

**Argentina at the Abyss**

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## I. Introduction

After experiencing one of the worst economic crises in its history just over a decade ago with the hyperinflation and recession of 1989, Argentina has now set a new historical mark not only for its own history but also for the world's. Throughout 2002 Argentina was experiencing the largest debt default by any country ever.

After almost four years of recession, unemployment reached over 25%, according to some estimates 30%, and when one includes underemployment it is 40-50%. Over 50% of the population is living below the official poverty line.<sup>1</sup> Much of industry was shut down, GNP declined by over 12% in 2002 and at one point all the banks were closed, and people were denied any access to their accounts. Although the banks are now open, the policy of the *corralito*, started by former Economics Minister Domingo Cavallo, prevented people from withdrawing more than \$250 a week or \$1000 a month and this outraged the "middle class" among others.

This state of affairs led to the street protests of the *cacerolazos* (the banging of pots and pans) which combined with the highway protests of the *piqueteros* and rioting in Buenos Aires and across the country brought down 2 presidents last December. The current government of Duhalde, despite some initial populist promises, has just signed a new 'interim' agreement with the IMF. There is already concern over whether Argentina will be able to implement the changes prescribed by the IMF with respect to decreases in public expenditure among others.<sup>2</sup> At issue is to what extent the already immiserated population is willing to bear the burden of another IMF austerity plan. All of this is in the context of a very chaotic state of affairs regarding the upcoming elections in May of this year.

How did Argentina reach such a situation, after being a poster child for neoliberalism, not to mention the Latin American country with the largest middle class and a standard of living associated more with Europe than with a typical developing country? What is the nature of this crisis? Why did it occur now and who is to blame? These are all crucial questions for Argentina, and although there is no simple answer, I

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<sup>1</sup> INDEC 2002.

<sup>2</sup> See the New York Times, February 10th, 2003.

plan to show that the role played by neoliberal policies and the impact of globalization are key in answering these questions and have relevance for many other countries.

This paper will first go over the steps leading up to the outbreak of the crisis at the end of December 2001. It will then consider the overall fiscal situation and the different factors contributing to the foreign exchange crisis. We will then look at the implementation of neoliberal policies in Argentina since the dictatorship of 1976 and how those combined with globalization have impacted Argentina's political economy. Then, the role of the IMF in Argentina and its record of crises in recent years will be evaluated. Lastly, I will try to anticipate some of the possible scenarios of the near future for Argentina as it tries to come out of this crisis.

## **II. The Steps leading up to the Crisis**

Fernando de la Rúa took office as president in December 1999 and Argentina had already been experiencing a recession for more than a year when within his first year he was confronted with an even more difficult task of staving off the impending economic crisis due to a range of factors including a growing trade deficit, in part caused by the currency board but also the declining prices in world markets for agricultural goods, and the foreign debt which was spiraling out of control.

There had been problems in the 3rd Quarter of 2000 as bond rates soared. For better or for worse, the IMF stepped in with an aid package. In early 2001, President de la Rúa reshuffled his cabinet, bringing back Domingo Cavallo as economy minister. The arrival of Mr. Cavallo at first cheered investors. However, he tried a range of 'unorthodox' policies but to no avail. Through 2001 Argentina's reserves continued to decline and the recession was now 3 years old.

By the middle of 2001, as a result of the recession, unemployment was approaching 20% or more. This was a major factor in the formation of the *piqueteros* movement- organized unemployed workers, many in the provinces but also in Buenos Aires. The *piqueteros* were blocking highways in order to prevent goods from getting to Buenos Aires, be it for local consumption or exports. They were demanding jobs as many had been let go as a result of privatizations. There had also been several incidents of government office buildings being burned down in provinces where public employees

had been laid off or not paid. As the year advanced, the pending crisis loomed and then the IMF reneged on a payment at the beginning of December 2001. This was the next to last straw; with reserves continuing to decline and the fear of a major run on the banks. In mid December, Cavallo became desperate and instituted the *corralito*, thus alienating almost everyone. Popular anger mounted against both Cavallo and President de la Rúa, and rioting across the country forced both to resign in late December 2001. The first interim president Rodríguez Saa tried to pull a fast one within his party, and street protests as well as infighting within the Peronist party led to his quick demise. After a crazy 2 weeks of rioting, looting and protest, there were a total of 30 people killed, and then the fifth and current president, Eduardo Duhalde took power.

We have tried to lay out the unfolding of events during the period leading up to the crisis of December 2001. In order to explain this crisis one must look beyond the specific details of the crisis itself and take an historical view, especially with regards to the sets of economic policies that have been pursued during the last quarter century in Argentina. Before doing that, the next section will consider the overall fiscal situation during the years prior to the outbreak of the crisis in 2001 and identify the components of greatest significance in contributing to the foreign exchange crisis.

### **III. Foreign Exchange Crisis**

When a fiscal crisis occurs in a ‘Third World’ country it takes the form of a foreign exchange crisis, which is today, just another neoliberal crisis. In this section we will examine the items of greatest significance in explaining the fiscal imbalances, which contributed to Argentina’s economic crisis. Although the fiscal crises in the provinces and privatizing of social security deserve attention, we will be concentrating on privatizations, the foreign trade deficit and lastly, foreign debt payments.

#### **Privatizations**

Often described as one of the three pillars of neoliberalism, privatizations, or the selling off of public enterprises, played a significant economic role during the 1990s in Argentina. Between 1991-1998, Argentina sold off a total of US\$23 billion,<sup>3</sup> though the majority was sold off between 1991-1994 and thus greatly improving the fiscal balance

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<sup>3</sup> Sevares, 2002, p.229.

for those years. However this meant that after 1994 there was not only nothing left to sell, but also these resources that could have been a steady source of revenue, such as, the national oil company<sup>4</sup>, provided no future income. They had sold off the national airline, the electric and gas utilities, water, the railroads, the national oil company, and many others. Another major concern was the manner in which the privatization process took place, often lacking transparency and clearly favoring the corporate buyers, as evidenced by the majority of the state enterprises were being sold below their worth and subject to standard corruption. Less we forget, the local push and drive toward privatizations, was coming from the Justicialista or Peronist party, but the IMF provided an external push by strongly advocating these policies in Argentina and around the globe.

### **Trade Deficit**

In this section a general view of the movement of exports and imports through the 1990s will be presented and a more in-depth explanation of certain trends will be provided in the next section, once we have considered the impact of a quarter-century of neoliberal policies and deindustrialization in Argentina.

Since 1992 Argentina has had a trade deficit except for the years 1995 and 1996, when the ‘tequila effect’ of the Mexican peso crisis caused a significant drop in imports. Despite many arguing that the currency board prevented Argentina from having more exports, between 1990 and 1998 exports actually increased by 115%. The problem had more to do with the increase of imports, which grew by 320%. This major increase in imports will be examined in the next section as we consider the neoliberal trade policies implemented during the 1990s, in particular, the freeing of restrictions and removal of tariff and non-tariff barriers. Between 1992 and 1999 the accumulated trade deficit was over \$US 11 billion.<sup>5</sup>

### **Foreign Debt**

This is the component of Argentina’s fiscal budget that has been the most out of control, and the principal cause of the current economic crisis. It has grown at an incredible rate, having been less than \$US 10 billion in 1976 to balloon to US\$ 141 billion in 2001. Most significantly, it doubled from 1993 to 2001, going from US\$ 70

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<sup>4</sup> YPF-Yacimientos Petroleros Fiscales; ‘National Oil Company’.

<sup>5</sup> Rapoport, 2002, p.290.

billion to \$US 141 billion. The interest payments that Argentina made during the 1990s total over US\$ 60 billion and in 1999 alone was more than US\$11 billion dollars.

Undoubtedly, the foreign debt and payments are a result of both the fiscal situation and budget negotiations within Argentina, but of greater importance are the negotiations with the IMF and other lenders, mainly the World Bank and the Interamerican Development Bank (IDB). The extent to which this was a growing problem for Argentina is illustrated by considering the public debt as a percentage of GDP, which grew from 27.1% to 40.8%, between 1993 and 1999.

In order to elaborate further on the components identified in this section, especially the growing trade deficit and foreign debt, the impact of neoliberal policies, over the last quarter century needs to be examined. Although there were some heterodox variations, most notably during the presidency of Alfonsín, Argentina has been pursuing variants of the neoliberal model since the dictatorship of 1976 through to the present.

#### **IV. Neoliberal policies during the Dictatorship of the 70s**

From 1930 till 1976, in general, there had been a policy of protecting industry through tariffs, and other trade or investment regulations also known as import substitution industrialization (ISI). However, when the military junta came to power in 1976, the new government had a change of plans. This was evident in the economic policies implemented by the new Economics Minister, Martínez de Hoz. The junta carried out a transformation called the Process of National Reorganization (*El Proceso de Reorganización Nacional*), which was a reactionary political and economic agenda.

The junta intended to make a shift away from manufacturing industry and towards agro-industry. They argued that the rent from agriculture, primarily beef and grains, was no longer going to be used as a subsidy for industry but rather for the development of other value-added agro-industry. As a result, since the early 1980s, seed oils (*oleaginosas*), such as corn, sorghum, soybean, and sunflower oils, have been the leading export of Argentina.

There are three key factors we can point toward to explain this approach by the junta. One represented a shift toward agro-industry as opposed to industrial manufacturing. The junta was being more supportive of the landowning oligarchy as

opposed to manufacturing industry. At an institutional level, this was reflected in the government allying itself more with the Argentine Rural Society (*Sociedad Rural Argentina*, SRA), which represents the landowning oligarchy vs. the Industrial Union of Argentina (*Union Industrial de Argentina*, UIA), which represents the industrialists.

The second factor reflected the junta's obsession with stamping out dissent in general, but especially among organized workers. Most notably was the memory of strikes in Rosario in the late 1960s and early 1970s and in Cordoba, especially, the *Cordobazo*, the autoworkers' strikes in Cordoba in 1973. They were committed to eliminating the industrial park in Argentina because it was seen as facilitating labor unrest.

The third factor is accomodating multinational capital, since transnational corporations (TNCs) would benefit if Argentina concentrated on producing primary products and agro-industry, thus leaving automobile, steel and heavy manufacturing to imports from or local production by multinationals.

The economic and social policies pursued by the military government resulted in a very negative impact on Argentine businesses, especially manufacturing. Between 1975 and 1981 the manufacturing share of the GDP declined from 29% to 22%, industrial employment declined by more than 36% and industrial production as a whole went down by 17%.<sup>6</sup> The result of the neoliberal policies of the junta clearly began a process of deindustrialization in Argentina, which would not seem to be in the best interests of the Argentine bourgeoisie. However, that is based on the idea that the interests of the Argentine bourgeoisie should be tied to the expansion of Argentine industrial capital, not only financial and agro-industrial capital. The reality of Argentina, is that all three of these interests often coincide at an individual level among the most powerful elite, e.g., Bunge & Born, Macri, etc. It is worth noting that, then and now, there are significant links between the grain giants and financial interests, known in Spanish as *la patria financiera*.<sup>7</sup>

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<sup>6</sup> See Azpiazu, Basualdo y Khavisse, 1986.

<sup>7</sup> For example, Martinez de Hoz was a member of more than 10 directorates of agrobusiness and industry and put into place the plan which had been devised by major companies months before in planning for the coup (see Sevares, 2002, p.30).

This paper is not elaborating on the Alfonsín period, since there is greater continuity with respect to neoliberal economic policies the country pursued under the dictatorship and Menem. That is not to say that Alfonsín's economic policies shouldn't be criticized, but rather they were more heterodox economic policies.

## **V. Neoliberal Policies under Menem and the Impact of Globalization**

In 1991, the Menem administration implemented an economic plan known as the Plan Cavallo, named after the economics minister, Domingo Cavallo. This plan bore striking resemblance to that of the economic policies pursued by the dictatorship and Martínez de Hoz back in the 1970s. This is because they were both fundamentally neoliberal, as reflected by the three main elements being: trade liberalization, reform of the state, and financial deregulation.

### **Convertibility and Financial Reforms**

In March 1991, when Domingo Cavallo was the economics minister, the peso was pegged to the dollar at a rate of one-to-one, commonly referred to as *convertibilidad* or convertibility.<sup>8</sup> From the perspective of laissez-faire orthodoxy, this is inconsistent with a neoliberal approach but nevertheless accepted, if not applauded by the IMF and others, right up till 1998. This was seen as a shrewd and successful ploy, by encouraging Argentines to bring their US dollars 'out of the mattresses' and to trust the banks again. It turned out to be extremely effective in ending the hyperinflation of the late 80s and early 90s. There was finally a sense of stability which had great psychological appeal after the country had endured a period of hyperinflation, where the rate of inflation had reached as high as 4-digits (~3000%) during 1989-90.

The pegging of the peso to the dollar, also known as a currency board, was a clear advantage for foreign investors that did not have to worry about sudden devaluations causing major losses and there was an increased confidence in the Argentine bond market, as well as the economy as a whole. The down side of convertibility was that Argentine goods were more expensive on the world market and imports were cheaper for Argentines, and thus led to a worsening trade deficit. There was some respite in 1995-96

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<sup>8</sup> Initially it was 10,000 australes = 1 dollar, and after Argentina changed its currency it was 1 peso = 1 dollar.

as mentioned above, but the problem became more serious once Brazil devalued in January 1999, which they did in order to overcome a financial crisis themselves. We will go into more details of the impact of convertibility on imports and exports in the discussion on trade liberalization.

One of the three main neoliberal policies is that of financial deregulation which implied eliminating restrictions on foreign investment, but also on the outflow or repatriation of profits, royalties, etc. This also facilitated the flight of capital, be it foreign or domestic. One estimate of the total capital flight since 1980 is US\$ 115 billion.<sup>9</sup> Although the exact value is subject to debate, this is an example of how financial deregulation leads to insufficient control of capital movement for many countries such as Argentina. The resulting ‘freedom’ for capital exacerbates problems of financial stability in crises or in periods anticipating a crisis. Financial deregulation produces an environment, which is more prone to crisis when a certain degree of confidence by international investors is lost.

### **Reform of the State and Privatizations**

Despite providing a source of income for several years, the selling off of public enterprises was generally seen as a failure. This was strongly promoted by the IMF, TNCs and the government of Menem. It was during the military dictatorship of 1976, when public enterprises were deliberately undermined. They were disproportionately impacted by budget cuts. There had been a growing need for the renovation of physical capital that did not take place, ‘arguably’ because of the level of the State’s indebtedness. Changes in management occurred on a regular basis because of political shifts and thus a lack of continuity in terms of management and leadership and therefore their ability to serve the public declined and the quality of service worsened. Such an impact is independent of being a public or private enterprise. Instead of privatizing, the junta or the Menem government could have made their functioning a greater priority, and given them the infrastructure necessary to perform well, as with any private firm providing services. Being a public firm should not preclude this.

The extent to which privatizations were carried out in Argentina was greater than many countries with respect to numbers of firms and the total dollar value (over US\$23

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<sup>9</sup> See Basualdo, 2001, p.37.

billion). Unfortunately, the majority of these cases were poorly administered by the Menem administration, without a proper regulatory framework and ripe for corruption and sweetheart deals. The worst is that after a couple years of selling off all the state enterprises, there are no new enterprises left to offer and future revenue streams have been eliminated. Instead, all the revenue received for selling off these public goods went toward paying off a few years of interest on the foreign debt.

Privatizations of state enterprises had a rather significant impact on unemployment in Argentina, especially in the provinces. A total of over 100,000 workers were laid off in 1991-92.<sup>10</sup> This impact and that of the neoliberal policy, pushed incessantly by the IMF and Washington, the flexibilization of labor, had very serious and deleterious effects on the working classes of Argentina. Such an increase in unemployment, and reduction in salaries had the greatest impact in the poorer provinces. It should come as no surprise that after the wave of privatizations, these provinces were having greater problems with their budgets. During a period of recession, and in the case of 2002, a depression, is NOT the time to generate a budget surplus, but rather the time that you expect to have a budget deficit and there should have been savings from other years when the economy was growing to balance things out in a depression period. Unfortunately, such economic logic is not advocated by the IMF, but rather the opposite. This will be further elaborated on in Section VI.

### **Trade Liberalization**

Since the military junta came to power in 1976, there has been a drive for trade liberalization, through the reduction of tariffs, and elimination of non-tariff barriers. These tendencies were extended and deepened as of 1990 under the Menem administration. The tariff structure established as of 1991 was 22% for consumer goods, 15% for inputs and 5% for capital or intermediate goods not produced in Argentina. The goals were initially 20, 10 and 0, respectively in 1991, as advocated by the IMF and GATT. The objective of reducing the maximum tariff in a period of 4 years to 20% and eliminating non-tariff barriers, such as quotas, licenses and import restrictions, was practically achieved around the beginning of 1991. Other trade barriers were completely

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<sup>10</sup> See Azpiazu, 2002.

removed with the exception of restrictions on auto imports, which not coincidentally was by far the most dynamic sector during the 1990s.

The result of these trade policies meant more problems for local industry, which now had to compete with much cheaper imports, and no longer with the protection of tariffs, etc. The lowering of tariffs and elimination of trade regulations makes the Argentine economy more vulnerable to the cold shock of global competition. Of course the policy of a currency board implied that exports were more expensive on world markets and imports cheaper. More significant than the difficulties with respect to exports, is the notable increase in imports, given the freeing of restrictions and removal of tariff and non-tariff barriers. As mentioned earlier, for the period 1990-98 exports grew by 115% as imports increased by 320%. At this point we return to the issue of deindustrialization and the emphasis on agro-industry at the expense of manufacturing.

### **Deindustrialization Revisited**

As one looks back on the last twenty-five years it is rather significant that from the middle of the 1960s Argentina was experiencing a new phenomena- the growth of industrial manufacturing exports were approaching half of all exports around 1974. The impact of deindustrialization completely reversed this trend and the role of manufacturing continues to decline in Argentina to this day. For example, goods production declined from 52 % of GNP in 1989 to 32.3 % in 1998, and services grew from 48.8% in 1989 to 62.2% in 1998. Also, manufacturing went from 30.9% in 1989 down to 17.1% in 1998. This reflects a major shift, showing that the majority of industrial sectors had difficulty in exporting in part because of the currency peg but also due to trade liberalization combined with globalization.

The statistics just referred to above demonstrate that the trend toward emphasizing agro-industry and the lack of a national industrial policy to promote technological change within Argentina continued after the military left power and became even more so with the Menem administration. The latter, just as the military government, claimed that it was committed to trade liberalization through tariff reduction and the elimination of tariff barriers, in order to force Argentine industry to be able to compete internationally. This fairy tale formula rooted in the myth of 'free trade' unfortunately held sway during the 1990s in Argentina. The reality is that a few large

firms, such as Perez Companc and Bunge y Born are able to weather the storm of imports, but for the majority of Argentina's manufacturing firms this meant disaster. With convertibility this was only exacerbated for firms trying to export.

There has been a serious disarticulation and disintegration of industry structure, which increases the vulnerability of the Argentine economy to the fluctuations of world markets. This is due in part to the growing dependence on consumer and capital goods imports, but also due to the extent to which Argentina's exports are overwhelmingly agricultural products, which experience much oscillation. For example, Argentine agricultural exports benefited until 1996 with a gradual increase of prices in international markets, which was some compensation for the overvalued peso. However, this tendency began to reverse in 1997, as there was a decline in the prices of agricultural products on world markets, as the global economy was entering a recession. From that point on, sales of Argentine products began to stagnate in value terms although they continued to grow in physical terms.

As argued by Rapoport, the growing trade deficit was not caused by a decline in exports, which were actually growing, but the level of exports compared to a much greater flow of imports, and in particular, imports of consumer durables and capital goods.<sup>11</sup> The latter were often necessary for the expanding agro-industry, which need to employ technological innovations to maintain their competitiveness on the world market.

In recent years agricultural production has grown in general due to a series of transformations for various crops, resulting in increased yields and total area cultivated. In general, the crops that grew the most were destined toward exports and those that introduced technological innovations in production. It is worth noting that Argentina is only second to the US with respect to producing genetically modified crops. Seed oils and cereals were the most important crops in terms of value of production and their export share. At the end of the twentieth century seed oils constitute 20% of Argentina's exports.

Wheat, corn, sorghum, soybeans and sunflowers increased their yields and area cultivated significantly; which caused a reduction in the area cultivated for other crops. This expansion can be called the 'agriculturalization' of Argentina, since this is at the

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<sup>11</sup> See Rapoport, 2000.

expense of livestock farming. In contrast to the growth and expansion in agriculture, livestock production experienced a general stagnation, with lower growth and a reduction in the number of heads of cattle or other livestock. In the case of beef, there has been a decline in domestic consumption which exports have not been able to incorporate. Another concern for Argentina is the increasing concentration of land and an increasing percentage of production by foreign firms, usually TNCs, taking place in agriculture.

### **Worker's Salaries and Employment**

Another aspect of the Argentine crisis that deserves mention is the overall impact on workers of neoliberal policies and globalization. First, as discussed earlier, there were major layoffs as a result of the privatizations that took place. Secondly, the decline in manufacturing led to reduction in total manufacturing employment. Thirdly, the shift toward more efficient and technologically advanced techniques in agriculture also contributed to an increase in unemployment. As increased numbers of people competed for fewer jobs and the better-paid manufacturing jobs were being lost, and more informal sector jobs grew, the overall pressure meant a decline in salaries or real wages for the majority of the Argentine 'working' class.

For the decade of the 90s as a whole, unemployment grew from 6-8% to 25%, according to the government's definition, and 30% once underemployed workers are included. Although real wages dropped in half in the late 70s, during the 90s they dropped by 10% but were still not 70% of their level in 1976. It is the last couple years where wages have had a greater decline.

### **From Trade Deficit → Debt Crisis**

As the trade deficit continued to grow in the late 1990s there was an expected increase in the current account deficit, which reached over US\$14.5 billion in 1998. In order to accommodate this increase, Argentina's debt continued to grow, and most notably, the interest payments were spiraling out of control. The set of neoliberal policies, particularly trade liberalization and financial deregulation which Argentina was continually pushed to adopt by the IMF and Washington, not to mention 'comprador' politicians such as Menem and Cavallo, made Argentina more vulnerable to the cyclical patterns of world prices and capital movements. Therefore, the huge increase in debt was clearly related to the accumulated trade deficit, caused in part by the currency peg, but

just as much by the neoliberal policies Argentina was ‘encouraged’ to adopt. As we consider who is to blame for the crisis of Argentina, of course the corrupt politicians of Argentina, be it the military or during the recent decade, members of the Menem administration, deserve much of the blame. However, the most powerful institution involved in pushing Argentina to pursue neoliberal economic policies over the last twenty-five years is none other than the IMF.

## **VI. The IMF Model is not Working**

As Argentina’s foreign debt was spiraling out of control, shouldn’t the IMF have been saying no to further loans or suggesting some other policies so that they didn’t have to keep coming up with bailouts. Unfortunately the IMF, just like a good loan shark, is quite content to just keep collecting the interest even if none of the principal ever gets paid off. For example, as mentioned previously, over \$US 11 billion in interest payments were made in 1999 alone.

Up through 1998, the IMF was telling Argentina how well it was performing, how pegging the peso to the dollar was useful in maintaining fiscal balance and preventing inflation, a notorious enemy of the monetarists. In fact, Domingo Cavallo, the economics minister who implemented the Convertibility Plan was chosen by The Economist as Economist of the year during the mid-1990s.

Despite what rhetoric they espouse, one must examine just what are the IMF’s aims, and interests. On the one hand they operate as a bank, and are described as the international lender of last resort. In the case of Argentina, they did not even fulfill that function as it took a year to go by before they came through as the last resort. On the other hand they have the interests of TNCs to consider, and therefore push countries to pursue legislation, which favors foreign multinationals and also foreign bondholders and investors, even at the expense of local firms, not to mention workers or the unemployed. The interests of the IMF, World Bank and the newest kid on the block, the WTO, are NOT about improving the lives of people or reducing poverty in the third world or about advancing education systems or health care plans, or any serious attempt to improve the standards of living of the majority of the world’s population, despite all the propaganda to the contrary.

If the IMF is allegedly advocating policies for countries to improve their economies, once it is clear that a given set of policies are not working, there is a need to make changes or adjustments so as to prevent the same problems from recurring again and again. Since the IMF could push for different policies but chooses not to, then as a lender the IMF is making bad loans and clearly bears a significant responsibility in causing the economic crisis it is supposed to help prevent. Under the rules of capitalism shouldn't the IMF be taking a loss? Unfortunately they do not, rather they manage to get off scot-free and allow the pain and suffering to be imposed on the local population.

Argentina represents the newest report card on the IMF- and guess what they failed! In fact, if we look back on recent years the IMF has a poor track record – a string of financial crises but no losses. Why have they not been able to prevent this string of crises over the last few years: Mexico had its worst economic crisis in 94-5, then there was the Southeast Asia Financial Crisis of 1996-97, then Russia in 98, Brazil in 99, Ecuador in 2000, and now Argentina in 2001- the largest debt default in world history.

The outbreak of these financially rooted crises seems to reflect a trend. A trend the IMF is concerned about. If they have to keep coming up with money for bailouts and they are having problems raising as much funds as they would like, they do not want these crises to continue. Ironically, these crises are an outcome of both the neoliberal policies the IMF and other institutions are advocating and the extent to which globalization has been a success for the TNCs.

However, there may be a limit to this game, as there may be a limit to the IMF's funds. The possibility has been suggested by some whereby countries should have a bankruptcy or Chapter 11 option, so that the IMF can avoid future embarrassments and not get stuck being the lender or bailout of last resort! Even Anne Krueger of the IMF has discussed this option. At the same time, countries of the 'Global South' with serious debt problems, should not hold their breath expecting such a change to be implemented.

In spite of the failure of the IMF model, both economically and politically, there tends to be more rhetoric than analysis by mainstream economists and an unwillingness to call the IMF to task. Hopefully this may be changing, as divisions within the major international institutions are coming to the surface after the Southeast Asia crisis. The

most prominent example being Joseph Stiglitz, who was the former vice-president of the World Bank.

## **VII. Conclusions**

The economic and social crisis that Argentina has been experiencing clearly has a number of causes. As I tried to argue, a significant historical process that began under the dictatorship of the late 1970s is that of deindustrialization, and more recently ‘agriculturalization’ of the Argentine economy. This has come about from a range of mainly neoliberal policies strongly pursued by the military government and the Menem administration. It is clear that Argentina has become much more vulnerable to the processes of globalization and the oscillations of the world market, having eliminated many of its controls for trade, finance, etc. Undoubtedly, the pegging of the peso to the dollar became a problem by the mid to late 1990s. The need for a currency correction was building up and as years went by took on a political aspect. Menem did not wish to unlink the dollar from the peso because the fear of devaluation would have produced a crisis, while he was still in power, so he concluded it was best left for the next administration, and the rest is history.

The case of Argentina is particularly illustrative, since it is not a country that never had success and which the mainstream can say they are just backward. They were more developed and have gone backward, thanks to the IMF, and the military and civilian governments that have pursued industrial policy on the basis of lining their pockets and accomodating a financial elite with strong ties to the US, IMF and TNCs that have been the true beneficiaries of these policies.

Unfortunately, the Argentine economy is still in the process of coming out of a depression and the political instability exacerbates the prospects of a quick recovery. A year ago there was a hope for change in the air, between the street protests of the *cacerolazos*, the organized unemployed – the *piqueteros*, and the birth of popular assemblies seeking to redefine politics in a new way. Even though the *piqueteros* are still asserting themselves, as in a major protest in Buenos Aires in February of this year, the assemblies have been reduced overall and many have experienced a decline of participation due to attempts to dominate them by certain political groups. Overall, there

is a general dissatisfaction with all almost all established political parties, as reflected in the popular slogan: “Get Rid of them all!” (Que se Vayan Todos!) whether it be the Peronists or the Radicales and yet everyone is expecting and fearing that Carlos Menem will return to power. This is particularly ironic and sad given the fact, that his policies were instrumental in leading to the crisis of 2001. Whatever the outcome of the presidential election in coming months, may the new movements in Argentina continue to be heard so that another type of politics can blossom in the future in Argentina.

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