthermore, national saving was still lower (16.2), and the 20.0% investment ratio was sustained in part by external saving. In the last months of 1994 it was evident that the trade deficit, a major component of the current account deficit -that is the complement of external saving- was unsustainable. After the Mexican crisis, this disequilibrium led to a deflationary currency board adjustment. As should be expected, preliminary data for the first half of 1995 show a further decrease in investment. During the last months, the "high wages" explanation for unemployment has returned to the stage.

[20] It should be noted that, due to changes in labor legislation, increased utilization of the production capacity, other (mostly not "hard") productivity gains, and changes in relative prices, the share of labor in total costs decreased more than wages (for a sectorial example, see work 3).

less poverty, which would be an outcome of the free market and also of policies focused on the poverty problem. But, between 1974 and 1992/93 the percentage of families under the poverty line grew from 4% to 20% -about 600%- (Figure 5).

In short. During the last twenty years -with short interruptions- the prevailing economic diagnoses and policies were those that are increasingly identified with what has been called the Washington Consensus. Basically, this consensus present a diagnosis on the restrictions to growth, to investment, to the increase of productivity and wages, to modernization (i.e. technical change and improved income distribution) and to the decrease of poverty. And includes a set of recommendations to eliminate those restrictions. In this sense, it is a set of diagnoses and recommendations on development, though the term development is seldom used. The central thesis of those diagnoses is simple: the only restriction to development is the restriction to the freedom of the market. Or rather, the constraint that exercises the society, through the State, on the private economic agents. The central recommendation is also simple: just eliminate those restrictions to the free market mechanisms and development will follow naturally. Or, what for the neoconservative approach is the same: with just (and only just) more market, less regulation; less State, more privatization; less industrial policies; more trade liberalization, the transition to a more dynamic, open and "First World" economy will result.

After almost two decades the promised results not only did not appear, but the results have been evidently opposed to those promised: fall of the GDP per capita and of the investment/product ratio, regressive income distribution, rocketing unemployment, lower real wages, and much more poverty. Furthermore, growing technological lag, growing oligopolization of the markets, growing concentration, less competition, and a still semi-closed economy, in which profits and growth are concentrated in non tradeables or protected tradeables, and in which decisive prices are fixed nor by the market, neither by a regulatory framework, but by a small group of firms (see works 1 and 13, and Sections I and III).

## SECTION III. PRIVATIZATION, REGULATION AND MARKETS, WITH SPECIAL REFERENCE TO RELATIVE PRICES

### III.1. Some characteristics and impacts of the privatization process in Argentina: regulation weaknesses, and market and prices distorsions.

The Argentine privatization process of the late 80s and early 90s has been one of the pillars of the structural reform policies that followed the "hands off" approach inspired by what has been called the Washington Consensus (see Section I). Two of the most outstanding and distinctive characteristics of the process are its speed and scope: in only four years almost the whole of the public industrial and services firms were transferred to the private sector. These firms had a share of about 8% of the GDP and of more than 20% of the total investment.

Changes and discontinuities in governmental actions and criteria are other distinctive characteristics of this process. Till 1991 the privatizations were characterized by the direct sale of the total shareholdings of whole companies; by payments for privatizations with a very high component of public debt bonds nominated in foreign currency (foreign public debt); and by a total unconcern about regulatory frameworks. Since 1991, during the Convertibility Plan, the process was characterized by the division of the companies; by the public offering of shares (in contrast with the direct sale of the previous years); by a certain -though slow- building up of regulatory frameworks and agencies; and -most remarkably- by the use of the privatizations as part of the short term macroeconomic policy[21].

Other distinctive feature of this process is the recurrent renegotiation of the normatives under which the privatizations and transfers of public services were initially made. Both our research and the main academic studies of the privatizations in Argentina indicates that these renegotiations are intimately associated with the governmental urgency to gain the confidence of big business. One of the main outcomes of these renegotiations has been the increase of social costs, due to the compensatory benefits granted by the Goverment after recognizing that the

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[21] Mainly in terms of fiscal equillibrium, capital inflow, investment recovery and support of the fixed exchange rate (see works 1 -third part-, 6, 8, and 13).

companies had acquired rights and that the change of rules may affect their future profits.

The Goverment unconcern about the distribution of the property of the privatized companies (in contraposition with the international recommendations and experiences), is other of the elements that characterize the privatizations. Thus, the privatization policy induced a growing economic concentration: i) within each of the privatized firms, since the buyers have a shareholding that guarantees the complete control of the company; ii) at the aggregate level, since a small group of large economic agents -mainly conglomerates- went into an increasingly wide and heterogeneous diversification strategy, and have a decisive presence in almost the whole range of privatized activities. This phenomena contributed to reinforce concentrated oligopolic positions, sheltered from competition by the normative and regulation framework. Thus, the biggest conglomerates received: i) conditions under which they have an extremely low -if any- business risk; ii) ample margins for fixing prices; iii) a significant influence power on the relative prices and profits structure and, because of this, on the behaviour of the whole economy. A clear indicator of this influence is the fact -already mentioned- that, after the privatizations, the public services private firms came to have a share of 40% of the total profits of the 20 firms with biggest profits (against 7.6% in the USA). If the profits of the companies of the petroleum complex are added -the greatest part of which is formed by activities privatized in the last years, forming a concentrated oligopolic market- are added, that share reaches 85% (17.6% in the USA.

Moreover, the concentration of economic power in a few conglomerates and the consolidation of market reserves in which non technologic quasi rents are obtained constitute a constraint on the emergence of a new, more dinamic and competitive class of entrepreneus (one of the goals of most privatization processes). This high degree of concentration of the property of the privatized companies -reinforced by crossed shareholdings and agreements- and the regulation defficiencies, incorporates rigidities and restrictions such as: i. an envisaged investment level lower than the already extremely low average of the eighties; ii. the increase in the risk of cooptation of the regulatory agencies; aggravated by the fact that the policy has been to create specific agencies for each service or

privatized company, with scarce or null coordination between agencies (a super-agency for coordination was proposed and discussed, but never created) and by the lack of an anti trust legislation;
iii. the reinforcement of the barriers to entry; iv. the increasing asimmetry in the negotiation capability between the State and the conglomerates, due to the fact that these control the public services, but the State is -in the last instance- responsible for the service itself; vi. an increasing opacity of the markets and the consequent risks of transfer pricing practices that may affect consumers and competing firms in other sectors. An example of this is the impossibility to access to the supply contracts between the transporters, the distributors and the big users of gas; or between the electrical energy generators and the largest users (in many cases firms belonging to the same conglomerate).

In short, the way the privatizations were made and the regulation frameworks and agencies designed not only did not contribute to the transition toward a more market and tradeable oriented economy but, on the contrary, they led to increasing market imperfections, stronger and more negative divergences between social and private benefits, and greater domestic distortions. The forms adopted by the privatization process, one of its main objectives being the transfer of public assets to the private sector seeking for more competition, efficiency and lower costs for the rest of the economy, implied the transference of the power of fixing prices to firms that operate in reserved markets, and thus, to give to these firms the capability to determine some components of the costs of the tradeable sectors that are of great importance for their competitiveness. Consequently, the privatization process, and the deregulations directly associated to it, contributed to changes in the relative prices structure that favour the non tradeables in general, and particularly the privatized public services. In this respect, it is important to emphasize that: i) while the relative prices of other non tradeables may be changed through an exchange rate devaluation, or through a deflationary policy (the option adopted since the first months of 1995), nor the devaluation neither the deflationary policies can change significantly the relative prices of the public services, because these are implicitly indexated to the exchange rate and/or because of their low elasticity and/or because of the mono or oligopolic characteristics of the corresponding markets; ii) the concentration of profits in non tradeables

tends -ceteris paribus- to close the economy, since they bias investment against tradeables.

To change this negative impacts and trends on competitiveness and macroeconomic equilibrium, the only way seems to be to reshape and strengthen the regulatory framework and agencies, in order to force the reduction of the public services relative prices and the transference of the productivity gains to the consumers and the tradeable sectors. Such a policy would have to take into account the following difficulties: i) the morphology of the markets; ii) the opacities and defficiencies of the current normative for price adjustments (for example, the capacity of indexing prices according to the changes of local prices and/or of the exchange rate); iii) the current weakness of the regulatory agencies; for example, they did not force the reduction of prices in proportion to the (most significant) reduction of the tax burden, in spite of the fact that this reduction was explicitly considered in most of the regulation frameworks[22]; iv) the deficiencies of the legal framework (specially the practical lack of regulations in questions as important as monopolic practices, defence and protection of the consumers or promotion of competition).

III.2. Relative prices of privatized sectors. Selected cases.

A first quantifiable impact of the way in which the privatization/deregulation policies have been carried on is the behaviour of the relative prices of the privatized services, and its relation with the regulatory frameworks, in the period March 1991-June of 1994 (the current combination of currency board scheme and structural reforms policy -the Convertibility Plan- began in April 1991). Before entering the analysis of prices it is important to recall that, according to the privatization contracts and the Law/Agreement among the Federal State and the provincial States (the Federal Pact of 1993), the companies should have reduced the price in proportion to the decrease of the tax burden (the so called "tax neutrality clause") that resulted from the elimination of many taxes and the reduction of the rates of others. Also, it should be

[22] Most of the privatization contracts include a clause that allows/obligates to transfer the increase/decrease of the tax incidence to the prices.

take into account that, in a fixed Peso/U$S exchange rate scheme, all the changes in prices and costs in local currency mean an equal change in dollars, and that this -together with the changes of the exchange rate between the dollar and other hard currencies- is the price and cost behaviour that matters in an open economy.

. Highway network under the toll system.

a) The contracts were renegotiated several times. The results of those renegotiations were, among other, the elimination of the fixed canon that the private concessionaires had to pay, the grant of compensatory subsidies for avoiding the rate increases that resulted from the adjustment clauses of the first contracts, and the postponement of the private firms investment compromises.

b) Such renegotations are characterized by a continuous change of criteria. Thus, for example, in July 1994 the Goverment approved toll increases to be applied in August, seven days later was decided that such increases would not be applied, and will be compensated by subsidies.

c) The toll rates increased by 23.5% during this period (Table 2).

That increase is higher than that which results of applying the adjustment clauses of the contracts and, on the other hand, they are significantly higher than the increase of the Wholesale Prices Index (both the total and the industrial ones). Yet more important is the fact that some of the prices of non most protected tradeables fell in the same period (for example, the average steel prices fell by almost 16%, electronics between 34% and 39%, clothing between 33% and 64%, plastic product by 26%, etc. (Table 1).

d) Neither the Ministry of Economy, nor the corresponding regulatory agency enforced the application of the "tax neutrality clause" (see above).

. Telecommunications.

a) Since the privatization, two companies provide the national telephone service (Telecom and Telefónica). A third company (Telintar) has the monopoly of international services and the so-called "services in competence" -data transmission, automated tellers, electronic mail, etc.). As the service areas of the firt two are divided by geographical areas (north and south), and the third one is owned by them, the market is practically monopolic (you cannot change company unless you go to live to

another part of the country, but even then all your international telecommunications and using of "services in competence" will remain under the control of the two main companies). As one may expect from this situation, the first two companies were those of highest profits in the group of the 50 biggest corporations during the last years. The profits are explained by both virtuous and negative behaviours. On one side, there has been a dramatic rise in productivity, on the other, prices -that were high by international standards from the beginning, had been incrased during and after the privatizations.

b) After several renegotiations, the tariffs -fixed in dollars, and thus "protected" against devaluation- of the telecommunications service were indexed to the Consumer Prices Index of the U.S.A.. This adjustment system contrasts with the international experience -for example "the consumer prices minus X% of Japan[23]-. Furthermore, this clause is in open contradition to the Convertibility Law, that declared the irrelevancy and let without effect all the legal or contractual indexation of prices.

b) Despite the impressive productivity gains (one of the objetives of the privatizations) the cost for the users of the telecommunications service was increased. On one hand, the price (tariff) of the phone pulse (the unit of measure for pricing the service) increased 9.6% (Table 2); again, more than the industrial prices and much more than the prices of the not protected tradeables -see above and Table 1-. On the other hand, the total cost for the users was increased even more, because: i) the "free" pulses included in the basic fee were reduced; ii) the basic fee (despite of the reduction of the calls it included) was increased; iii) the duration of the pulse (the very unit of measure) was reduced. The freedom for fixing the unit of measure has been highlighted as an extreme peculiarity of the deregulation of the telecommunications service in Argentina.

c) The application of the "tax neutrality clause" has been not enforced (see above).

. Petroleum derivates (gasoline, fuel oil, gas oil and kerosene).

The Argentine market of petroleum and its derivates is a concentrated oligopolic market protected from foreign competition by the

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[23] The international experience shows that, for telecommunications, the upper tariff limit is set a figure lower than the price index, since costs can be (and usually are) minimized by technological innovation and rationalization of the privatized companies.

circumstance that the oil companies own the whole of the storage system and control the marketing. In that context, in spite of the fact that one of the goals of the privatization and deregulation processes of the petroleum/derivates complex was the convergence of local and international prices the result has been just the opposite. While the international price of the crude fell by 26.4% in the period, the domestic prices of the derivates -even when productivity gains were important- varied between an increase of about 22% (gasoline) and a fall of about 20% (gas oil), resulting in an average increase (considering the consumption structure) of 1.2%. (Table 2).

. Gas.

a) Gas rates increased by 39.7% in the period[24], with meaningful differences according to the type of user (between 120% for household consumption and approximately 20% for large industrial users)[25]. The household consumption rates have been increased much more than the Consumer Prices Index. The increases of the gas rates for the rest of the users (industry, commerce, large industrial users) are much more higher than the increases of most of the wholesale prices indexes, and specially of those of the non protected tradeables (see above and Tables 1 and 2).
b) The awardees of the privatized firms and services retained the reduction of the tax burden, that, according to the contracts, should have been transferred to prices (see above).

III.3. Privatizations and conglomerate structure and strategy. The Perez Companc case.

The privatized companies and services became a decisive component of the conglomerates in terms of growth, sales and profits. The case of Cia. Naviera Pérez Companc (CNPC) -one of the largest conglomerates- is specially clear. The comparison of the 1993 and 1994 Balance Sheets (Table 3) shows that:

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[24] The evolution of the price of gas shows marked disparities according to geographical regions and the user categories, associated with the modifications introduced in the price structure.

[25] The larger industrial users and the gas transport firms are -in many cases- part of the same conglomerates.

i) In terms of sales, the share of the core firm (CNPC, a shipping company) of the conglomerate in the whole conglomerate sales fell from 48.9% to 39.6% between 1993 and 1994.
ii) While the net profits after taxes/total sales ratio of the core firm rose from 36.1% to 42.6%, the same net profit/sales ratio of the investments in linked and controlled companies rose from 4.7% to 24.0%, respectively. This dramatic increase of the net profit/sales ratio is explained by the high profits of the privatized companies linked to the conglomerate. For example, the net profit/sales ratio of Transportadora de Gas del Sur (South Gas Transport Company) in 1993/1994 was 42.6%[26].
iii) As it was mentioned above, the diversification of the CNPC conglomerate is completely different from that of the big corporations and conglomerates of the developed countries and from that of the Assian NIEs conglomerates. It follows neither a strategy of concentration along one (or a few) technological clusters, nor of diversification to dynamic tradeable sectors. On the contrary, the diversification is sectorialy and technologically highly heterogeneous. The firms listed in Table 3 cover the following activities: oil pipe transportation, gas transport and distribution, petroleum refinery, electric power generation, and telecommunications. The only common characteristic is that they are all non tradeable and/or protected tradeable sectors, in concentrated oligopolistic markets.

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[26] CNPC controls 17.5% of the shareholding of Transportadora de Gas del Sur, which net profits were of 150 million dollars.

# TABLES AND FIGURES

Table 1.
Selected Prices Indicators.
March 1991-June 1994.
(March 1991=100.0)

| Non Tradeables | Index Jun.94 | Protected Tradeables(1) | Index Jun.94 | Tradeables | Index Jun.94 |
|---|---|---|---|---|---|
| Consumer Price Index | | | | | |
| Sanitary, gas & other services | 166.6 | Bread | 178.7 | Electric household equipment | 100.8 |
| Telephone Service | 138.8 | Vegetables (fresh) | 191.0 | Radio recorders & T.V. sets | 61.0 |
| Tourism & Spare Time Services | 198.2 | Beef | 175.5 | Audio, video & photography equipment | 65.9 |
| Education | 174.0 | Fuits (fresh) | 194.6 | Sportive articles | 98.7 |
| Housing rent | 275.8 | Cars | 165.8 | Clothing (men) | 66.7 |
| | | | | Clothing (women) | 36.2 |
| Wholesale Price Index | | | | | |
| | | Flour & others milling products | 144.4 | Petrochemicals | 80.8 |
| | | Medicines | 123.4 | Rubber & tire products | 61.9 |
| | | Printing & Publishing | 123.2 | Iron & steel | 84.1 |
| | | Portland cement. | 104.1 | Metal products (except machines) | 99.5 |
| | | Vehicles | 105.3 | Tractors & Agricultural machinery | 97.3 |
| | | | | Plastic products | 73.7 |
| | | | | Textiles | 94.6 |

(1) Protected by tariffs, non tariff, and/or "natural" or market barriers.

Source: Own ellaboration based on INDEC.

Table 2.
Selected privatized sectors. Prices and rates behavior
during the Convertibility Plan.
March 1991/June 1994.
(percentages)

| S E C T O R S | % |
|---|---|
| . Highway Toll Rates | + 23.5 |
| . Telephone tariffs (without VAT) | + 9.6 |
| . Gas (transport and distribution) | + 39.7 |
| . Petroleum derivates | |
| Average (weighted by consumption structure) | + 1.2 |
| Gasoline | + 22.0 |
| Gas oil | - 19.8 |
| Kerosene | - 2.2 |
| Fuel oil | - 16.3 |
| . Wholesale Prices Index | |
| * Total | + 8.5 |
| * Industrial | + 6.9 |

Source: Own ellaboration based on INDEC, and Azpiazu D.; Bang, J.H.; and Nochteff, H.: Privatización, Desregulación y Precios Relativos en la Argentina de los Noventa, FLACSO, 1995 (forthcoming).

Table 3
Cia. Naviera Perez Companc. Balance sheet indicators, 1993 and 1994.
(thousand of pesos -1 $ = 1 uss- and percentages)

A. SALES AND PROFIT INDICATORS

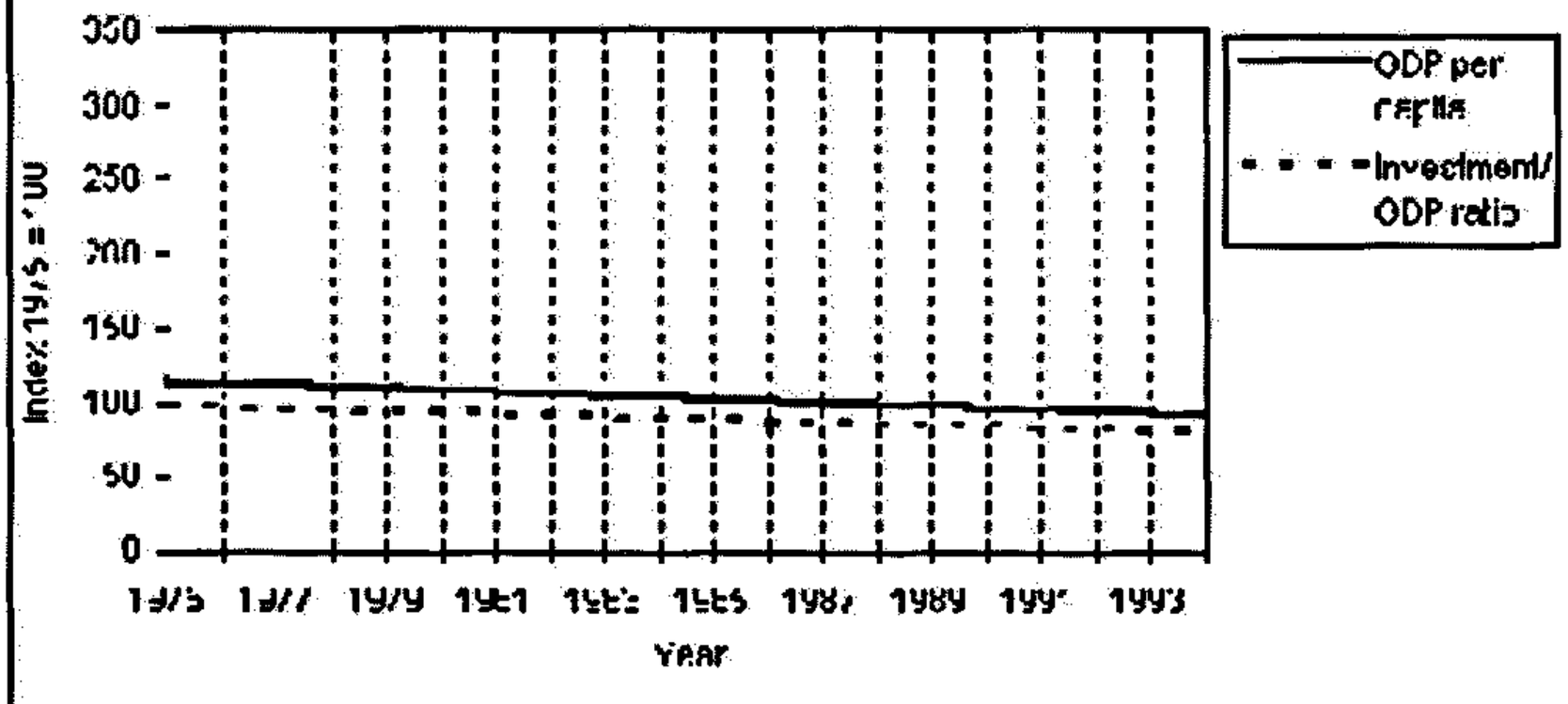
| ITEMS | 1992/93 | | 1993/94 | |
|---|---|---|---|---|
| | 000 $ | % | 000 $ | % |
| Sales | 447.286 | 100.0 | 424.176 | 100.0 |
| Gross Profit | 199.072 | 44.5 | 167.749 | 39.5 |
| Rent of Long Term Investment | 20.438 | 4.7 | 101.760 | 24.0 |
| Other | 23.200 | 5.2 | 21.093 | 5.0 |
| Profit Default Taxes | 159.838 | 35.7 | 215.368 | 50.8 |
| Income Tax | (25.497) | (5.7) | (20.479) | (4.8) |
| Ordinary Profit | 134.341 | 30.0 | 194.889 | 45.9 |
| Net Profit | 161.360 | 36.1 | 160.526 | 42.6 |
| Share of CNPC sales in the total sales of the conglomerate Perez Companc | 48.3 | | 39.6 | |

B. RENT OF LONG TERM INVESTMENT OF THE PRIVATIZED CORPORATIONS

| CORPORATIONS | Share CNPC | Net Profit/Sales Ratio 1992/93 | 1993/94 |
|---|---|---|---|
| Oleoducto del Valle S.A. | 23.1 | 39.3 | 45.5 |
| Terminales Marit. Patagónicas | 13.8 | - | 17.3 |
| Transportadora Gas del Sur SA | 17.5 | - | 42.6 |
| Metrogas S.A. | 17.5 | 14.2 | 9.2 |
| Refinería San Lorenzo S.A. | 57.5 | 0.2 | 5.8 |
| Refinería del Norte S.A. | 28.0 | 2.3 | 9.8 |
| Central Costanera S.A. | 6.0 | 9.1 | 13.2 |
| Edesur S.A. | 16.6 | -12.8 | -4.4 |
| Transener S.A. | 9.8 | - | 29.5 |
| Telecom Argentina S.A. | 25.0 | 12.0 | 15.2 |

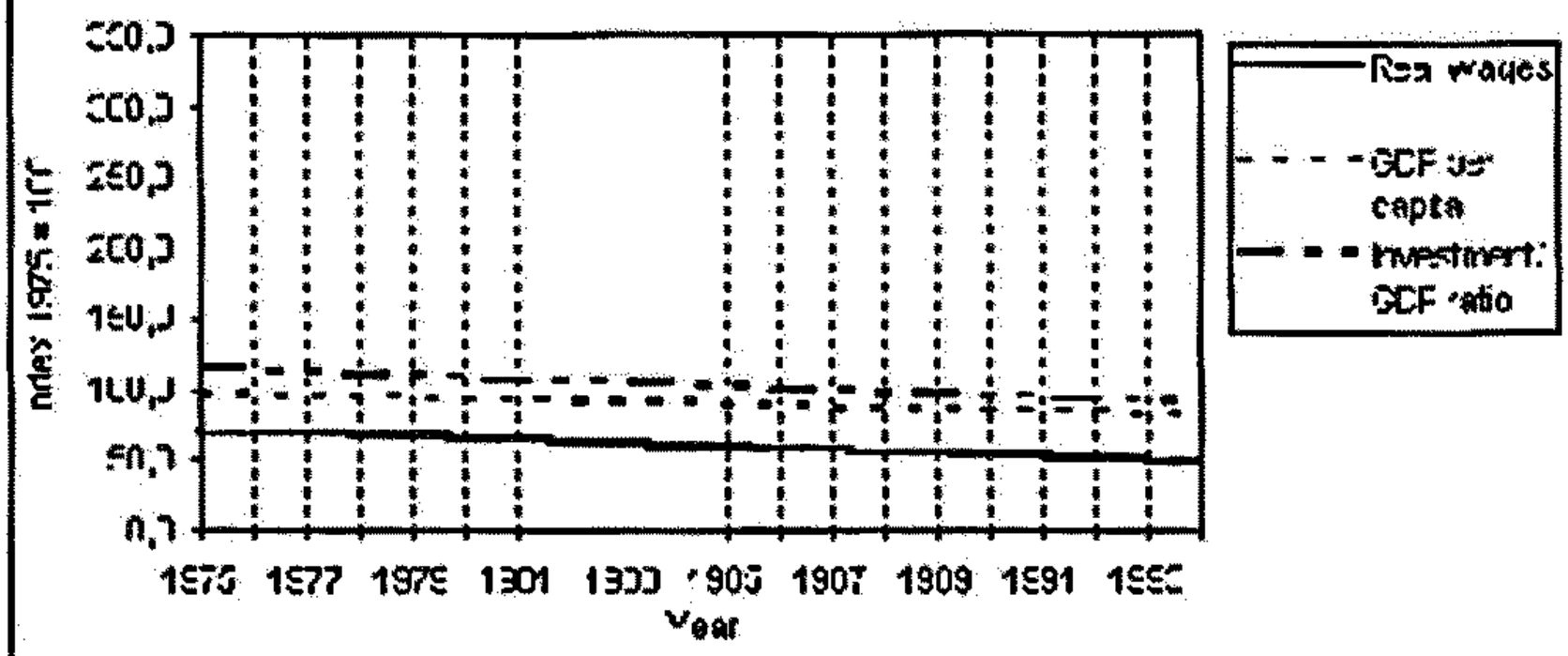
SOURCE: Reports and Balance Sheets of Cia. Naviera Perez Companc

Figure 1
GDP per capita and Investment/GDP ratio: 1975-1994



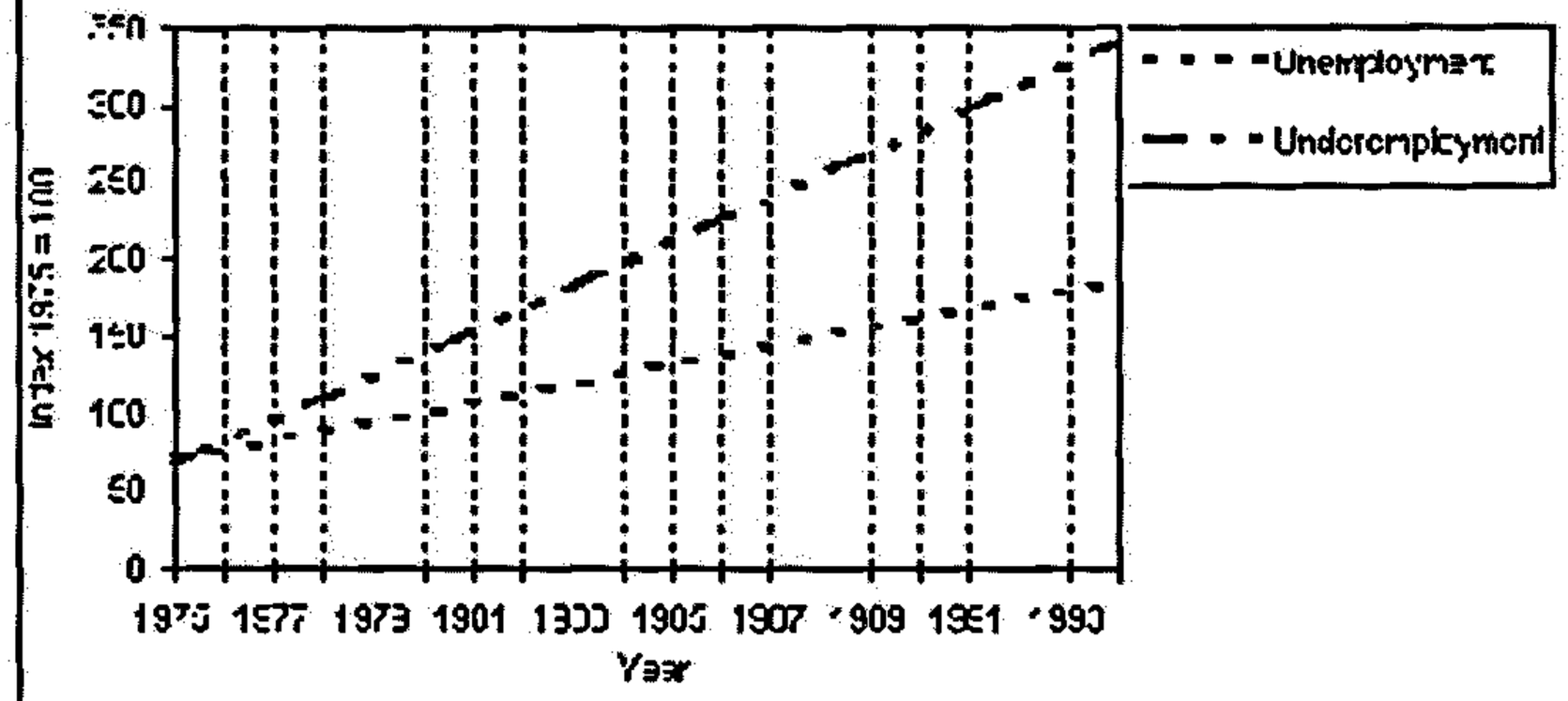

Source: Own estimation based on BCRA and Ministerio de Economía

Figure 2
GDP per capita, Investment/GDP ratio and Real wages: 1975-1994



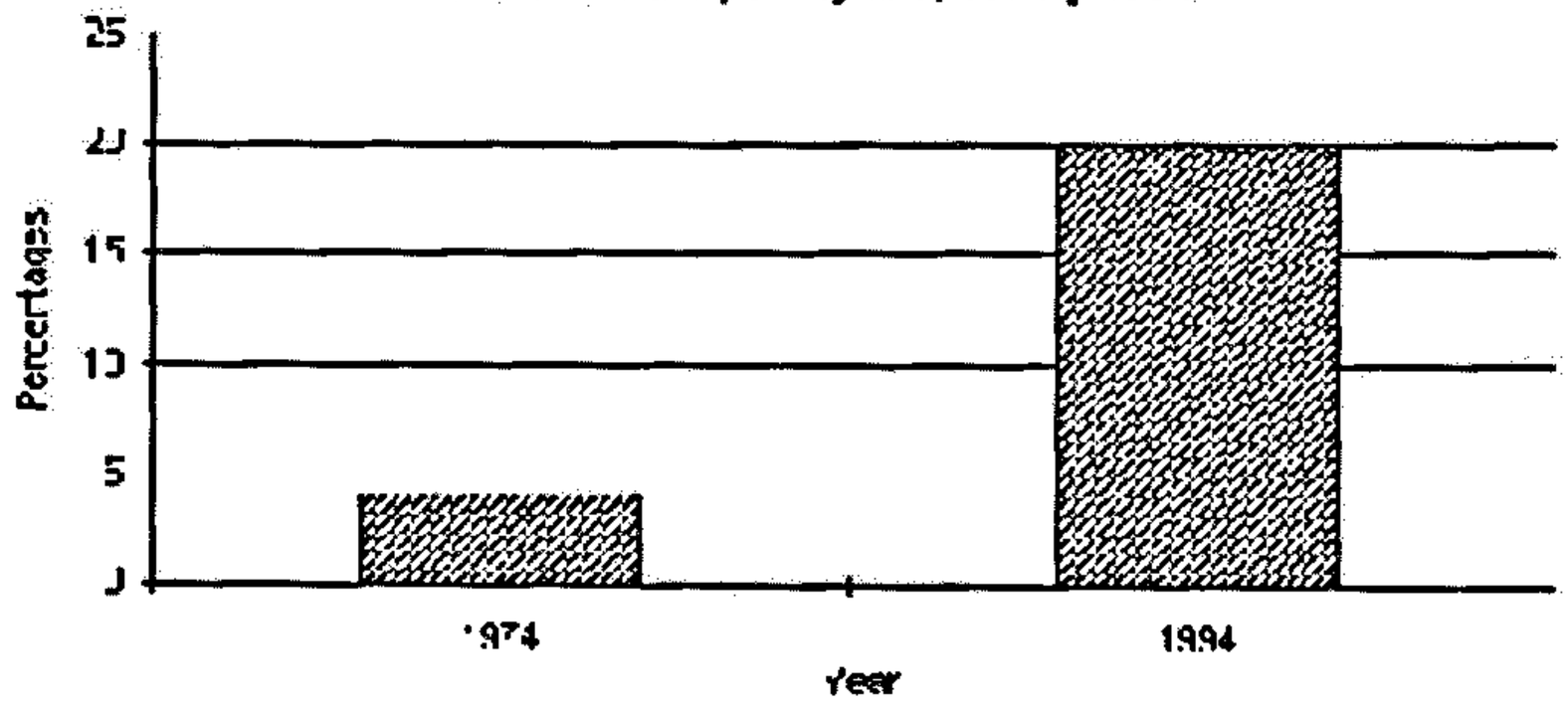

Source: Own estimation. Based on ECRA and Ministerio de Economía

Figure 3
Real wages, Unemployment and Underemployment rates; 1975-1994




Source: Own elaboration. Based on Secretaría de Seguridad Social and INDEC

Figure 5
Families under the poverty line; 1974 y 1994




Source: Own elaboration. Based on INDEC

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A. Book

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4. Nochteff, H.; "Patrones de Crecimiento y Políticas Tecnológicas", in Revista Ciclos en la Historia, la Economía y la Sociedad, Revista del Instituto de Investigaciones de la Historia Económica y Social, Facultad de Ciencias Económicas, Universidad de Buenos Aires, Año IV, Vol. IV, 1er. semestre 1994.

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11. Azpiazu, D.; Bang, J.H.; y Nochteff, H.; "Privatización, Desregulación y Precios Relativos en la Argentina de los Noventa"; FLACSO (forthcoming).

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13. Azpiazu, D. y Basualdo E.; "Las Privatizaciones en la Argentina. Evolución de Precios Relativos e Impacto Macroeconómico", IDEP/ATE, Septiembre 1991 (forthcoming).

# BEHAVIOR OF THE ECONOMIC GROUPS IN ARGENTINA. CASE STUDIES.

## I. AN INDUSTRIAL CONGLOMERATE: TECHINT ECONOMIC GROUP

**Diagram Nr.1 - The evolution of Techint's activities in Argentina.**

| 1970's decade | | 1980 and 1990 decades | |
|---|---|---|---|
| Activity | Main Firms | Activities | Principal Trends |
| *Steel | -Siderca SA | *Steel | -Siderca SA expands with state subsidies |
| | | | -Buys public enterprise SOMISA (privatization) |
| | | | -Invests in Usiminas (Brasil) y Finsa SA (Mex) |
| *Metalurgy | -Cometarsa SA<br>-Sid. Bernal SA<br>-Tubos y Perfiles SA<br>-Tristán Suarez SA | *Metalurgy | -Activity declines |
| *Construction and inputs | -Techint SA<br>-LOSA SA<br>-Urbaniz. Catalinas | *Construction and inputs | -Activity declines |
| *Engineering & technical assitance | -Socometer SA<br>-Techint SA<br>-Tecnar SA<br>-Tecnagro SRL | *Engineering | -Activity tends to disapear |
| *Investment | -Agustin Rocca y Cia.<br>-Santa Maria SA<br>-I.I.I. SA | *Investment | -Activity expands because of privatizations |
| | | *Electrical Services | -Partly owns distribution network EDELAP (privatization program) |
| | | *Gas | -Partly owns Transportadora Gas del Norte (privatization program) |
| | | *Petroleum | -Participates in exploitation (Tecpetrol SA) (privatization program) |
| | | *Telephone Services | -Shareholder in Telefónica Argentina SA (privatization program) |
| | | *Railways | -Controlling share in Ferroexpreso Pampeano SA (privatization program) |
| | | *Highways | -Operates several national highways (privatization program) |

During the 70's this economic group was one of the mayor steel and metalurgy producers, along with Acindar and state owned SOMISA. It was and still is the only domestic manufacturer of seamless tubes for the petroleum industry. At the same time it was, together with the Perez Companc group, one of the main goods and services sources for government agencies.

During the 80's the company continued with the same basic structure while transferring it's external debt to the state (with foreign exchange insurance), and using subsidies like the industrial promotion schema to expand and modernize its industrial plants.

In the 90's this strategy is redefined and the groups structure is deeply altered. Oligopolic markets with no foreign competition -specifically privatized public services such as electricirty, gas, and telecommunications- are now the driving force and account for most of the assets and revenue.

Meanwhile, in steel industries the group stops investment flows in installed plants and buys the state owned SOMISA (now called SIDERAR SA). Since that moment the market is partitioned with the ACINDAR group, concentrating in flat steel and buying a stake in brazilian state owned Usiminas and in a mexican firm.

## II. AN AGRIBUSSINES AND INDUSTRIAL CONGLOMERATE: BEMBERG GROUP.

Diagram Nr.2 - The evolution of Bemberg's activities in Argentina.

| 1970's decades | | 1980 and 1990 decades | |
|---|---|---|---|
| Activity | Main Firms | Activities | Main Trends |
| *Agriculture and ranch | -FEIBA SA,Manderlay SA Ibaiarra SA,Chacabuco del Neuquén SA, SAFAC | *Agriculture and ranch | The group redefines control estructure without altering its assets in this sector. |
| *Agroindustry | | *Agroindustry | |
| .Yeast | -CALSA | .Yeast | Expanded production, australian capital buys a share in CALSA They jointly create Sud.de Levaduras SA de Inversiones |
| .Malts | -SAFAC SA<br>-Cervec. y Malteria Quilmes SA | .Malts | Expanded production, in SAFAC german capital buys a stake (Heineken Int. Beheer B.V.) |
| .Beer | -Cervec. y Malteria Quilmes SA<br>-Cervec. de Cuyo SA<br>-Cervecería Córdoba SA<br>-Cervec. del NO SA | .Beer | Bug expansion in production asociate with increase in consumption. New plants and firms (Cerv.Alto Paraná SA and Cerv. Rio de la Plata SA). |
| *Invesment and Financing | | *Invesment and Financing | |
| .Domestic | -Arfinsa SA,23 de junio Coinga SA | | Expansion and new firms (17 de Abril SA y BDA SA) |
| .International | -Quilmes Int.(Bermuda) Los Manantiales(Panam) | | Expansion and new firms in Uruguay (Golden Wing SA,Fin Streamliner SA, Excelence). |
| | | *Hidroelectric. | Share in Alicoura poverstation (privatiz. program) |
| | | *Gas | Gas distribution through share in Gas del Litoral Litoral (privatization program) |
| | | *Other | Inverstments in supermarkets, bean production, natural gas for cars (SA de Inv.de Capital de Riesgo SA in association with Bunge & Born, Chase Manhattan, Roberts Bank, and others) |

(1) Owns 600 square kilometers in Buenos Aires Province, 100 in Misiones, 700 in Neuquén.

During the 70's this group was based in the agricultural and ranch sector, producing malts and beer; Cervecería y Malteria Quilmes SA led these markets. In the 80's and 90's, beer consumption increased first as wine's share decreased, then as sodas also lost market share. In the last

years, the Bemberg group becomes a shareholder in the new consortia that buy privatized enterprises (Alicurá SA and Gas del Litoral SA). The group thus now provides services insulated from foregin competition, and it's newest investments show a similar pattern.

## III. A FINANCIAL CONGLOMERATE: WERTHEIN GRUOP (BANCO MERCANTIL)

Diagram Nr.3 - The evolution of the Werthein group's activities in Argentina.

| 1970's decade | | 1980 and 1990 decades | |
|---|---|---|---|
| Activity | Principal Firms | Activity | Main trends |
| *Agriculture<br>-Pampean (1) | -Gregorio, Noel y Nuno Werthein SA, La Iliada SA, Continental SA. | *Agriculture<br>-Pampean | -Reorganization and new firms (Dugna SA, Est. Pastoril El Refugio SA, Marga SA, Arenal SA) |
| -Extrapampeana (fruits) | -Agrocitro SA | -Extrapampean | -Expansion and new firms (Finca Flichman SA, Mileita SA, Valley Evaporating Co SA, El Cartucho SA) |
| *Agroindustry | | *Agroindustry | |
| -Fruits preparation | -Citrex SA (2) (jugos) | -Fruits preparation | -Expands and buys new firms (Fincas Flichman SA), while external commercialization channels (Blue Valley, Vecoar N.V.) |
| -Textiles (wool) | -IVA SA, Lanas del Chubut SA | -Textiles | -New enterprises (Grantex SA, Rempin SA, Supertejidos SA) |
| *Invesment and Financing | -Banco Mercantil Argentino SA | *Invesment and Financing | -Big expansion in operations with new firms: (Banco República SA, La Defensa Cia. de Seguros).<br>-Buys the Caja Nacional de Seguros (privatiz. program)<br>-Financial investment along with Citibank's group (includes the Celulosa Argentina group with Alto Paraná & Puerto Piray |

(1) Owns 400 square kilometres in Buenos Aires province and 550 in Santa Fe province.

During the 70's this group was relatively small. Its main economic activities centered in the exploitation of static natural comparative advantages such agricultural products from the pampean region, elaboration of fruits, and wool-based textiles. Finance was at that time only a complementary activity.

Since the mid 70's the group expands quickly into financial activities, and this line of bussines becomes the main source of income. On the other hand, activities such as industrialized fruits also expand during this period. While buying new firms in this sector, the group extends its foreign marketing network.

## IV. MAIN TRENDS FOLLOWED BY THE ARGENTINE CONGLOMERATES

During the past decades Argentina has seen a process of concentration in production and centralization in capital resources; this process implied the expansion of a small set of economic groups.

Although this trend seems similar to the path followed by many of the emergent countries of high relative growth in the recent past -such as South Korea or Brazil- the economic contents are very diferent. While economic groups like the "chaebol" have a dynamical core in intermediate technology industries, argentine conglomerates sustain their growth either in productions based on natural comparative advantages (agriculture and ranch, and agroindustries, as in case II), or in financial activities (Case III). With diferent intensity, most of them have also entered privatization programs and are operating in oligopolic markets not subject to international competition.

These diferences between argentine conglomerates and other turn to be even more dramatic when comparing the behavior of those that used to have their core operations in industrial activity (Case I). These have a completely new dynamic center in privatized services (monopolic and nontradable) and have advanced in their industrial activity with substantial investnment subsidies from the state. Presently, this group abandons activities that can be considered strategic because of their potential to generate dynamic comparative advantages and learning processes, such as engineering and technical assistance.

These aforesaid diferences are related to the role of the government in each of the examples. Even when it usually promotes conglomeration, in successfull countries the aid and subsidies are linked to precise investment and exports targets, while in Argentina these goals do not exist and in fact the state structures are subordinated to the conglomerate's strategies. This results in a poor performance in terms of capital accumulation, and in relevant outbound transfers of capital.

Investment from argentine comglomerates is comparatively small and funneled towards recently privatized services. Even so, total investments do not even match those made by the state during the external debt crisis.

Furthermore, new investments in industry seem to be aquisitions of turnkey plants.

# ANNEXED TABLES

TABLE A. ARGENTINA. INVESTMENT AND RESOURCE TRANSFERS. 1981 TO 1989.

| | Billion U$S | | PERCENT |
|---|---|---|---|
| | TOTAL | ANNUAL | OF GDP |
| - Gross Domestic Product | 630 | 70.0 | |
| -Interests payed to external creditors | 34.7 | 3.8 | 5.5 |
| -External Financing | 7.8 | 0.9 | 1.2 |
| -Net External Transfers (Interest-Financing) | 26.9 | 3.0 | 4.3 |
| -Salaried Employees Income | | | |
| * 1981-1989 | 190.0 | 21.1 | 30.2 |
| * 1970-1975 | 269.0 | 29.9 | 42.8 |
| * Reduction in Income | -79.0 | -8.8 | -12.6 |
| -State Transfers to concentrated capital | 67.5 | 6.8 | 9.7 |
| -Net Investment | | | |
| * 1981-1989 | 31.0 | 3.4 | 4.9 |
| * 1970-1980 | 105.0 | 11.7 | 15.0 |
| * Decrease | -74.0 | -8.3 | -10.1 |

Source: Own elaboration based on Central Bank and ECLAC.

A brief account of the main income transfers during the 80's decade lets us evaluate the economic results for that period (Table A). It must be noted that interests payed to external creditors between 1981 and 1989 reached 34.7 billion dollars, averaging 3,800 millons yearly. At the same time, net outbound transfers (interests payed minus incoming financing) add up to 26.9 billion dollars, or around 3,000 millon a year. Assuming that GDP for the same period was 70 billion a year, these values represent 5.5 % and 4.3 % of GDP respectively.

Even when outbound resource transfers related to external debts are significative, these transfers are clearly smaller than the income redistribution and other transfers made by the State towards concentrated capital. During that period, salaried employees participation in income is reduced by 12.6 % of GDP when compared with the 1970-1975 period

(representing almost 9 billion dollars a year with the same GDP assumption as before). Nonetheless, State transfers towards concentrated capital where even greater. In this respect, the present President of the Argentine Central Bank has evaluated this agency's losses at around 67,476 billion dollars as off december 1989 (slightly less than 7,500 million per year)[27].

The same public servant stated: "In our case price instability has been doubly regressive: while inflationary taxes where payed mainly by low income sectors, the resources originated by it where appropiated mainly by a small number of beneficiaries. Precisely, one of the problems we've had during tha last years is that inflationay taxes were privatized, serving diferent groups whose lot was directly linked with their lobbying capacity and have individually profited through the emission of papermoney"[28].

Taking into account the present-day policies that push for a further reduction in real wages as a basic condition of augumented investment, it must be noted that during the previous decade -when income and wealth concentration were the main axis of the economic process- investment fell to all time lows.

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[27] Roque B. Fernández, "Comentarios sobre el proyecto oficial de reforma de la carta orgánica del Banco Central de la República Argentina", ADEBA (Asociación de Bancos Argentinos) Convention, 1990.

[28] The losses structure of the Central Bank is the following:

| | Million US$ |
|---|---|
| Monetary and Foreign Exchanges Policy | 37.902 |
| Financial Entities Financing | 14.638 |
| Government Financing | 12.661 |
| Foreign Trade Financing | 2.275 |
| TOTAL | 67.476 |

TABLE B.
ARGENTINA. FINANCIAL RESULTS OF THE PRIVATIZATION PROGRAM. 1990-1994. (million dollars)

| SECTOR | CASH | BONDS | | TRANSFER. LIABILIT. | TOTALS | |
|---|---|---|---|---|---|---|
| | | FACE VALUE | CASH VALUE | | A 1/ | B 2/ |
| Telephone | 2,279.0 | 5,029.0 | 1,257.0 | - | 7,308.0 | 3,536.0 |
| Airlines | 190.1 | 1,313.8 | 394.1 | - | 1,503.9 | 584.2 |
| Electricity | 1.295.1 | 2,679.7 | 1,914.1 | 460.7 | 3,974.8 | 3,669.9 |
| Harbors | 13.3 | - | - | - | 13.3 | 13.3 |
| Radio & TV | 13.9 | - | - | - | 13.9 | 13.9 |
| Petroleum | 4.846.8 | 1,271.1 | 1,080.4 | - | 6,117.9 | 5,927.2 |
| Gas | 1.163.6 | 3,082.1 | 1,120.3 | 1,110.0 | 4,245.7 | 3,393.9 |
| Petrochemical | 53.3 | 132.0 | 46.0 | - | 185.3 | 99.3 |
| Shipyards | 59.8 | - | - | - | 59.8 | 59.8 |
| Steel indust. | 143.3 | 41.8 | 22.5 | - | 185.1 | 165.8 |
| Real state | 202.6 | - | - | - | 202.6 | 202.6 |
| Other | 171.0 | 12.0 | 2.0 | - | 183.0 | 173.0 |
| SUMTOTAL | 10.431.2 | 13,561.5 | 5,836.4 | 1,570.7 | 23,992.7 | 16,268.2 |

NOTES: 1/ Results from adding cash, transfered liabilities, and face value of redeemed bonds.
2/ Results from adding cash, transfered liabilities, and real value of redeemed bonds.
SOURCE: Own elaboration based upon Economic Ministry information.

TABLE C.
PRIVATIZED AGENCIES AND ENTERPRISES'S DEBT ABSORBED BY THE NATIONAL TREASURY
(selected sample, in million pesos)

| AGENCY | EXTERNAL DEBT | INTERNAL DEBT | TOTAL |
|---|---|---|---|
| * PRIVATIZED | | | |
| -Y.P.F. | 8,786.6 | 7.2 | 8,793.8 |
| -RAILWAYS | 1,971.8 | 585.8 | 2,557.6 |
| -STATE GAS CO. | 1,892.8 | 387.3 | 2,280.1 |
| -HIDRONOR | 1,485.3 | 2.9 | 1,488.2 |
| -SEGBA (electric.) | 817.8 | 83.9 | 901.7 |
| -SOMISA (steel) | 612.7 | 825.1 | 1,437.8 |
| -AEROLINEAS ARG. (airline) | 421.3 | 6.4 | 427.7 |
| -ELMA (shipping) | 406.3 | 329.9 | 736.2 |
| -HIDROELECTRIC CO. | 328.3 | 729.8 | 1,058.1 |
| -TELEPHONE CO. | 269.6 | 26.4 | 296.0 |
| -WATER & SEWER CO. | 86.8 | 42.6 | 129.4 |
| -ENCOTESA (mail) | 2.6 | 110.6 | 113.2 |
| -INSURANCE CO. | | 600.0 | 600.0 |
| *SUBTOTAL | 17,081.9 | 3,737.9 | 20,819.8 |
| *OTHER | | | |
| -CENTRAL BANK | 7,496.9 | 0.9 | 7,497.8 |
| -DEVELOPMENT BANK | 2,873.4 | 628.3 | 3,501.7 |
| -GRAIN REGUL. BODY | 146.8 | 0.2 | 147.0 |
| -INSURANCE UNDERW. | 124.6 | 1,500.0 | 1,624.6 |
| *SUBTOTAL | 10,641.7 | 2,129.4 | 12,771.1 |
| *TOTAL | 27,723.6 | 5,867.3 | 33,590.1 |

SOURCE: Own elab. based on National Budget for 1994.

The accelerated and all-including privatization program has generated fiscal resources for 16,200 million dollars as off the end of 1994. More than a third of this, or around 5.8 billion dollars, are the market value of external debt bonds capitalized under diferent schema. This high proportion is one of the special characteristics of the argentine case, at least when compared with other latinamerican experiences. One must also emphasize that in the single privatization representing the biggest cash income for the State (the petroleum company YPF), this cash resurces barely represented half the debt absorbed by the National treasury.

**TABLE D. EVOLUTION OF GROSS FIXED INVESTMENT AND INVESTMENTS TARGETED FOR PRIVATIZED COMPANIES, 1980-1994**
**(million dollars and percentage)**

| YEARS | GROSS FIXED INVEST. | | INVEST. IN PRIVATIZED ENTERP.* | | |
|---|---|---|---|---|---|
| | mill. u$s | % GDP | mill. U$S | 1980=100 | % GFI |
| 1980 | 53,000 | 25.4 | 4,248 | 100 | 8.0 |
| 1981 | 42,000 | 22.5 | 3,931 | 93 | 9.4 |
| 1982 | 18,000 | 21.4 | 3,499 | 82 | 19.4 |
| 1983 | 22,000 | 21.2 | 3,565 | 84 | 16.2 |
| 1984 | 23,000 | 19.7 | 3,381 | 80 | 14.7 |
| 1985 | 16,000 | 18.2 | 2,667 | 63 | 16.7 |
| 1986 | 18,000 | 17.0 | 3,247 | 76 | 18.0 |
| 1987 | 23,000 | 19.7 | 5,920 | 140 | 23.7 |
| 1988 | 19,000 | 18.8 | 5,100 | 120 | 26.8 |
| 1989 | 12,000 | 15.0 | 2,304 | 54 | 19.2 |
| 1990 | 20,000 | 14.1 | 2,177 | 51 | 10.9 |
| 1991 | 28,000 | 14.7 | 1,450 | 34 | 5.2 |
| 1992 | 38,000 | 16.6 | 3,517 | 83 | 9.3 |
| 1993** | 46,309 | 17.9 | 2,712 | 64 | 5.9 |
| 1994** | 54,717 | 18.8 | 2,630 | 62 | 4.8 |

(*) Includes investment in gas, telephones, railways and subways, harbors, and sanitation.
(**) Estimates elaborated by the Economic Ministry.
SOURCE: Own elab. based upon F.A.M. de la Balze (comp.)," Reforma y Convergencia, ensayos sobre la transformación de la economía argentina", ADEBA, 1993, and "Argentina en Crecimiento, 1993-1995", Economic Ministry, 1993.

Available evidence points out to a low investment level in privatized services. As can be checked in Table D, the proportion of privatized enterprises' investment in overall investments during 1991-1994 is lower than the same ratio onwards. Moreover, absolute the levels of these investments are not significant and decrease in time. In fact, the average investment levels recorded between 1980 and 1990 have not been reached -and are not even planned- from 1991 on.