

## **The Return of the State in Argentina**

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## **Abstract**

Argentina's economic collapse in December 2001 is seen as perhaps the most emblematic evidence of the failure of neoliberalism in the developing world to provide sustainable and equitable economic growth. A new policy frame has gradually emerged since the crisis which relies on a more active state in the promotion of growth. This article examines the prospects for state-led growth in Argentina in the context of open markets. It explores the policies implemented since 2002 and asks to what extent they constitute a possible route to stable post-crisis governance.

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## **The Return of the State in Argentina**

*In the 1990s the market had the last word vis-à-vis the state. But the crisis brought the state back in. As a critical protagonist and as the only actor with the extraordinary capacity to write new rules of the game and recover the command instruments of political economy. (Aldo Ferrer, 2005: interview with the authors)*

In December 2001 Argentina experienced the most severe economic crisis in its history and political-institutional collapse quickly followed. As well as ending residual notions of Argentine exceptionalism (Oxhorn 2002), the crisis was taken to confirm the comprehensive failure of neoliberalism to deliver stable and equitable growth. The rejection of neoliberalism in Argentina is part of a general loss of faith in neoliberal economics in the developing world, a process which is particularly marked in Latin America (Panizza 2005). But the route to stable post-neoliberal governance is far from clear; currently the most pressing question, for progressive governments and development specialists alike is, as Rodrik (2002) has observed, ‘After neoliberalism, what?’. In Argentina, the search for post-crisis governance has involved a more dynamic role for the state in the pursuit of growth and social stability. This strategy has come to be known as *neodesarrollismo*, in homage to nationalist economic politics which characterised Latin America after the 1940s (Gerchunoff and Aguirre 2004; Godio 2004; Ricupero 2004). Our aim in this article is to explore the emergence of the new policy

matrix and to examine what *neodesarrollismo* means in terms of development policy. The new role for the state in Argentina is being carved out in the context of a globalised and market-led economy and in the wake of a decade of declining living standards for the working class and the poor; we therefore also discuss the range of challenges that might threaten the incipient state-led development project, including dependence on global markets and foreign investment and the poverty legacy from the 1990s.

The article is divided into four substantive sections. First, we examine the roots of *neodesarrollismo* in the failures of neoliberalism and in the pendulum switches between state and market recipes for development which characterised the political economy of Argentina through the twentieth century. In the second section, we explore the gradual emergence of the national/*neodesarrollista* project after the crisis which erupted in December 2001. We then focus on attempts to institutionalise a more dynamic role for the state after the election of Nestor Kirchner to the presidency in 2003. The final section evaluates the constraints, limits and sustainability of *neodesarrollismo*.

### **States and markets in Argentine development**

Argentina's political economy was shaped by recurrent political and economic crises throughout most of the twentieth century. Economically, debate centred on the appropriate role of the state and the market in the pursuit of development; politically, crises resulted from conflicts between popular organisations and the conservative elite, leading to intermittent periods of authoritarian rule and unstable democracy. In the contemporary period, the debate was initially settled in favour of economically nationalist development policies in the 1940s. Peronism (1946-1955) imposed a strategy

of development that combined a populist model of welfare spending along with state-sponsored industrialisation, bringing to an end the prevailing period of liberal export-led growth (Lewis 2005). As James (1988) shows, Peronism changed the terms of citizenship in Argentina by establishing the '*pueblo*', made up of unionised workers, the urban poor and lower middle classes, as a political actor with rights to economic and social inclusion. Economically, Peronism was a version of the *desarrollista* (developmentalist/nationalist) school of political economy which was associated between the 1940s and 1960s with the Economic Commission of Latin America (ECLAC/CEPAL). The '*Cepalista*' thesis sustained that state control of economic resources and arbitration between business and markets would foster 'national capitalist' growth and reduce external dependency (Prebisch 1949; 1952; Sunkel and Paz 1970). Preferential exchange rates for manufacturing, protection of trade, industrial subsidies and tariffs were considered important tools for economic growth (Chibber 2004; Lewis 2005). Import-substitution and the creation of a domestic market for local goods rested on assumptions of a bounded sovereign state in which government was able to control the nature of its external commitments and to shape the scope and the direction of foreign investment.

Nevertheless, as Barbeito and Goldberg (2003) show, Peronism was unable to construct a social consensus around the principles of nationalist/statist development and, partly as a result, Peron was overthrown in 1955. But, despite the apparent eclipse of Peronism, *desarrollismo* did not lose its appeal. In the first place, the material strength and cultural embeddness of working class organisations meant that an economically liberal order could not easily be re-imposed. And, secondly, the notion of development based on national industrialisation had an important constituency of support beyond the Peronist

coalition. *Desarrollismo*, this time without Peronism, continued to guide government policy under Arturo Frondizi (1958-1962) and Arturo Illia (1963-1966). But political instability and the general difficulties attendant on import-substitution in the 1960s and 1970s generated stop-go cycles of expansion and contraction in which inflation and balance of payment crises were controlled by induced recession and devaluation, leading to a loss of faith on the part of economic and political elites in state-led growth, as well as rising social turmoil as unions resisted falls in living standards (Fanelli 2003: 42). In effect, the national-based development project of the mid-1940s and 1950s had become unsustainable by the 1970s. Protectionism had led to overvalued and uncompetitive exchange rates and the economy was dependent on the imports of capital and intermediate goods to sustain industrialisation, creating a progressive trade deficit (Basualdo 1987). Nationalist industrial policies were increasingly criticised from the right for failing to promote competition and for consolidating an inefficient industrial structure (Cortes Conde 1997). Growing external indebtedness, meanwhile, contributed to the lost decade of the 1980s, characterised by economic collapse, high unemployment and a decline in living standards (Haggard and Kaufman 1992).

Democratisation in 1983 thus coincided with economic crisis. The new Radical government of Raul Alfonsín opted for a heterodox programme of stabilisation through the *Plan Austral* but failed to institutionalise effective economic governance or reverse industrial decline and hyperinflation (Levitsky 2005; Smith 1990). Political instability, looting, chaos and economic collapse at the end of the 1980s meant that the 1989 elections were won by Peronist Carlos Menem. In sharp contradiction to the earlier period of Peronist governance in the 1940s, Menem radically – and rapidly – restructured the economy by taking advantage of unprecedented access to global finance in the early

1990s. This was made possible inside Argentina by the memory of social and political breakdown and economic 'emergency' in the 1980s (Palermo and Novaro 1996; Tedesco 2002). Foreign investment rose from US\$3.2 billion in 1991 to US\$11 billion in 1992, and US\$10.7 billion in 1993 (Rock 2002: 65). Public services and utilities were privatised, public investments in education, housing and health fell and new controls over the labour movement were introduced (Acuña 1995; Murillo 2001). The centrepiece of the new liberalism was the Convertibility Plan, introduced in 1991, which tied the peso to parity with the dollar. The Plan was instrumental in reducing inflation to less than five per cent by 1994 and growth between 1991 and 1995 averaged almost 4.5 per cent a year compared to negative figures of previous years (See *Ministerio de Economía* 2004: 28). Macroeconomic stability, meanwhile, alongside easy access to credit, created sufficient social support to make the introduction of the reforms feasible.

As Rock (2002: 6) and others (Etchemendy 2001; Tomassi 2002) explain, the neoliberal reforms under Menem transformed the role of the federal government. Decentralisation served as a way to reduce central state spending. The political and social fall-out from the massive cuts which followed strained relations with many provincial elites, including some Peronist governors, contributed to the erosion of the traditional bonds between the poor/working class and Peronism and, ultimately, meant that the endorsement of neoliberalism in much of the Peronist Party was largely superficial. While the provinces took on new responsibilities for health, education and welfare, the federal government was able to shed jobs, more than 200,000 between 1990 and 1992 alone. The social costs of labour restructuring and rising unemployment were partially mitigated by populist redistribution policies and patronage but a steady increase in impoverishment and social exclusion and the decline of public services over the long term were inevitable (see tables

one and two). In 1980s, it was estimated that 11.5 per cent of Argentine households in Greater Buenos Aires, home to over 12 million people or approximately a third of the total population of the country, lived below the poverty line. By 1995, this figure had risen to 25.8 per cent (Auyero 1999: 51). Almost a third of the total population of the country were poor by World Bank standards by 2000, with up to 50 per cent in the poorest regions of the country (World Bank 2000). This rapid process of impoverishment through the 1990s undermined faith in neoliberalism and unfettered market-led development – outside the relatively small group attached to the government – and it is key to understanding why the crisis of 2001 led so definitively to a wholesale rejection of the policies of the 1990s.

-TABLES ONE AND TWO ABOUT HERE-

### **The fall of neoliberalism and the rise of a national development project**

The economic collapse of 2001 was, in strictly economic terms, a result of the rigidity of the Convertibility Plan combined with the fall-out from a fiscal policy which had been over-expansionary in the boom years of the early 1990s and which left the government few reserves in case of hard times. This became critical after 1995 when the Tequila crisis affected investor confidence in emerging markets and meant that the Argentine government had no instruments through which to mediate the onset of crisis and the problem of capital flight (Rodrik 2004). The growing deficit was financed with increasing indebtedness (Ocampo 2003: 22-25; Pastor and Wise 2004; Damill *et al* 2005). Argentina's recovery after 1995 was slow and, as a result, the economy was unable to withstand the effects of further global and regional turmoil after 1997 in the

form of the Asian crisis of 1997, the Russian crisis of August 1998, and currency devaluation in Brazil, Argentina's main trade partner. The result was a period of prolonged and intense recession.

A new centre-left government took office in 1999 in the midst of rising dissatisfaction with economic slowdown, the decline of public services and rising poverty, led by Fernando De la Rúa of the *Alianza por el Trabajo, la Justicia y la Educación* (Alliance for Work, Justice and Education). The *Alianza* promised reform but, once in office, was too weak to resist external and domestic pressures to maintain the fixed exchange rate and the neoliberal agenda. In an effort to demonstrate his commitment to financial stability, De la Rúa even brought back Domingo Cavallo, the 'father' of the Convertibility Plan, as Minister of Finance in March 2001. Cavallo announced a 'Zero Deficit Plan', cutting pensions and public sector wages in the order of 13 per cent, and reduced federal transfers to the provinces still further. Social protest quickly followed. *Piquetero* (movements of the unemployed), uprisings, which had first emerged in Salta after the 1993 privatisation of the national oil company, spread quickly across the country and street protests erupted to oppose the planned cuts, propose re-nationalisation and demand the non-payment of the external debt (Svampa and Pereyra 2003; Dinerstein 2003). In November 2001, meanwhile, the IMF withdrew its support for the government and, in a desperate reaction to stop capital flight, the government imposed restrictions on bank withdrawals and money transfers, a policy that became known as the '*Corralito*'. In response, the middle classes joined the unemployed and public sector employees in seizing public spaces to demonstrate against the government. De la Rúa responded with a declaration of a state of siege and unleashed a wave of repression which led to over 20 deaths (Peruzzotti 2001; Manzetti 2002). The slogan of the demonstrations, '*Que se*

*vayan todos*’ (‘out with all of them’) gauged the enormous distance which had opened up between government and society. It represented a frontal rejection of what was now perceived as a self-serving and corrupt governing class and a loss of faith in neoliberalism which was blamed for having brought Argentina once more to the brink of chaos. Cavallo resigned first, followed quickly by De la Rúa. The country defaulted in mid-December and within two months the value of the peso had dropped by more than a third and was to fall still further in the coming year. In the face of such extreme economic and social chaos, the political order collapsed and presidents came and went in quick succession, until a temporary parliament-led government under Peronist Eduardo Duhalde assumed some degree of institutional command in January 2002.

-TABLE THREE ABOUT HERE –

The challenges facing the interim government were huge. In addition to the difficulties of managing the default and promoting growth, the government faced the real possibility of social rebellion. Poverty was rising alarmingly, jumping from 38.3 per cent in October 2001 to 57.5 per cent a year later (see table three). The number of people living in extreme poverty reached 27 per cent in 2002, more than double the figure of just twelve months earlier. Poverty, of course, is not necessarily directly associated with social rebellion everywhere; but, in Argentina, where citizenship had been associated with a range of social and economic rights since Peronism, the political impact of this rapid and abrupt pauperization is hard to exaggerate. It generated a desperate social rejection of the political and economic model that had brought the country so low. But it also created a new phenomenon in Argentine politics – the emergence of a politicised, vocal and numerically significant social strata made up of the ‘new poor’ (Feijoo 2001). Mainly

composed of suddenly impoverished lower middle class/upper working class people who had survived the decline of public spending and rising unemployment in the 1990s only to go under in 2001, they retained traditions of social organisation:

In 2001, the new poor realised that their social collapse was unstoppable. They were going to carry on falling. It was at that point that new political actors appeared, representing the new poor....not the historical leaders of the working class because, when the labour market collapsed, the unions, as the political representatives of the working class, went with it. (Feijoo 2005: interview with the authors)

The new *piquetero* movements were not part of the trade union movement, the traditional expression for working class and public sector mobilisation, but they were by no means hostile to the unions:

*Piqueteros* are poor. But they don't belong to the historical world of marginality and structural poverty....Rather *piqueteros* are the consequence of the disarticulation of the country's formal wage-earning working class. That explains why they are persistent and organised. They have historical links with organised socio-economic actors such as trade unions. (Godio 2003: online version [www.diarioc.com.ar/lanota/10-01-2004](http://www.diarioc.com.ar/lanota/10-01-2004))

The revitalisation of trade union activism, meanwhile, on the back of the neoliberal collapse meant that the *piqueteros* were joined by unionists, leading to massive street

demonstrations, the formation of vocal neighbourhood assemblies and the emergence of new sites of social struggle within disused factories. Thousands of barter clubs based on non-official 'currencies' came into existence and some abandoned factories even went into production as cooperatives (Pearson 2003; Petras 2004).

In the face of this kind of social activism, Duhalde sought, above all, to restore traditional forms of governance and stability. The new government saw it as imperative to take control of the new sources of production and to re-integrate the new social actors into the formal channels of state-society networks. With this in mind, it is perhaps not surprising that the government rejected orthodox stabilisation programmes which would have focused on regaining investor and IMF confidence (see Katz 2006; Powell 2002). Instead, Duhalde turned to old ideas and the residual legitimacy of the national development project which had been overturned in the 1980 and 1990s and his instinctive and tentative policy response has come to be seen as a critical break with neoliberalism. In particular, the government set out a new policy based on a pro-active state in some key areas of the economy and in the delivery of social services and called for a new alliance between state, markets and civil society.

Policies were thus informed by heterodox critiques of neoliberalism which was articulated inside Argentina by a broad range of independent economists, some of whom were grouped together in the 'Fenix Group' from the Universidad de Buenos Aires (Schorr 2005; [www.laeditorialvirtual.com.ar/Pages/UBA\\_Plan\\_Fenix.htm](http://www.laeditorialvirtual.com.ar/Pages/UBA_Plan_Fenix.htm), 1 April 2006), as well as *piqueteros* and unionists. Whatever differences there may have been over the detail of policy, for all these actors industrial reactivation was key to recovery. Duhalde also promised the introduction of state-sponsored safety-net welfare policies and a

renegotiation of the external debt. One of his first - and most symbolic - measures was to abandon convertibility and to convert bank deposits and debts into pesos. Effectively, this meant devaluation and it was the most dramatic evidence of government commitment to domestic industry in more than fifteen years. It generated an important 'bounce back effect' in terms of exports and, in turn, stimulated the productivity of competitive tradable goods. This was accompanied by the introduction of a policy of price controls to encourage consumption and prevent inflation. These measures were followed by a 20 per cent tax on export earnings from agricultural commodities and hydrocarbons, the income from which was to serve, in part, as the basis for emergency social programmes (Gerchunoff and Aguirre 2004). The *Corralito* was lifted in early December 2002. Following hard negotiations, a 70 per cent reduction on the debt to private creditors was agreed and an arrangement with the IMF reached for a US\$3 billion loan in January 2003. The administration was also able to resume payments to the World Bank and the IDB, which, in turn, allowed new loans in early 2003 to come on stream.

In order to stem the rising tide of contentious politics, the government launched a consensus-building initiative, the *Mesa de Diálogo*, in January 2002, with the support of the Catholic Church and the UNDP. Organised in thematic round tables, the *Mesa* encouraged inputs from a broad range of society-based actors including labour, business, NGOs, *piqueteros*, social movements, political parties and religious groups (Barnes 2005). One of its most significant initiatives was to push for the adoption of state policies of social inclusion. According to Marcela Masnatta of the UNDP, a founder member:

The most important achievement ....was that we were able to agree....on a programme of Citizen Income, which was discussed as a universal right, a

form of social inclusion. The recommendation from the *Mesa* was that the state should guarantee a minimum income to all citizens. (Masnatta 2005: interview with the authors)

The *Mesa* went on to recommend three specific areas for urgent action: food supplies, medicines and the creation of income subsidies for the poorest. These recommendations fed into the creation of *Programa Jefas y Jefes de Hogares Desempleados* (Programme for Male and Female Unemployed Households), set up in January 2002 initially with funds from export tax revenue, supplemented with World Bank loans after January 2003. Significantly, the *Jefes y Jefas* Programme broke the traditional link between welfare, employment and trade unions. It was a workfare scheme which offered 150 pesos (US\$50) to families in exchange for participation in projects such as community service, construction, school maintenance, rebuilding health facilities, road works, communal kitchens, house building and even more small scale production (World Bank 2002; Ravallion and Galasso 2004; Svampa 2005). It reflected the fact the casualisation of labour in the 1990s had already created a vast pool of low-paid workers ‘organically disconnected from union activities and whose interests were not easily articulable with those of wage workers’ (Villarreal 1987: 85 quoted in Levitsky 2003: 12), to which were added the vast numbers of those suddenly without jobs or income. In this context, working class concerns no longer focused only on the wages or employment. *Jefas y Jefes* quickly reached around two million people. In the process, it became part of traditionally clientelist networks of welfare distribution, creating a degree of state control over the unemployed, including the *piqueteros* (Levitsky 2003). Another emergency programme which had its origins in the *Mesa de Dialogo* was the health plan *Remediar*, supported by the IDB, which organised the distribution of basic medicines to the poorest

social groups. Overall, these policies were central in re-establishing the credibility of the state and in bringing about the first signs of economic recovery in early 2003.

### ***Neodesarrollismo as a strategy for governance: the K administration***

The interim administration gave way to the elected government of Nestor Kirchner, Peronist ex-governor of the Province of Santa Cruz, in May 2003. Kirchner, who campaigned on a clearly anti-neoliberal programme, was one of two Peronist candidates, the other being ex-president Carlos Menem who retained a significant quota of support within the party machine. First round results indicated a split Peronist vote, with 24 per cent for Menem and 22 per cent for Kirchner, with the rest of the votes scattered between other candidates. Given that no one had received the necessary 45 per cent support to win the elections outright, a run-off was scheduled between Menem and Kirchner. But Menem pulled out before the second round could take place, leaving Kirchner to become president by default and in an apparently weak position. Despite these inauspicious beginnings, however, in less than three months Kirchner enjoyed an 80 per cent support rating (Pagina/12: 30/12/2003), almost certainly explained by his image as socially-conscious, socially-responsible politician and his forthright commitment to job creation and domestic industry.

Committed from the outset to continuing the policies initiated by Duhalde (Gasparini 2003), Kirchner retained Roberto Lavagna, regarded as the chief architect of the economic recovery in 2002-2003, as Minister of the Economy until 2005. Initially on conjunction with Lavagna, Kirchner focused policy around rebuilding Argentina's industrial base, public works and public services and, in a clear reversal of *Menemismo*,

the state began to take on a role in stimulating economic growth. The government also sought to renegotiate the terms under which some foreign companies operate the public services privatised in the 1990s. The exchange rate, additionally, has proved a particularly critical tool of government policy and taxes have increased on the export sector in order to raise revenue. A judicious devaluation of the peso in January 2002, meanwhile, led to a considerable expansion of exports (see table four). Export performance has also been aided by high prices internationally for exports, especially agro-industrial goods, such as soybeans, wheat, and oil. Kirchner's decision not to pay the external debt until the end of 2005 allowed for an accumulation of reserves which expanded local confidence in the economy. Inflation has been kept down mainly through government-led negotiations with supermarkets and producers for 'voluntary' price controls, which has meant, in fact, a constant process of monitoring, exhortation and warning by government of the danger of pushing prices up. In sum, stability and growth since 2003 have been the result of a combination of judicious policy making and widespread social fear of the consequences of a return to recession, combined with a supportive external environment.

-TABLES FOUR AND FIVE ABOUT HERE-

The government has proved to be far more cautious in the realm of social spending, however. Far from re-establishing the link between citizenship and universal welfare which characterised *desarrollismo*, Kirchner has been keen not to promise too much. Although he makes extensive use of the traditional symbols and discourse of Peronism and *desarrollismo* – there is an almost constant evocation of the 'national', associated with consumption, rights, employment etc - welfare spending remains, emphatically,

targeted at specific social groups. This strategy has been rendered feasible by the fact that unemployment has fallen to around ten per cent (see table five). The *Jefas y Jefes* programme inherited from Duhalde, is still the largest single social programme, although others have been created such as *Familias*, which aim at enhance schooling attendance in poor households, and *Manos a la Obra*, which supports the creation of cooperatives and workfare initiatives. Most spending of this sort is linked to the government's need to build political support and the decision to try and bring confrontational civil society movements into the structures of state-centred governance. In particular, the government has sought to disarticulate the *piquetero* movement through subsidies and public spending in the poor neighbourhoods where *piquetero* movements emerged (Godio 2003). It has been estimated that eight per cent of the population in receipt of *Jefas y Jefas* funds are *piqueteros* and many more are linked informally or through family and neighbourhood networks. The *Agrupación Barrios de Pie*, a moderate *piquetero* movement, controls sizable programmes of infrastructure and development in poor neighbourhoods of Buenos Aires (Godio 2003). One *piquetero* leader, Luis D'Elia, of the *Fundación Tierra y Vivienda* (FTV) even accepted a ministerial post in government, in the Department of Planning. All of this, inevitably, leaves the government open to criticism of using welfare spending as a means of buying political support (Lo Vuolo 2005: interview with the authors).

But despite the political utility of targeted welfare spending, Kirchner has spent most of the country's new financial resources paying off international creditors. The government has opted not to stage debt payments with the IMF but to clear the account. Argentina's US\$9.8 billion debt was settled in December 2005 (Pagina/12: 19/01/2006). The decision to seek independence from the IMF in this way owes much to the need to create an image

inside Argentina of a sovereign state although, clearly, it also creates greater room for manoeuvre about policy than was possible in Argentina in the second part of the 1990s. Kirchner's desire to strengthen Argentina's position vis-à-vis international institutions is matched by a policy, again popular domestically, of seeking to remake relations – not always successfully, it has to be acknowledged - within Latin America. In contrast to the Menem period when the bilateral relationship with the US seemed to be more important than relations with the country's neighbours, Kirchner is pursuing a closer relationship with Brazil, Venezuela and Bolivia through MERCOSUR and is committed to the notion of a regional energy market. A joint venture, for example, was agreed in April 2005 between the state-managed ENARSA (*Energía Argentina S.A.*), founded in 2004, and the Venezuelan state-owned oil company, PDVSA (*Petróleo de Venezuela*) (Pagina/12: 20/01/2006). Clearly, at bottom here is the ambitious goal of achieving greater economic independence for South America through a common energy policy. But bringing this bold dream to fruition depends upon sustained cooperation and joint investments across the region over a long time scale and the current atmosphere of cooperation could easily dissolve, as in the past, into conflicts based on national interests, along the lines of the gas price dispute with Chile in 2004 and the bitter legal wrangling with Uruguay over environmental damage to the Rio de la Plata in 2006.

### **The sustainability of *neodesarrollismo***

There is no easy yardstick against which to judge Argentina's performance after 2002 mainly because there is no clear consensus over what a successful post-neoliberal political economy actually looks like. As Helleiner (2003: 686) notes, 'it is not immediately apparent...what is replacing the Washington Consensus'. The appropriate

mix of state/market incentives; the role of state institutions; the scale of welfare spending; the relationship with foreign investors: there is little international agreement over any of these core issues. Rodrik (2002) talks of the need to seek national-specific solutions in place of the fashion for global models in the 1990s and the trend throughout most of Latin America is for a greater degree of economic nationalism than was the case in the 1990s. But nationalism now is cast in a very different mould from the period 1940s-1960s and state intervention has come to mean less control over the commanding heights of the economy and more a combination of 'selective protectionism and targeted state intervention' and a push for the state to 'carve out independent courses of action in the global economy' (Helleiner 2003: 689-690).

In this context, it is not surprising that Kirchner's policies appear, in many respects, ad-hoc and experimental. Nevertheless, their immediate impact is difficult to dispute. In the period since 2003, Argentina has grown at an annual average rate of almost 9 per cent. Of course only some of this is due directly to the policy mix introduced after Kirchner took office. The recovery was triggered by the de facto devaluation imposed by Duhalde's government in the first quarter of 2002 and the default on the international debt. As we argued above, it was also aided by high international commodity prices for Argentina's principal exports including soy and oil, the strong growth of world trade and a reduction in the volume of imports into the country (Damill *et al* 2005: 22). Nevertheless, it is also the case that the economic recovery, whether attributed to internal policies or external demand, has been deployed effectively by the government to reassert control and impose afresh the authority of the state.

This new role for the state undoubtedly challenges assumptions about a global trend towards policy convergence and the triumph of neoclassic economics based on an extreme understanding of globalisation and global markets (Haggard and Maxfield 1996; Frieden and Rogowski 1996; Strange 1998). But the internationalisation of the economy is nonetheless real and it imposes real policy constraints. In particular, it means that state intervention is mainly driven by technical demands for ‘better’ regulation and can only be employed selectively within the economy. In turn, this shapes what *neodesarrollismo* and other post-neoliberal projects can mean. In so far as Argentina is concerned, the weight and the authority of private and foreign capital on policy making are much greater than they were at any point under *desarrollismo* and there are, as a result, much stricter limits on how far government can raise taxes, provide subsidies, regulate privatised companies or support labour movements in their struggles to raise wages. There are differences too in the social role of the state under *neodesarrollismo*. In particular, contemporary economic nationalism does not equate citizenship with economic and social rights in partnership with the trade union movement. As a result of these constraints, *neodesarrollismo* embodies a series of latent tensions, including a lack of clarity about the boundaries of state intervention within the economy and the appropriate relationship between the state and foreign capital. How to combine a pro-active state with an economy reliant on foreign investment and vulnerable to fluctuations in external demands and how to promote a social inclusion agenda in a situation where citizenship has been separated from concepts of social rights and universal welfare also remain as unanswered questions. There are, in other words, serious challenges ahead before *neodesarrollismo* is institutionalised as a stable mode of governance. We identify now some of the issues which might, potentially, derail the *neodesarrollista* project

## *Employment*

Unemployment fell from a high of 19 per cent in 2002 to about 10 per cent by the end of 2005. But this achievement masked the failure to reverse certain structural changes within the labour market. In particular, many new jobs are in non-unionised and low-paid settings such as the service sector. Fiszbein, Giovagnoli and Asuriz (2003)'s survey of labour market changes during the crisis show that there was a:

deterioration in the 'quality' of jobs....in terms of the type of employment reported both by those that obtained new jobs (temporary more than permanent and.... [without] any type of the standard benefits associated with formal sector jobs) and those that changed jobs (indicating a net increase in the proportion of temporary jobs and a large presence of 'jobs without benefits' amongst those that moved to permanent positions).

Current government figures point to a phenomenal 47.5 per cent of workers without social insurance, a figure which has not changed since 2002 (see *Instituto Mundo del Trabajo* 2005). Not surprisingly, the centre-left opposition to Kirchner has focused its critique of the government around its failure to create stable well-paid employment. ARI for example, has made a point of arguing that workfare programmes legalise or formalise precarious employment in informal enterprises or even encourage formally constituted companies to take on workers informally (*en negro*), in order to avoid paying taxes and social insurance (Lo Vuolo, 2005).

The fall in the number of unemployed also hides damaging and persistent unemployment amongst young people (see table six). Even through domestic manufacturing has expanded, many young men, especially if they have never worked, have become unemployable within traditional employment settings. This is linked as much to the deterioration of the social fabric of working class communities, many of which have witnessed new problems of drugs and violence since the 1990s, feeding an exaggerated fear on the part of the middle classes of disaffected young men and making it difficult for young men to find a place in the formal labour market. Solving this problem demands a concerted policy response from government which goes beyond simply job creation; but little, so far, is forthcoming.

-TABLE SIX ABOUT HERE-

### *Inflation*

Argentina's economic recovery has been accompanied by inflationary pressures that might well challenge the long-term sustainability of state-led growth. Inflation reached 12 per cent at the end of 2005. Kirchner's approach to resolving inflation has been mainly one of fire-fighting – the introduction of ad-hoc policies such as price controls for basic goods and services, periodic and sometimes arbitrary controls on exports in an effort to stabilise prices for goods in the domestic market which experience export-led price hiking (such as meat) and government arbitration of wage negotiations.

The government's difficulty here is linked, at bottom, to the challenging of managing business-labour relations, something which has proved almost impossible in Argentina in

the past. Traditionally, *desarrollista* policies in Argentina led to wage increases for skilled workers but they were ultimately undone by a semi-permanent dispute over distribution over domestic income, mainly in the form of wage pressures from labour unions and resistance to redistribution of profits by industrialists, leading to intense cycles of growth-inflation-recession (see Diaz-Bonilla and Schamis 1999). At present wage demands – and profits – are largely contained by government policies and the fear of unemployment. Encouraging the trade union movement to defer wage claims in favour of steady economic expansion has been a central task of government but Kirchner has few instruments to deploy in this task beyond persuasion. In fact, while the power of the labour movement was significantly weakened by free market reforms during the 1990s, unions have regained some of their authority due to the rise in employment and the government's policy of seeking collective wage agreements. As a result, it will, almost certainly, be hard for the government to continue to persuade the trade union movement to accept low wages in return for economic stability, especially as fear of recession subsides. Yet without it, there is the risk that a damaging inflationary spiral will set in.

A different solution would be for the government to seek to secure a more cooperative relationship with business in order to persuade companies to direct some profits towards their workers through schemes of corporate responsibility. This would, tacitly, be in exchange for the government clearly rejecting the introduction of a comprehensive programme of taxation on income, fixed assets and profits. Arguments of this sort are being made in different ways across the political spectrum in Argentina, as well as by academics (Lo Vuolo, 2005). But institutionalising a new pattern of industrial relations, based on voluntary codes of social responsibility, will not be easy, given Argentina's traditionally conflictual business-labour culture. Moreover, Kirchner's strategy of growth

through domestic industry has changed the relationship between state and business and made the government vulnerable to pressures from domestic businesses which, at the same time, have less dependence on state subsidies than in the *desarrollista* period of government and are, therefore, less easily reined in. And, whilst it was taken for granted in the 1940s-1960s that, in return for the subsidies, industrialists would contribute to social insurance schemes for their employees (Chibber 2004), this is far less the case today. After years in which local capital was encouraged to bank and spend profit above all other considerations, transforming entrepreneurial mentalities now is a hugely difficult task. In short, although the government has managed to secure a relatively peaceful relationship with business and labour so far, the political economy of *neodesarrollismo* is vulnerable to pressure both from the unions and the employers. If either adopt more confrontational attitudes, the government is in a weak position and inflation will not be far behind.

### *Poverty*

The rise in poverty in Argentina after 1990, and especially in the crisis years of 2001-2002, was unprecedented. But impoverishment is experienced differentially across the social spectrum because of high levels of income inequality, even by Latin American standards, prior to the crisis (Fiszbein, Giovagnoli and Aduriz 2002). The dominant external image of the country in 2001-2002 was of the equalising effects of collapse: the newly impoverished middle classes were pictured in the international press engaging in barter, alongside the newly unemployed workers organised in soup kitchens and picket lines. The middle classes have, however, recovered relatively quickly while some of the most badly affected of the working class, who were already part of the long-term

unemployed before 2001 or were dependent on casual, informal and vulnerable work based on family employment, sometimes on the streets or in other precarious locations, remain in near destitution. As Rosalia Cortes explains, the impact of the crisis was particularly severe for these already-vulnerable groups:

When the crisis began in November 2001, the banks closed and no one had cash. The informal sector and those who had lost their jobs in the 1990s live in a cash economy. They thus had nothing, not enough even to eat. That was when the uprisings began but their origins stem from a long history of poverty and casual employment....the crisis affected the middle classes...but they still had food in the freezer and credit cards....in the *barrios* there wasn't even food to put in the table once a day....the middle class lost their savings but the poor went hungry (Cortes 2005: interview with the authors).

These groups have become part of a large and seemingly permanent stratum of poor people. The government's own figures indicate that 33.8 per cent of the population remain below the poverty line, of which 12.2 per cent of the population is indigent, that is, unable to meet their own basic needs of food, health and housing (see table five, above). A further 9.1 per cent of the population lives only just above the poverty line (with incomes between 745 and 931 Argentine pesos or approximately US\$243 and US\$304). Whilst it is the case that the number of people living in poverty has fallen, the figures are far more modest than might have been expected in view of the rate of economic growth. Furthermore, poverty, like unemployment, remains higher amongst

younger people than within the population generally (see table seven), aggravated by falling levels of educational achievement during the crisis.

Government policy has largely been to hope that rising employment levels, combined with some minimal welfare spending, will solve the problem. Gerchunoff and Aguirre (2004: 27), however, argue that growth alone will not solve poverty:

Are we witnessing a new positive connexion between material progress and social progress in a new *trickle down* fashion? It depends on how we define things. If by trickle down we understand that economic growth will increase sources of employment ....the answer is yes. If more ambitiously we understand that this will reduce the gap between rich and poor and that will bring a solution to those that lack job qualifications and lag behind in the job market, the answer is no.

In view of this – and given the government’s inclusionary language - it is perhaps striking how little government attention is focused on the question of embedded poverty. Marginalisation and social exclusion on the scale described here almost certainly cannot be resolved simply through job creation because many people have become unemployable in the new economy and many jobs being created are in the informal sector. New forms of imaginative and well-funded welfare and education schemes are required to repair the social damage created by combined effects of a decade of neoliberalism and economic meltdown. Although the government managed a successful debt restructuring and payment in full of the debt to the IMF, relatively few new anti-poverty strategies have been developed. Welfare remains essentially in the safety-net

model of neoliberalism which can only, at best, ameliorate some of the worst manifestations of poverty. The problem for government of course is how to raise sufficient income for social spending, especially if further tax increases are effectively vetoed. But, if social exclusion and poverty go unaddressed, the scale of deprivation can only get worse, even if growth continues.

### *External vulnerability*

Economically, the success of the whole edifice of *neodesarrollismo* depends on how successfully the government manages the external sector. *Neodesarrollismo* is an attempt to break the myth that state-managed economies are synonymous with close, autarchic systems and are inefficient, clumsy and slow to respond to global change. The government must show that it can promote an open economy through effective state management. But this is far from being an easy task. Certainly, the old *desarrollismo* will not provide answers. While growth, accumulation and distribution were seen as mutually supportive and integral elements of the same process of development in the 1940s-1960s, managing the export sector and providing for the delivery of social services today are regarded as separate, and potentially conflicting, tasks of government.

*Neodesarrollismo*, is, as Gerchunoff and Aguirre (2004) note, a model of growth that rests pre-eminently on a successful export sector. Growth in Argentina has undoubtedly been fuelled since 2003 by an export boom and strong international demand for Argentine agro-industrial products – economic growth has been, in other words, as much a matter of circumstances and luck as policy and judgement. The dilemma facing Kirchner now is how to manage fiscal and monetary policies in order to sustain the

Argentina's export successes, in the context of a globalised economy and historically vulnerable commodity prices. At the same time, the government must seek to reduce external vulnerability – although it is genuinely hard to know what policies can quickly be implemented to do so. Clearly, it is important to generate reserves to offset falls in export prices. Nevertheless, if prices fall far enough, even reserves will not be sufficient. One way forward is to try and generate a broader range of more exports than Argentina presently enjoys. New export goods did emerge in the 1990s, but, compared to Chile for example, the range of exports products is still low. Undoubtedly further policies for export diversification are required – but these cannot be introduced punitively or coercively. In sum, effective management of the export sector remains to a vital task for government and one that it has yet to be effectively institutionalised.

## **Conclusion**

The emergence of a new brand of economic nationalism in Argentina after 2002 marked the end of an era shaped by the failure of neoliberalism to provide sustained growth and growth-with-equity (Weyland 2004). In a broad sense, it parallels the trend away from neoliberalism and other experiences in bringing the state back in elsewhere in Latin America. The crisis of 2001 proved to be a turning point from which an alternative project of political and economic governance has developed. *Neodearrollismo* is an ambitious, if sometimes vague and ad-hoc, strategy for growth, and managing growth, based on macroeconomic prudence, moderate state intervention and re-industrialisation. To some extent, it also represents a new strategy of social inclusion based economically on a state-led revival of domestic markets and politically on a renewal of populist

strategies of social conflict management although, in the social domain, the revival of the state certainly has very fixed limits.

It is still too early to say whether *neodesarrollismo* represents a positive example of the kind of post-neoliberal ‘experimentation in the institutional and productive sphere’ called for by Rodrik (2002) as a response to the end of the hegemony of neoliberal recipes for development. It is possible that a new paradigm of stable economic and political governance is in the making. Economic recovery has been engineered through a combination of export buoyancy, devaluation and stimulation of industry. Social peace, meanwhile, seems to have been achieved through populist welfare, political inclusion and the promise of job creation. Both state-supported export-oriented growth and rapid-response targeted welfare spending have helped to re-legitimise and re-institutionalise government after crisis. But, taking a longer-term perspective, there are difficulties ahead. Growth is subject to the logic of the global market and a core task of government is to keep foreign investors, as well as domestic business, happy. Redistribution seems beyond what the government can even dream of delivering; instead, its central social task appears to be to manage the ‘distribution game’ between business and labour and resolve conflicts largely to the material satisfaction of business. At the same time as ensuring that wage levels do not rise or push up inflation, the government must stimulate exports and export-led growth; ensure that the domestic market remains buoyant and local production continues to expand production and create employment. This is a tall order for any government. In Argentina, it has simply never happened outside the golden years of 1946-1952. A certain dose of scepticism about the long-term capacity of the government to manage social demands, increase productivity and expand exports is therefore inevitable. Between them, Duhalde and Kirchner successfully engineered recovery after

crisis, re-established governance and reasserted the legitimacy of the state; but, equally, Argentina remains a long way from having institutionalised a coherent – and even further from an equitable - programme for long term development.

**Table One**  
**Poverty, Extreme Poverty and Unemployment in Argentina, 1990- 2001**

	Year	Poverty	Extreme Poverty	Unemployment
1990	May	42.7	12.6	9.3
	October	38.1	9.9	6.3
1991	May	30.1	5.7	6.9
	October	24.9	4.5	6.0
1992	May	23.9	4.8	6.9
	October	22.0	4.5	7.0
1993	May	21.5	4.7	9.9
	October	20.6	5.0	9.3
1994	May	20.1	4.3	10.7
	October	22.4	4.6	12.2
1995	May	26.1	6.8	18.4
	October	28.7	7.6	16.6
1996	May	30.1	8.2	17.1
	October	31.5	9.1	17.3
1997	May	30.0	7.3	16.1
	October	29.5	7.8	13.7
1998	May	28.8	7.1	13.2
	October	30.2	8.5	12.4
1999	May	31.3	8.9	14.5
	October	30.6	8.3	13.8
2000	May	33.4	9.0	15.4
	October	32.8	9.6	14.7
2001	May	35.9	11.6	16.4
	October	38.3	13.6	18.3

Source: INDEC - Encuesta Permanente de Hogares (EPH)

**Table Two**  
**Changes in Income Distribution in Urban Argentina, 1990-2002**

Year	1990	1992	1994	1996	1998	1999	2000	2001	May 2002	Oct. 2002
Per capita household income (in 1999 pesos)										
Overall	240.3	292.7	302.8	270.4	294.8	280.6	275.7	253.3	189.7	176.8
Per capita income by decile										
1 <sup>st</sup> decile (lowest)	38.3	45.6	43.2	28.1	31.7	30.4	26.3	17.1	9.0	16.1
5 <sup>th</sup> decile	153.4	181.1	188.1	158.1	167.3	164.2	155.1	136.3	97.9	95.8
10 <sup>th</sup> decile	825.4	1,004.7	1,060.7	992.3	1,114.2	1,028.2	1,041.9	993.8	769.9	705.3
Relative measures										
Top 20% share	50.7	51.0	51.6	53.7	54.8	53.8	55.1	56.8	58.2	57.2
Bottom 20% share	4.6	4.5	4.2	3.6	3.5	3.5	3.2	2.6	2.1	2.8
Gini coefficient	0.454	0.456	0.467	0.493	0.504	0.494	0.510	0.530	0.551	0.532
Top/bottom 20% ratio	11.0	11.3	12.3	14.9	15.7	15.4	17.2	21.8	27.7	20.4

Sources: World Bank (2003); INDEC, Encuesta Permanente de Hogares (EPH), October of 1990, 1992, 1994, 1996, 1998, 1999, 2000, 2001, and May and October of 2002.

**Table Three**  
**Percentage of Poverty and Extreme Poverty, 2001- 2005**

Year (*)	Poverty	Extreme Poverty
May 2001	35.9	11.6
October 2001	38.3	13.6
May 2002	53.0	24.8
October 2002	57.5	27.5
May 2003	54.7	26.3
Semester 1, 2003	54.0	27.7
Semester 2, 2003	47.8	20.5
Semester 1, 2004	44.3	17.0
Semester 2, 2004	40.2	15.0
Semester 1, 2005	38.5	13.6
Semester 2, 2005	33.8	12.2

Source: INDEC - Encuesta Permanente de Hogares (EPH). (\*)INDEC changed its methodology in 2003 to reflect changes in socio-economic conditions. The traditional method of data collection consisted in permanent households surveys conducted twice a year (May and October). Since 2003 it was changed to continuous and quarterly surveys. See: 'Encuesta Permanente de Hogares: Cambios Metodológicos' ([www.indec.gov.ar](http://www.indec.gov.ar))

**Table Four**  
**Evolution of Exports by Sector, 2001- 2005 (in US\$ Millions)**

	2001	2002	2003	2004	2005
Primary Products	6,049	5,263	6,460	6,828	7,852
Agro-industrial manufactures	7,463	8,130	9,991	11,932	12,529
Industry	8,307	7,603	7,703	9,522	12,474
Oil and energy	4,791	4,350	5,412	6,171	7,035
Total	26,610	25,346	29,566	34,550	39,890

Source: INDEC

**Table Five**  
**Incidence of *Plan Jefas y Jefes* on Poverty, Extreme Poverty and Unemployment**

	Poverty	Extreme Poverty	Unemployment
October 2002	57.5 (n/d)	27.5 (n/d)	19.1 (23.6)*
May 2003	54.7 (55.3)	26.3 (29.7)	15.6 (21.4)
Semester 2, 2003	47.8 (48.5)	20.5 (23.5)	15.4 (20.5)
Semester 1, 2004	44.3 (45.3)	17.0 (19.7)	14.6 (19.3)
Semester 2, 2004	40.2 (40.9)	15.0 (18.2)	12.6 (16.9)
Semester 1, 2005	38.5 (39.4)	13.6 (15.9)	12.5 (16.1)
Semester 2, 2005	33.8 (34.6)	12.2 (14.2)	10.1 (14.1)

Source: INDEC - Encuesta Permanente de Hogares (EPH). (\*) Denotes the incidence of *Plan Jefas y Jefes*

**Table Six**  
**Unemployment Rate for Youth Population Aged 15 and 24 Years Old**

Year	1990	1995	2000	2003	2005
Unemployment (%)	13.0	28.2	31.0	30.9	27.4

Source *Consultora Equis*—see <http://www.pagina12.com.ar/diario/suplementos/cash/17-2264-2006-01-29.html>

**Table Seven**  
**Poverty and Indigence amongst the Young in 2005**

Year	Age: 14-19	Age: 20-24	Total Population
Poverty	54.6%	39.9%	3,528.888
Indigence	20.7%	14.0%	1,298.315

Source *Consultora Equis*—see <http://www.pagina12.com.ar/diario/suplementos/cash/17-2264-2006-01-29.htm>

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