THE CRISIS IN INDUSTRIAL STRUCTURE IN ARGENTINA: LESSONS FOR DEVELOPMENT POLICY AND PRACTICE*

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Abstract:

This paper provides a perspective on Argentina's recent economic and political crisis, which has been viewed by many commentators with a resigned hopelessness, amid often-fierce debate over where things have gone wrong. The Argentinian case is particularly pertinent because the country's apparent reversal of fortunes has been so dramatic; less than ten years ago it was seen as a 'model student' of the international organisations and considered a great hope for Latin American development. Typically, analysis of the crisis has focussed on macroeconomic issues, particularly on the roles played by Argentina's huge debt, its exchange-rate 'convertibility plan', and its fiscal and monetary policy. However, we suggest that it is imperative to also examine the underlying structural reasons behind Argentina's consistently erratic economic performance. Our contribution is to analyse the crisis from a historical perspective, which leads to the suggestion that its roots lie in a microeconomic industrial structure that is inappropriately matched with the macroeconomic policies of the Washington Consensus. We conclude that this mismatch is a problem of the Consensus more widely, and examine ways forward that combine changes in policy at both local and international levels.

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I. INTRODUCTION

This paper provides a perspective on Argentina's recent economic and political crisis. This came to a head in December 2001 with the resignation of President Fernando de la Rúa at a time when hap-hazard financial controls prompted scenes of looting in Buenos Aires and other cities.[1] The turmoil led many commentators, in Argentina and abroad, to view the situation with a resigned hopelessness, amid often-fierce debate over where things have gone wrong. Moreover, the Argentinian case is particularly pertinent because the country's apparent reversal of fortunes has been so dramatic. Less than ten years ago it was seen as a 'model student' of the international organisations, having adopted the 'Washington Consensus' policy approach (Williamson, 1990, 1993), and was considered a great hope for Latin American development.

Typically, analysis of the crisis has focussed on macroeconomic issues, particularly on the roles played by Argentina's huge debt, its exchange-rate 'convertibility plan', and its fiscal and monetary policy (Feldstein, 2002; Fanelli and Heymann, 2002; IMF, 2002; Kiguel, 2002). The most frequently accused culprits are hence the Argentinian political elite and the International Monetary Fund (IMF). The political elite is charged with economic mismanagement and self-serving corruption,[2] while the IMF has been heavily criticised from both sides of the political spectrum for its past and present policies.[3]

However, we suggest that focussing exclusively on macroeconomic issues is counterproductive in terms of developing sustainable solutions that address the root causes of Argentina's economic problems. While these issues are undoubtedly important in explaining the immediate crisis – Feldstein (2002, p. 8, emphisis added) argues confidently that "an overvalued fixed exchange rate ... and an excessive amount of foreign debt were the two *proximate* causes" - it is imperative to also examine the underlying structural reasons behind Argentina's consistently erratic economic performance. Our

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1 See, for example, 'Argentina in Crisis: Looting, Bloodshed and Panic as a Nation's New Poor Explode Over Their Economic Meltdown', *The Independent*, December 21st 2001, and 'President Who Stumbled from Failure to Disaster', *Financial Times*, December 22nd 2001.

2 For a reflection of some of this criticism see Pastor and Wise (2001), IMF (2002), 'Middle Classes Face Ruin as Argentina's Crisis Widens', *The Observer*, December 23rd 2001, 'Divided they Fall', *Financial Times*, January 2nd 2002, 'Embracing Failure', *Buenos Aires Herald*, January 10th 2002, and 'Back to Revolution', *Financial Times*, February 21st 2002.

3 For a reflection of some of this criticism see 'Argentine Accuses IMF of Meddling: Criticism Is Seen Damaging Efforts Toward Recovery', *The Washington Post*, January 14th 2002, '¿El FMI es la solución o el problema?', *La Nación*, March 24th 2002, 'Revolt of the Wronged', *The Guardian*, March 28th 2002.

contribution is thus to analyse the crisis from a historical perspective, which leads to the suggestion that its roots lie in a microeconomic industrial structure that is inappropriately matched with the macroeconomic policies of the Washington Consensus. We conclude that this mismatch is a problem of the Consensus more widely, and examine ways forward that combine changes in policy at both local and international levels.

Our analysis highlights four specific concerns. Firstly, the notion that historical roots, and thus context, are crucially important for implementing successful economic development policies. Secondly, that the industrial structure of a country provides a context which is particularly vital. Thirdly, that different forms of co-operation are important in building appropriate microeconomic structures and processes, and that changes in attitudes to co-operation could form the basis for a way forward for localities within Argentina, and more widely. Fourthly, that appropriate co-operation at a local level needs to be complemented with forms of multinational co-operation that will generate sufficient scope for the rebuilding of the industrial structure.

In Sections II, III and IV we focus largely on the first two concerns by pursuing an analysis of the history of Argentinian economic development. Section II considers the period to 1990, dividing it into three distinct phases (Kosacoff, 2000), each marked by a combination of dramatic political events and remarkable economic instability. This leads into an analysis of the post-1990 Washington consensus phase in Section III. Present problems are linked to the persistent failure to generate an industrial structure around which development could be built. The insight provided from our historical analysis is reflected upon in Section IV, and it is argued that failure to take account of the context in which economic reform takes place is a problem of the Consensus more generally. In Section V we concentrate on the latter two concerns, analysing what approaches might move Argentina (and other countries) towards successful economic development. Finally, in Section VI we set out our conclusions, and suggest that there is the urgent need for a new, *multinational* development agenda in which Europe could play a leading role.

II. THE HISTORICAL ROOTS OF ARGENTINA'S CRISIS

II.i Phase One: The Consolidation of an Approach based on Agricultural Exports

When Argentina became independent in 1816 there was a sharp contrast between the trading, Europe-oriented city of Buenos Aires and the agricultural and colonial provinces. A federalist model emerged, but the largest landowner in the Province of

Buenos Aires, General Ortiz de Rosas, assumed direct central power, uniting the country through an authoritarian solution (Incisa di Camerana, 1998). His long dictatorship consolidated the political power of the landed oligarchy which, together with the armed forces, formed a block that drew their identity from the colonial tradition in the provinces, as opposed to the cosmopolitan and commercial city of Buenos Aires. When Rosas was overthrown in the 1850s a federal constitution was adopted, and Buenos Aires became capital, bearing evidence to the new role played by the urban bourgeoisie.

The productive structure was transformed during the following years. The traditional agricultural economy became progressively oriented towards the production of exports to Europe, in particular cereals and meats. This sealed an alliance between the most modern sector of the agrarian aristocracy and the new trading and professional classes of the city. The economic model hinged on agriculture and associated secondary industries, and an industrial core was developed throughout the 1890s that relied upon, for example, factories that chilled and canned beef (Romero, 2002). Thus the modernisation of the economy came about through a combination of land management (in particular the redistribution of state-owned and unclaimed land) and overseas trade.[4] Moreover, in entering international trade the focus was on exports of agricultural products and related primary goods; the manufactured and basic goods needed for the development of infrastructure were imported. It is in this context that Alberti *et al.* (1985, p. 8) refer to "the original sin" of modern Argentina, namely modernisation without industrialisation.

Indeed, Argentina at this time can be seen as an oligarchic society that maintained social and economic power through land ownership; the model of economic growth was based on profit derived from the land, owned by the *criolla* (colonial) aristocracy. Moreover, political control rested on a double 'federative republic', which granted civil rights to all inhabitants but restricted political rights to *ciudadanos* (citizens).[5] Democracy at this time could not be expressed in terms of popular sovereignty, but of collective reason, interpreted and directed by an oligarchy that viewed leadership as hereditary and natural (Alberti *et al.*, 1985). Within this, the landed elite sought economic modernization

[4] Between 1865 and 1895 the amount of cultivated land rose from 95,000 to 5 million hectares, and exports increased almost tenfold (Incisa di Camerana, 1998, p. 314). Attempts were initially made to emulate the experience of the United States, where very strict laws regulated the subdivision of land in order to avoid the creation of large estates. However, this model was rejected in 1880 in favour of a law rewarding servicemen who fought in the war against South American Indians, leading to an ultimate concentration of land in the hands of a few (*Ibid.*, p. 316).

through intensive agricultural production and the selling of these and related products abroad. Industrial activity that was not connected to agriculture was considered unnecessary; it did not bring social prestige or political recognition, and any such activities were carried out by the new immigrants, to whom political rights were not granted. There was hence a strong political divide between the agricultural and non-agricultural sectors. While port towns grew thanks to a model based on the export of primary goods, and exports and international trade saw the growth of the merchant bourgeoisie, industrialisation did not develop as an alternative to land ownership. Rather, and unlike in Europe and the US, it was subordinated to land ownership.

The key social classes that would dominate ensuing events had emerged as the *terratenientes* (landowners), the urban professional and merchant bourgeoisie (whose activities were complementary to those of the agricultural oligarchy), the great number of immigrants outside the political system, and the army. The beginnings of the Radical movement can be traced to this period; its leaders were members of traditional families and its foundation the urban middle class, made up of professionals, business people and government officers. The business-oriented bourgeoisie was opposed to the emergence of an urban working class comprising mainly last generation immigrants (Di Tella, 1985), and Radicalism continued to disregard industrial development, preventing the emergence of a strong alternative to the agricultural establishment.

II.ii Phase Two: Industrialisation based on Import Substitution

This economic model encountered a crisis in the 1930s, when the entire system of international relations suffered a dramatic set-back, and countries reacted by raising protectionist barriers. Faced with the progressive closure of agricultural export markets, Argentina responded by increasing import barriers for manufactured goods which, until then, had been sourced from Europe. Politically, there was an authoritarian response that led to the replacement of President Yrigoyen (whose government had had a strong social orientation) with General Uriburu, in an attempt to return control to the agricultural aristocracy.

Manufacturing industry consolidated, prompted by limited internal demand, but it was only at the end of the 1930s that regulation explicitly in support of national industry

[5] This was related to the tension between the pressing need to attract labour to populate the enormous country and the connected risk of losing control of a politically closed system.

was outlined. Moreover, this was not conceived as an instrument to support industrial development, but was instead validated in military terms, the nationalist wing of the army demanding the protection of industry in order to guarantee autonomy of supplies. Convergence between the military, new industrialists linked to the Industrial Union of Argentina, professional people in the capital city, and the agrarian sector (who were now participating in production for the internal market), led to the 'Pinedo Plan' in 1940. This was the first attempt to outline a development strategy oriented towards the consolidation of manufacturing industry as a substitute for the export of primary goods. The plan was approved by the Senate but was not considered by the Chamber of Deputies, where radicals were in a majority (Romero, 2002). Moreover, the advent of World War Two, necessitating both agricultural and industrial production, pushed Argentina further towards import substitution based industrialisation.

Unlike the food industry, which was linked to agriculture, the emerging new industry was essentially an urban activity. It was centred in Buenos Aires, which had a social structure that fostered the growth of political organisations and trade unions that had until then been marginal. The post-war period saw a consolidation of this structure, characterised by the rise of Juan Domingo Perón, initially as one of the ministers during the military government and then as President of the Republic. Peronism was deeply rooted in a social context that was urban, syndicalist, labour oriented, open to immigration, and where the state assumed the role of economic planner in a country characterised by a history of entrepreneurial fragility. The state became, therefore, producer and manager of economic activities, and sought to mobilize "popular sectors as a resource to break that 'status quo' represented by the oligarchic power" (Alberti *et al.*, 1985, p. 10). The agrarian sector was excluded from this innovative social block, and responded with violent opposition to the Peronist project. Finally, a compromise was reached which overpowered the *terratenientes* politically, but did not reduce their economic power.

In September 1955 Perón was overthrown by a military coup that won a very easy victory given the exhausted Peronist movement and claustrophobic economic situation (Incisa di Camerana, 1988). The so-called 'Revolución Libertadora' (Liberating Revolution) was an authoritarian attempt to re-create the old economic and political establishment, excluding immigrants and the industrial sectors that had consolidated during Peron's government. The economic model based on import substitution remained, but was now characterised by progressive action to encourage exports of manufactured

goods, and by the establishment of large multinational firms, which rapidly occupied the most dynamic sectors of the economy. Thus while there was an attempted return to the old liberalist model, based on the export of primary goods, an inherent policy tension was present in that this existed alongside protected industry oriented towards the internal market. Then, in 1958, some of this tension was relieved by the election of the Radical Arturo Frondizi as President, who supported the development of basic sectors essential for growth, from petrochemicals to iron and steel. For the first time this placed heavy industry at the core of the Argentinian economy.

This *desarollista* (developmentalist) approach was not entirely different from the experience in Italy, at that time at the height of success. It demonstrated how a country with little capital and entrepreneurial capabilities could grow simply by making use of intermediate goods - particularly chemicals, and iron and steel - produced at low costs by public firms or, alternatively, strongly supported by the state. Under such a model Argentinian manufacturing reached its peak in the 1960s, constituting 28.18% of GDP, while exports of manufactures - almost zero in the 1950s - made up a quarter of all exports in the early 1970s (Kosacoff, 2000, p.42). However, Frondizi's developmentalism stemmed from a political technocracy which had no adequate political consensus and was trapped between the authoritarian pressures of the agricultural sector and the populist movement of "Peronism without Perón". The model itself was also threatened by a new international crisis; the end of currency stability, following dollar non-convertibility (May 1971), ultimately prompted an enormous increase in the price of raw non-agricultural goods. At the same time, the internal political and institutional situation deteriorated due to weak Radical governments and military coups.

Following a period of dictatorship under General Onganía, the military installed General Levingston as president commander-in-chief in 1970, and later replaced him with General Lanusse (Romero, 2002, p. 192). Lanusse cynically recalled Juan Domingo Perón, and after a short transition with Campora, Perón re-assumed the presidency, his wife, Isabel Martínez, being vice-president. When Juan Domingo Perón died in July 1975, Isabel inherited the presidency, while the country fell into a terrorist war organised by the President's entourage. The economy veered out of control, prices rising dramatically, and during the night of 23rd March 1976 the army staged a coup which had been publicly announced three months before. General Videla, amidst unprecedented repression, then launched an ambitious programme called *Proceso de Reorganización Nacional* (Process

of National Reorganisation). This heralded the beginning of the third stage in Argentina's economic development.

II.iii Phase III: Unilateral Opening of Markets

The *Proceso* was supported by the ongoing alliance between the agricultural oligarchy and the military, who attributed the crisis to the development of a protected national industry, which in turn brought about accelerated urbanisation, popular pressure and thus social confusion. This was seen as the result of an industrial development which was different to the more moderate approach of agricultural specialisation governed by a natural order. Under Martinez de Hoz, minister for the economy, the policy response was focussed on widespread interventions targeted at a unilateral opening of the economy. However, this economic project was to lead to de-industrialisation, the emergence of financial speculation, and ultimately to deep crisis, compounded by the civil drama of dictatorship and the Malvinas military disaster.

The authoritarian phase can be divided into two periods. Until 1978 there was a recovery of production, particularly of durable consumer goods, and investment. This took place following a long phase of barriers to investment, and was encouraged by expectations of a recovery in internal and international demand, supported by reductions in internal labour costs. Immediately following the coup there was a salary freeze; inflation dropped, and internal demand decreased as a consequence of the actual impoverishment of the population. However, structural features were not managed, leading to endemic inflation and restrictive monetary policies that resulted in a freeze in the economy.

Then, in December 1978, to counteract the inefficiency of restrictive policies in an economy characterised by recession, the military government suddenly opened the economy. It abolished all customs protections, announced currency devaluation and liberalised the capital market. The immediate result was flight of capital - both of multinationals already established in Argentina, and of national capital. New monetary policy sought to reduce inflation at an international level through a planned devaluation of the peso against the dollar. However, this artificial convergence did not take place because devaluation remained anchored to estimated inflation values, which turned out to be lower than the actual ones. This resulted in a continuous revaluation of the peso, while inflation persisted. At the same time, the opening of the internal market exposed national firms to international competition, while the internal growth of interest rates, induced to

control inflation, generated debts that quickly exceeded companies' assets. This brought about arguably the worst crisis of the industrial sector in Argentinian history (Kosacoff, 2000; p.46).

Amidst hyperinflation, a reorganisation process was started. The system was polarised between a small minority able to renew their investments either by their own means or using external credit, and the majority of companies, which reduced their activities to a minimum, or simply became importers or intermediaries. Multinationals left the country - Olivetti and Fiat handed over their activities to their suppliers - the inflow of foreign capital stopped, capital fled abroad, and intense financial speculation was undertaken, marking the beginning of what O'Donnell (1982) calls "the economy of *saqueo*", of 'looting'. This time also saw the appearance of national groups which started to determine a new industrial profile. They were new immigrant family groups which had grown due to financial and speculative activities, and to the purchase of production assets from departing multinationals or from smaller firms that were closing down. In March 1981 there was a change of government within the military regime (from Videla to Galtieri), which confronted the crisis by taking on the private firms' debts whilst at the same time guaranteeing them with international debt. This was coupled with the introduction of new limitations on imports and measures to protect and nationalise the economy.

There was a further change of government in June 1982, following the fall of the Malvinas. The new, democratically elected president, the Radical Alfonsín, had to face foreign debt and a fiscal crisis of the State, amidst unprecedented hyperinflation. During the military government, foreign debt had increased from $8 billion to US $44 billion. Moreover, unlike Brazil where foreign credit was translated into investments, in Argentina this debt was used to fuel imports of consumption goods and flight of capital (Incisa di Camerana, 1998). While in 1975 the interest on foreign debt absorbed 15% of exports, ten years later it accounted for some 60%. At the same time the state's ability to tax was highly restricted, pertaining largely from customs on exports. Naturally, poverty had also increased, per capita GDP falling from $3,500 in 1975 to $2,950 ten years later.

As a response to the crisis, the government had to devalue continuously to support exports in order to generate sufficient tax to compensate for the increasing costs of foreign debt services. It was also necessary to control aggregate demand and inflation while the currency was devalued, so as to sustain exports. In 1985 the *Plan Austral* (Austral Plan)

was approved. This introduced a new currency and was expected to reduce inflation through a programme that included the freezing of prices, wages and public utility rates, fixed foreign exchange and interest rates, financial cuts from the Central Bank, complex fiscal reforms, and even more complex State reforms (Romero, 2002; Sylos Labini, 1986). The plan quickly managed to halt inflation, but this was short-lived, and "by the end of 1985 the incipient return of inflation was apparent" (Romero, 2002, p. 271). Prolonged hyperinflation and institutional uncertainty brought about a progressive de-structuring of some sectors which had expanded during the phase of import substitution, an increase in the informal economy, and the consolidation of a new profile of industrial specialisation based on new sectors of production of intermediate goods, such as petrochemicals and iron and steel (Kosacoff, 1993; Chudnovsky *et al.*, 1999).

In February 1989 the government announced the devaluation of the Peso, "devouring the fortunes and even the small savings of those who had not been able to exchange their pesos for dollars and initiating a period un which the value of the dollar and prices soared at a dizzying rate and the economy spun out of control" (Romero, 2002. p. 289). This precipitated a new institutional and domestic crisis, characterised by looting and violence, and led to the early resignation of Alfonsín following elections that had been won by the Peronist Carlos Menem.

Thus between the end of the seventies and the end of the eighties the economy had followed a unilateral opening, together with a hyper-liberal approach that did not have the capacity to control inflation and the exchange rate. In 1989 inflation was 4,923%, and GDP had shrunk by 1.5% since 1980 (Schirm, 2002). Furthermore, the combination of hyperinflation and institutional instability had brought about a clear process of de-industrialisation, which could be measured in terms of the value of manufactured products in total GDP. As Kosacoff has shown (1993; 2000), this value increased slowly until 1939, due to the progressive expansion of agriculture and cattle-farming, rose markedly during the period of import substitution, and then plummeted in the 1980s, returning the share of manufacturing to its 1940's values. Alongside this there had been a decline in the investment/GDP ratio, a strong rise in unemployment, and a worsening of the income distribution during the period from 1976 (Nochteff and Abeles, 2000).

In this context the industrial apparatus had become deeply depressed. The growing macroeconomic uncertainty, translated into a general increase in prices and serious instability of relative prices, brought about disorientation, which directly effected the

organisation of production. Thus it has been argued that sectors such as mechanics tended to break up, since institutional uncertainty and the ever-present expectation of price hikes, forced up transaction costs and were not conducive to contracts that were sufficiently long to plan production (Donato, 1993). Likewise, in a situation of daily uncertainty it became increasingly difficult to stipulate long-lasting contracts with skilled workers (Kosacoff, 2000). It is also remarkable that, in most cases, production plants built during the import substitution phase had sub-optimal dimensions, and were updated on a non-regular basis simply by introducing new machines into already obsolete cycles (Kosacoff, 1998). Uncertainty in the mechanical and tool sectors, and in the textiles, clothing, furniture and non-metallic minerals industries, brought about a decline both of production and share of total industrial production, with a general shift towards informal activities and trade. However, firms operating in sectors that produced basic and intermediate goods, such as chemicals, and iron and steel, responded by integrating vertically in order to reduce intermediate transactions to a minimum, and their production grew both in terms of volume and share of total industrial production (Bisang *et al*, 1995). These sectors included the few cases of national/domestic industrial groups, whose consolidation allowed them to develop a transnational profile, creating international alliances (Chudnovsky *et al.* 1999).

III THE 'WASHINGTON CONSENSUS' PHASE

III.i Qualified Early Success

When Carlos Menem assumed power in July 1989, he had sufficient political consensus to propose a vast programme of structural reforms, marking the beginning of Argentina's 'Washington Consensus Phase'. The aim was "to make possible an appropriate insertion into the global economy" (Romero, 2002, pp. 285-6), and the chosen route was the general recipe of policies associated with the 'Washington Consensus'.[6] It is important to note, however, the context in which this recipe was introduced. The adoption of Consensus policies came about when Argentina was in one of its periodic crises, characterised by what Romero (2002, pp. 285) describes as "a bankrupt state, the national currency in shambles, wages that did not meet basic necessities, and social violence." As

[6] This is a term, first used by Williamson (1990), to describe an approach to economic development that emphasises policy measures broadly in line with the following; fiscal discipline, financial liberalisation, trade liberalisation, privatisation, deregulation and a generally limited role for government intervention (Williamson, 1990, 1993; Taylor, 1997).

suggested from the above analysis, associated with these crises was a historical record of development without appropriate industrialisation; a consistent failure to nurture a political environment and industrial structure that was conducive to balanced and stable economic development.

At the beginning of the Menem administration, in 1989, two major laws were passed; the Law of Economic Emergency and the Law of State Reform (Romero, 2002). Together, these authorised the privatisation of a long list of state-owned industrial assets, consolidated public debt and delineated an agreement by which services related to health, education and social assistance were transferred from the federal government to the provinces. This ambitious plan of structural and fiscal reforms was accompanied by a further opening of the economy, with a 10% reduction in import duties and, in many cases, their entire removal (Repubblica Argentina, 1992). However, Romero (2002, pp. 289-90) argues that "the government reduced tariff barriers, quotas, and import duties without uniform criteria", and suggests that, in general, it "failed to attain stability during the administration's first two years. Inflation remained high, and the big business groups, despite offering the government nominal support and even participating in the decision-making process, continued to handle their investments in accordance with their particular self-interests."

Nevertheless, a vast deregulation of the Argentinian economy had already been set in motion by 1991, when Domingo Felipe Cavallo was appointed as Minster for the Economy, a position of considerable influence within the federal government structure. Cavallo had been President of the Central Bank for a short period in 1982 (Incisa di Camerana, 1998), and had previously speculated that the main problem of the country was a sort of mental autarchy, which continued to lament the uniqueness of the Argentinian situation: a country full of rich natural and environmental resources but which had at some point fallen into a spiral of crisis (Cavallo, 1984, p.24). Upon taking up the appointment Cavallo proposed a high impact and irreversible economic opening of the Argentinian economy, which included the passing of the Convertability Law in 1991, imposing parity between the peso and the dollar. This immediate policy response was augmented with a mid-term programme, for the period 1993-1995, involving highly-articulated sectoral interventions aimed at increasing competition (Repubblica Argentina, 1992). In particular, intervention took place aimed at supporting small industry; for example the reorganisation of the National Agency for Technological Transfer (INTI) (Magariños, 2000).

The core of the economic programme undertaken by Argentina from 1989, however, was clearly based on the dual strategies of privatisation (and thus the dismantling of direct state intervention in the economy) and peso-dollar convertibility. Moreover, this programme was seen as a rigorous application of the Washington Consensus, and hence was supported by the IMF. It also apparently enjoyed considerable early success; in the period 1991/2-1993/4 the average annual growth rates (at 1986 prices) were 7.4% for GDP, 21.1% for gross investment, and 6.8% for exports (Nochteff and Abeles, 2000, table 1, p. 151). While Nochteff and Abeles (2000) note that the picture lost some of its brightness when considering the source of growth (mainly consumption), the behaviour of the external sector (a debt and imports led current account deficit and low trade economy), and the unemployment rate (rising throughout the growth), there was nevertheless a strong impression that Argentina was leading the way in successful economic reform. Indeed, so successful was it considered to be that Argentina became what Stiglitz (2002, p. 79) calls the "star student" of the IMF; it was the exemplar for Washington Consensus policies, in terms of both what to do and what success to expect.

III.ii Return to Crisis

From the mid-1990's, however, the weaknesses in Argentina's industrial structure, as reflected in Nochteff and Abeles' (2000) observations on imports, debt and unemployment during the years of success, returned to the fore. An economic policy based on unilateral opening and massive deregulation, alongside a fixed exchange rate, will expose any economy to the risk of competitive shock. We suggest that this shock hit particularly hard in the case of Argentina for two reasons. Firstly, as we have illustrated in the previous Section, Argentina had a long history of economic development characterised by political instability and failure to nurture a robust industrial base. Hence at the time of the introduction of the reform programme the country possessed an industrial system characterised by a very restricted productive base, a limited competitive sector and a wide range of small and medium-sized companies that were unable to keep up with international competition.

Secondly, the reform itself, in the context in which it took place, arguably exacerbated this deep-seated deficiency. A key aspect of the process of privatisation, for example, was the participation of large domestic economic groups allied to international operators (such as Techint, Perez Companc, Soldati, Astra and Macri). Indeed, an

outcome of the vast programme of privatisation was the consolidation of the large groups which had emerged in the eighties. They gained strength in basic sectors (oil, steel and chemicals) and public services (telecommunication, transport, water, gas and electricity) (Bisang *et al.* 1995). They were also better placed to enter the international arena, through key alliances and internationalisation strategies dependent on Mercosur (Chudnovsky *et al.*, 1999). Thus privatisation further concentrated an industrial system that was already very constrained, and assisted in developing an increasing detachment between large industrial groups with international linkages, and the rest of the domestic economy. Indeed, in 1997 the 18 major groups accounted for 96% of the total sales of the top 100 firms in Argentina, for 83% of those of the top 500 firms, and 81% of those of the top 1000 firms (*ibid*. p. 97). In employment terms, the same 18 groups accounted for almost 89% of all employment in the top 500 companies, and 86% in the top 1000 (*ibid.* p. 97). Such figures demonstrate strikingly how marginal the remaining Argentinian firms were, and the extent to which the industrial structure of the economy was unbalanced.

The first serious destabilisation of this fragile internal situation occurred in 1995 as a consequence of the devaluation of the Mexican currency. This shock was reflected in a brief return to negative growth but then a quick recovery in 1996 (Nochteff and Abeles, 2000), giving confidence to many regarding Argentina's star status in reform. Positive growth was short-lived, however, and a second wave of destabilisation came from the East Asian crisis. In July 1997 the Thai bath was heavily devalued, dragging down other currencies in the area until it hit Korea and then Japan, suddenly bursting the financial bubble that had driven up the oriental stock exchanges. Then, in August 1998, Russia declared a partial freeze of foreign debt repayments. At the end of the same year the crisis reached Latin America. To avoid the fall of the largest economy in Latin America, the IMF intervened by lending Brazil $41.5 billion. Brazil simultaneously devaluated its currency, with significant effects on trade in *Mercosur*, whilst Argentina maintained an exchange rate tied to the dollar, which was strengthening against other currencies. Again, external events had demonstrated the fundamental fragility of the Argentinian economy, stimulating a severe recession that over the coming months would develop into the most recent crisis. Indeed, Romero (2002, p. 334) argues that by 1999 "no one could ignore the economic dead-end" that the country faced. By the start of the twenty-first century it was once more plagued by acute economic and political turmoil, with 40% of the population

living below the poverty line by 2001 (Romero, 2002), resulting ultimately in civil unrest and near pariah status amongst the world's economies.

IV. FURTHER REFLECTIONS ON ARGENTINA'S MOST RECENT CRISIS

It is clear that since the late 1970s, and particularly during the 1990s, Argentina closely followed the neo-liberal path of privatisation, trade liberalisation and deregulation. The conception and impact of Washington Consensus policy prescriptions in general, and in particular structural adjustment, have been widely and heavily critiqued for many years (Cornea *et al*., 1987; Mosley *et al*., 1991; Cavanagh *et al.*, 1994; Berg, 1995; Rodrik, 1996; Dasgupta, 1998; Stiglitz, 1998, 2002; Collier and Gunning, 1999; Van der Hoeven and Taylor, 2000). However, in the case of Argentina it is especially enlightening to consider the interaction between the impact of policies and the context in which they have been implemented.

Our historical analysis suggests that a particularly important contextual factor is the country's fundamentally weak industrial structure, rooted in the nature of its economic and political development over the last 150 years. Argentinian economic development had its 'original sin' in the conviction that an economy could successfully develop by relying solely on the production of agricultural goods as the foundation on which to build an economic oligarchy. Added to this was the development of an exclusively tertiary urban bourgeoisie, linked to trade. Rather than challenging the agricultural oligarchy, they complemented it. Thus early development took place through the pre-existing productive capacity for exports, leaving industrial activities marginalized, both economically and politically. The result, as we have seen, is a country vulnerable to international crises. It is intrinsically weak because historically economic development has not been based on the creation of wealth derived from the development of skills, technology and knowledge.

Moreover, the period of import substitution in Argentina supported the development of a protected industry that assumed Fordist production as an organisational model. In order to be efficient, this would have required production dimensions of a scale that would have been too large for any single internal market in South America. Thus what emerged was an industrial panorama of national companies of sub-optimal dimensions, alongside small and very small firms limited to protected local markets. This was compounded by the emergence of a small number of large family groups that, by the

early 1990s, had come to represent the core production body within the economy, with the rest of the system progressively disintegrating.

In this context, the introduction of Washington Consensus policies had damaging effects. The privatisations of the 1990s served to increase the concentration of industrial activity in the hands of the core family groups, extending their presence to public service networks. Combined with a rapid and unilateral opening of the economy, and dollar convertibility in a context where the dollar was continuously strengthening, the consequence was an increase in internal fragility. The economy was split between a limited number of large groups and a large number of small manufacturing firms. The large groups were able to sustain the pressures of a rapidly opening economy because they were focused on a few basic goods and were also able to control public services not open to international competition, and often bearing monopoly rents. However, the small manufacturing firms were not in the same position. Moreover, the privatisations (and attraction of monopoly rents) were diverting internal capital that could have been invested productively in such firms. A natural consequence was their gradual disintegration and detachment from the rest of the economy (Kosacoff, 2000). Generally, the continuous increases in individual and collective efficiency required to respond to international competition were simply beyond the capacities of such a fragile and divided industrial structure.

In this sense the recent Argentinian crisis was neither unpredictable nor unexpected. Indeed, we suggest that the current structural problem in Argentina, as in many other underdeveloped countries, remains an industrial base that is too restricted to be able to create sufficient wealth to repay debt and activate a process of endogenous growth. It provides a context that is thus highly vulnerable to the Washington Consensus policy package that was implemented, even if not to the strict letter of its principles.[7] More generally, however, Argentina provides a spectacular illustration of a much wider problem regarding the failure of consensus policies to sufficiently account for the context in which they are introduced.

Indeed, much criticism of the World Bank and IMF has focussed on their seemingly singular policy prescription to countries with diverse political, cultural, social and economic circumstances. This has been summarised by Joseph Stiglitz as a

[7] Romero, *A History of Argentina in the Twentieth Century* (p. 288) refers to the 'careless' privatisations 'at odds with other declared objectives, such as encouraging competition.'

homogenous four-step programme of privatisation, market liberalisation, market-based-pricing, and free trade,[8] and Platteau (1994, p. 534) comments sceptically that "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." Such an assumption appears problematic. Indeed, Moseley (1991, p. 242) concluded from an analysis of structural adjustment programmes implemented during the 1980s that "what immediately becomes clear is that the appropriateness of packages … depends entirely on the stage of development which the recipient country has reached". In addition to the stage of development, there are also cultural, social, political and institutional contexts to consider. Platteau (1994), for example, considers the importance of social and moral norms. He argues (1994, pp. 535-6):

> *...the social fabric and the culture of human societies matter a great deal and, to the extent that norms and cultural beliefs are rooted in historical processes, history necessarily determines the development trajectories of particular countries. ... Viewed in this perspective, the market appears as a delicate mechanism which may fail to generate powerful effects (in the sense of giving rise to efficient trade) if it is embedded in an uncongenial cultural fabric.*

Indeed, in the case of Argentina, Nochteff and Abeles (2000) suggest that the deregulation led to economic and social fragmentation. They note that the concentration of economic and political power has resulted, on the one hand, in abuses of dominant positions and extraordinary profits, and on the other in unemployment, poverty and increasing income inequality. In addition, it seems that the neo-liberal approach to (lack of) regulation in the Argentinean social, cultural and institutional context has nurtured a vacuum in which corruption and malpractice have flourished. Thus for Pastor and Wise (2001, p. 72, emphasis added), "Argentina's experience has painfully shown that the trick is to make reform work in the *context* of political and social realities".

Building on these reflections, we argue that a successful path for Argentina does not simply rest on solutions to macroeconomic dilemmas. At best, monetary and fiscal policies alone will lead again to what Nochteff and Abeles (2000, p. 137) describe as a "shock without vision", where "short term profits and growth (the bubble) replaced (and displaced) long-term development and systemic competitiveness". Whilst solutions to

[8] See 'IMF's Four Steps to Damnation', *The Observer*, April 29th 2001.

(some) macroeconomic dilemmas are undoubtedly essential in the short, medium and long term, they alone cannot deliver economic success. Argentina's real dilemma is to find ways of creating a new industrial structure, a conclusion that is in stark contrast to the obsessions and focus of most of the current debate.[9]

V. A CHANGE IN APPROACH TO ECONOMIC DEVELOPMENT

V.i Theories of the Firm and Development

To begin to explore ways forward for Argentina, and other countries, we turn to economic theory. Specifically, given that we are concerned with the creation of a robust industrial structure, capable of fulfilling long-term development aims, it is appropriate to begin with the theory of the firm. Firms are the basis of an industrial structure, and the context and environment in which they are able to operate is likely to be a key determinant of their performance and ability to compete, both domestically and internationally.

Most mainstream theory of the firm is rooted in an interpretation of Coase (1937) that focuses on the firm as an alternative to market exchange. This is seen, for example, in the development of 'transaction cost economics' (Williamson, 1975, 1985, 1986) and of 'internalisation' approaches to the analysis of transnational firms (Buckley and Casson, 1976; Dunning, 1977; McManus, 1972; Rugman, 1980, 1981). However, an alternative interpretation of Coase (1937) has been developed that is concerned fundamentally with the *nature* of exchange rather than the *type* of exchange (market or non-market), and that has different implications for the definition of the firm and its impact (Cowling and Sugden, 1987, 1994, 1998).

Drawing on Zeitlin's (1974) observations on corporate governance and control, such an approach to the theory of the firm highlights the importance of 'strategic decision-making' for the efficient development of economies. Specifically, an implication is that concentration of strategic decision-making power among a few in an economy characterised by imperfect competition (Cowling, 1982) will lead to 'strategic failure'; governance of key decisions by a few implies that the many may be denied the possibility of reaching socially efficient outcomes.[10] Sugden and Wilson (2002) fuse this strategic decision-making approach with an analysis of development theory, and argue that if

[9] Even where current debate concentrates on the shortcomings of the political elite, for example, the typical focus is their mismanagement of the macro economy.

[10] Cowling and Sugden (1994, p. 127) develop this idea in detail in terms of "three sets of interrelated systematic deficiencies: transnationalism, centripetalism, and short-termism."

development is defined in terms of the aims and objectives of those seeking to develop, then engagement in decision-making within firms and other institutions is in fact a central tenet of development.

Following this line of argument, we can draw guidance for potential ways forward for Argentina. As we have seen, historically Argentinian economic development has been characterised by short-termism in decision-making, reflected most recently in a policy approach that Nochteff and Abeles (2002) label "shock without vision". Moreover, such short-termism sits within an industrial structure that is, and has historically been, highly fragmented. As we have suggested, a key problem remains an industrial structure characterised by an almost complete detachment between a handful of large, transnational firms and the rest of the economy. A strategic decision-making approach suggests that development of an industrial structure capable of meeting the long term development aims of the people of Argentina will require an addressing of this fragmentation. More specifically, we suggest that it will require new and innovative approaches to co-operation between different actors; particularly, though not exclusively, a change in the nature of co-operation between firms.

V.ii Strengthening the Industrial Structure: Changes in Co-operation

All economies are based on co-operation of one sort or another, but the precise sort is a fundamental concern. Looking at Argentina, there is a clear impression that economic and political behaviour is often based on short-run, narrow personal gain, pursued in what one local commentator describes as systematic political patronage and entrenched mafias, corruption, cronyism and nepotism.[11] Examples of the Argentinian approach can be found in many of the economic and political decisions taken in recent months and years, and it is reflected in the widespread allegations of corruption.[12] Indeed, it is also seen in our own experience. We work in a very small multinational organisation called *L'institute*,[13] the aim of which is to promote long-run networking amongst university academics. Spanning universities in Europe and the US, *L'institute* also has relationships with institutions in Central America and Asia. Despite strenuous efforts to establish links in Argentina over a

[11] See 'Unsplendid Isolation', *Buenos Aires Herald*, April 4th 2002. See also 'Like a Rolling Stone', *Buenos Aires Herald*, January 9th 2002: "Duhalde's new model - with its emphasis on close co-operation between the government and the productive sector - has raised the spectre of a return to Argentina's protectionist past.

[12] See, for example, Romero (2002) on the 'dizzying pace' of increased corruption in the 1990s.

[13] On the experience of *L'institute*, see Sugden (2000).

seven year period, permanent and lasting relationships have until now always foundered (in part) on a seeming narrow willingness to take but not to give. While the pursuit of such short-term gain clearly brings benefits to some, it is not sustainable if an economy wishes to pursue longer term and wider prosperity.

Political and social reality in Argentina includes a historical tendency to look to authoritarian leadership and to outsiders for solutions to problems. We would not advocate that outside institutions be ignored. On the contrary, in terms of the macroeconomy, effective co-operation with international institutions and firms is clearly important. However, alongside this, we suggest that the people and firms of Argentina need to look to themselves for solutions. In particular, changing attitudes to co-operation among people and firms has the potential to uncover new ways of doing things; to realise inclusive paths for entering the global economy and to create a context from which long-term prosperity in the interests of all Argentinians can be built democratically. This would require people *able* and *willing* to co-operate differently.

It is perhaps not feasible to see this as a route towards a successful economy for Argentina as a whole, in the short run. But it is feasible for at least areas of the country, most especially for those areas where there are histories and realities that provide the roots for new forms of co-operation. Integrally related changes in co-operation are desirable in different spheres of life; economic, but also political and social. In politics, for example, they might require new mechanisms for wider engagement in the political process. It is striking that large numbers of the electorate have recently taken to the streets banging pots and pans, but apparently have no effective voice within the established political parties for controlling distant leaders. Indeed, an interesting response to the recent crisis has been the formation of neighbourhood assemblies, born out of frustration with existing political processes. These *asambleas populares* have focussed on economic, political and social issues. They have been said to have no hierarchy, and to use websites to demonstrate their activities and invite new participants, although the outcomes of such developments are unclear.[14] Perhaps these innovations provide one of the foundations for a new economic structure.

A related possibility is that localities within Argentina might seek to *learn* from elements of different experiences elsewhere (albeit not to *copy*, as that would merely be to

[14] See, for example, 'One Giant Leap for Citenzenship?', *Buenos Aires Herald*, March 24th 2002, and 'Revolt of the Wronged', *The Guardian*, March 28th 2002.

look 'outside' for answers that ultimately must lie within). In the US, for example, economic behaviour is characterised by sophisticated co-operation *within* and rivalry *across* firms. The corporate ethos is one of teamwork to achieve the aims of an organisation. Moreover, whilst US teamwork does not span firms very effectively (except in the case of illegal collusion that infringes antitrust laws), it is also reflected more broadly in other aspects of society. For example, in a sense of common identity that is evident in its States, cities and towns.

Within *L'institute*, we have active experience with the State of Wisconsin. There, recent workshops and summits focusing on economic development demonstrate a striking desire by business and other leaders to engage with each other, and broader groups, in forging ways to make the Wisconsin economy more competitive. Some are worried about the possibly excessive and undesirable influence of certain large firms, which are typically in a powerful position in a US-type system. In seeking a new way forward, it is especially interesting that Wisconsin is showing concern with smaller firms and some recognition that their success calls for co-operation, trust and loyalty *across and not only within* organisations.[15]

In this regard, what are striking are the types of economic behaviour that may be found in clusters of small firms, including "industrial districts" of the broad type mentioned by Marshall (1919). The attention these have received in recent years has been prompted by positive experiences in various parts of the world.[16] Many such clusters are characterised by successful exporting, and are based upon an innovation and dynamism that has given them resilience and growth over a sustained period (Pyke and Sengenberger, 1990, Schmitz and Musyck, 1994). In particular, progress in many successful clusters seems to be based on a sophisticated awareness that local economies are characterised by many interested parties, that each has its own objectives, but that attainment of any one objective is tied into the simultaneous attainment of others. In this respect, a key feature is the existence of purposeful joint action and forms of co-operation across firms (Schmitz, 1995), creating a potent mixture of co-operation and competition. The evidence is that smaller firm success can be based on appropriate networks to introduce new products and processes, to train labour and provide new skills, to market and distribute products (see also Sacchetti and Sugden, 2002). Appropriate co-operation

[15] For an account of these experiences, see Sugden *et al.* (2003).

can enable smaller firms to overcome their shortcomings in terms of scale and confinement to local, protected markets, outcomes that we identify as absent in Argentina.

We suggest there is a need for people within Argentina, especially actual and potential participants in smaller firms (including potential entrepreneurs), to alter their behaviour based on a discriminating understanding of the options that they face. We don't suggest that they attempt to mimic either US style capitalism or the experiences of industrial districts in, for example, Italy. These experiences themselves undoubtedly do not correspond with a vision of co-operation leading to the type of widespread democratic participation in strategic decision-making that theory suggests is necessary for socially efficient long-term development. However, there is much to be learnt from such, and other, experiences, particularly regarding first steps. Indeed, one lesson from long-running experiences with groups of smaller firms is that widespread and appropriate participation based upon mutual respect, responsibility and trust has the potential to yield dramatically different outcomes to those that we evidence have been experienced by Argentina throughout its history.

V.iii Some Initial, Practical Steps

To identify immediate and practical measures that might be taken, much can be learned from the first steps trodden by others. Consider, for example, the way in which Ocotal, a small city in Nicaragua, has attempted to tackle its development problems. Rocha (1999) reports that a series of round-table discussions were initiated to address specific but related issues: the economy, the environment, tourism as an employment generator, social and urban planning, and social factors. The idea behind these forums was to involve Ocotal's citizens in planning for their development, and they have enabled a range of different views and ideas to be heard. More fundamentally, they have helped to engender a process of co-operation that was later seen to be invaluable in the aftermath of Hurricane Mitch. During the emergency itself a vital role was played by people working together in their neighbourhoods, and as the immediate crisis dissipated co-operation was central to the re-building process, right down to participation with architects in the design of houses.

[16] See, for example, Piore and Sabel (1984), Schmitz and Musyck (1994), and the collections edited by Goodman and Bamford (1989), Pyke *et al.* (1990), and Garofoli (1992).

In Argentina, an early step in confronting the economic crisis could be the establishment of inter-related forums in particular suburbs, towns or villages. Perhaps localities could organise their own economic forums to analyse and consider the possibilities. There might also be forums in particular communities and in particular industries. Economic problems could then be debated and ideas exchanged. Local firms, both small and large, would clearly be central participants in the debate. They might seek co-operation and ideas that will further their ambitions to develop new export markets; for example, through creating common quality standards, branding or sales outlets. Similar end-points have been achieved by marble producers in Greece (Pseiridis, 2002), to name one of many illustrations.

The networking web must also extend beyond firms. Residents, schools, universities and other interest groups with a stake in the economy might also be involved. A healthy and vibrant local economy is in the interests of everyone that lives, produces and works in that locality, and there may be ideas and capabilities hidden in the most unlikely of quarters. The aim of this process would be in part to secure immediate changes. It might identify production bottlenecks that can be solved together, perhaps through joint research and development or perhaps through the provision of joint training with local educational institutions. But the goal would also be to engender co-operation, to alter attitudes and build a framework that over time would lead to a new way of doing things, a new way of fusing co-operative and competitive relationships.

Following Sugden and Wilson (2002), this can be seen as a dual approach to development. It involves constructing new relationships and co-operating to build development strategy at a local level, while working within the macroeconomic framework determined nationally and internationally. However, we do not suggest that localities are isolated in this process. There is much to learn from how problems are approached elsewhere, both at home and abroad. Through sharing experiences and co-operating over solutions there are opportunities for mutual benefit, and it seems clear that an ethos of co-operation can be built across as well as within localities. There is scope, for example, to act with other localities in certain aspects of production; for firms in one place to co-operate with firms from elsewhere, producing and selling together (Sugden, 1997; Cowling and Sugden, 1999). Indeed, it is on this basis that localities in other parts of the world might contribute to Argentina's path out of its recent crisis. More generally, new

forms of multinational, or 'multilocational', co-operation might be instrumental in uncovering appropriate responses to development problems across the world.

VI. CONCLUSIONS

In this paper we have pursued a historical analysis of Argentinian economic development, with the aim of commenting on the recent economic and political crisis and identifying appropriate ways forward. We have illustrated the remarkable historical failure within Argentina to build a political and economic environment conducive to long-term economic development. Specifically, the 'original sin' of modernisation without industrialisation has never been sufficiently addressed, and the economy remains characterised by a narrow and fragmented microeconomic industrial structure, that is lacking in the range of skills and knowledge required for sustainable development. It is in this context that Washington Consensus policies were introduced in the early 1990s, the ultimate results of which can be seen in Argentina's remarkable transition from 'star pupil' to a country in deep crisis.

More generally, our analysis has highlighted four key concerns. Firstly, the notion that historical roots, and thus context, are crucially important for implementing successful economic development policies. Secondly, that the industrial structure of a country provides a context which is particularly vital. Thirdly, that different forms of co-operation are important in building appropriate microeconomic structures and processes. Fourthly, that appropriate co-operation at a local level needs to be complemented with forms of multinational co-operation that will generate sufficient scope for the rebuilding of the industrial structure.

We have explored some initial practical steps that might be taken at the local level in seeking to alter attitudes to co-operation, and in doing so move towards a fundamentally different approach to economic development. It is clear, however, that this approach also presents a multinational challenge; a framework is needed that is capable of facitating a new approach to economic co-operation at the international level. The current dominant forces in the international economy, with their recent history rooted in the restrictive 'Washington Consensus' approach, do not seem best placed to meet such a challenge (Sugden and Wilson, 2002). We suggest that this presents a great and timely opportunity for Europe to play a leading role in forging new 'multinational' ways forward, the precise nature and scope of which must be a pressing question for future research.

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