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From authoritarian dirty war to neoliberal, 'democratic' class war neoliberalism as class struggle in Argentina

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Jon Shefner, Major Professor

We have read this thesis and recommend its acceptance:

Accepted for the Council:

Carolyn R. Hodges

Vice Provost and Dean of the Graduate School

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Major Professor

We have read this [dissertation or thesis]
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Vice Provost and Dean of the Graduate School

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**From Authoritarian Dirty War to Neoliberal, 'Democratic' Class War:
Neoliberalism as Class Struggle in Argentina**

A Thesis Presented for
the Master of Arts
Degree
The University of Tennessee, Knoxville

Aaron Thomas Rowland
December 2008

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For Gryphon, whose entire life has coexisted with this project and my graduate school experience.

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Abstract

This paper is a critical analysis of the theoretical assertions made, made by David Harvey and others, that neoliberalism is the ideological foundation for a one-sided, class-based struggle intended to restore or reconstruct the power of economic elites. Tracing neoliberalism back to its roots in the Austrian School of economics, I analyze the historical development of neoliberal theory and its critics. I show that it provides theoretical justification for elite class struggle. This theoretical argument is then grounded in a case study of Argentina's period of neoliberal reforms. In the case of Argentina, I show that this process was one that can be classified as class-based social change. I examine how neoliberal reforms were instituted; including how they were implemented at various levels of society, how they were received, and whether they benefited elite groups at the expense of the rest of society. The intent is to create a coherent narrative of the transition to neoliberalization and then, to the period after 2001, when neoliberal reforms were largely stopped. The reforms that I study are 1) privatization of industry and services controlled by the government, 2) fiscal austerity in the form of decreased government employment and spending on social services, 3) financial and labor deregulation, and 4) trade liberalization in the form of decreased tariffs on imports. The way in which neoliberal reforms were implemented, as well as the effects they had (and continue to have) on society affect the quality (i.e. depth and breadth) of democracy in Argentina.

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Chapter 1

Introduction

In his influential book, *The Third Wave*, Huntington (1991) describes the period 1974-1991 as the third wave of democratization to wash over the world. Mainwaring and Pérez-Liñán (2005) build off of Huntington's work, citing several studies that support Huntington's assertion that this third wave was one of transition to and consolidation of democracy in Latin America as well. Certainly, the region has become more politically democratic, at least in formal democratic, procedural terms, over the last twenty years. Argentina in particular has managed to move from a propensity for military intervention in domestic politics to a democracy that has been able to withstand significant economic crises without military intervention (Levitsky 2005).

Although more countries have been transitioning to greater formal political equality and democracy, consolidation of economic power by multi-national corporations (and the financial and managerial elites associated with them) has also been occurring. The expansion and consolidation of capitalism during the twentieth century has produced greater and greater levels of inequality in the past thirty years. This inequality is growing both within states and between states (Callinicos 2000; Stiglitz 2002; Harvey 2003; Stiglitz 2004). According to Robinson (2006), this period of democratization – accompanied by rapidly increasing inequality – corresponds with the theoretical hegemony of neoliberalism as the dominant discourse and policy on economic development. In places like the United States and the United Kingdom, neoliberalization has been associated with increased domestic income polarization (Callinicos 2000; Harvey 2005; Harvey 2007). There is a growing consensus among scholars of development that neoliberalism is, at best, mixed in its developmental record (Huber and Solt 2004; Kay and Gwynne 2000; Pastor 1987; Stiglitz 2002, 2006) and at worst, a developmental failure (Önis 1995; Portes 1997; Grugel and Riggirozzi 2007; Harvey 2007). Many studies on Latin America have linked neoliberalism (a process of financial deregulation, privatization, fiscal austerity, and free trade reforms) with growing

inequality within those countries where it was implemented (Pastor 1987; Portes 1997; Portes and Hoffman 2003; Babb 2005; Grugel and Riggirozzi 2007).

There are several scholars, among them Harvey (2005), who have characterized neoliberalism as the ideological foundation for a one-sided, class-based struggle intended to restore or reconstruct the power of economic elites (see also William I. Robinson 2006; Veltmeyer, Petras, and Vieux 1997; Veltmeyer 2007). Although these studies have focused on regional trends, sometimes using illustrative examples from individual countries, there is a dearth of actual case studies that focus on neoliberalization as a class-based power struggle in specific countries. Argentina has experienced significant neoliberal reforms since the third wave of democratization (Pozzi 2000; Petras 2002; Auyero 2003; Treisman 2003; Skidmore and Smith 2005; Villalón 2007). This study evaluates the claims made by Harvey and others about neoliberalism's elite and non-elite consequences by focusing on Argentina's political economy as it has evolved since the 'third wave', particularly its experience with neoliberalization.

Specifically, I examine how neoliberal reforms were instituted, how they were received, and whether they benefited elite groups at the expense of the rest of society. The way in which neoliberal reforms were implemented, as well as the effects they had (and continue to have) on society affect the quality (i.e. depth and breadth) of democracy in Argentina. If neoliberal reforms are manifestations of elite class struggle (as exemplified by unequal outcomes in benefits and undemocratic implementation), then this is a clear threat to democracy in Argentina.

Many researchers treat neoliberal reforms as well-intentioned, even if ill-advised, responses to objective economic crises. This is the case, even when they are criticizing neoliberal reforms for causing decreases in health/welfare indicators or increasing inequality. Even when obviously undemocratic manipulations are used to implement reforms (Levitsky 2005; Roberts 1996; Treisman 2003), or unequal class-specific results are shown to have occurred after neoliberal reforms (Kurtz 2004), most of these researchers blame these conditions on individual actors or specific anomalous circumstances. Harvey (2005), Robinson (2006), Veltmeyer et al. (1997), and Veltmeyer (2007) have argued that the aggregated results of such individual actions and specific

circumstances reveal an emergent pattern of class-based exploitation. This study takes the system-level theories of Harvey, Robinson, and Veltmeyer et al. back to the nation-state level, in which the individual actors are acting and the specific circumstances are occurring, to test whether their theories are supported in the case of Argentina. In other words, were Argentina's neoliberal reforms constitutive of elite class struggle?

Neoliberalism has often been referred to as the *Washington Consensus*. John Williamson (1990) coined the term "Washington Consensus" by referring to the particular macro-economic policy prescriptions of US government foreign policy, the technocratic leadership of the international financial institutions (IFIs) headquartered in Washington D.C., conservative American think tanks, and the United States Federal Reserve Board. This consensus was based around a series of policy instruments, which are commonly seen as the main tenets of neoliberal policy prescriptions. The most common results of these prescriptions are privatization, deregulation (in regards to financial and labor markets), trade liberalization, fiscal austerity, and tax reform. Such reforms are often referred to in the literature as "orthodox" while alternative reforms are referred to as "heterodox" (see Huber and Solt 2004; Brohman 1996; Harris and Seid 2000; Stiglitz 2002, 2005, Önis 1995).

In this study, I will be looking at four specific neoliberal reforms. The first of these is privatization of industry and services controlled by the government. The second is fiscal austerity in the form of decreased government spending (especially on social services). The third is financial and labor deregulation that would allow for more foreign direct investment and less government control over and oversight of the financial sector, and decreased protections and regulation of organized labor, respectively. The last reform I am interested in is trade liberalization in the form of decreased tariffs on imports.

Although democracy is not the main concern of this paper, it occupies a special place as a sub-text throughout the study. If there is elite class struggle taking place, there is at least the potential for decreased democratic participation. Neoliberal reforms are often considered to be compatible with, or even reinforcing of, democracy in Latin America (Hagopian 2005; Kurtz 2004; Przeworski and Limongi 1997). However, this compatibility is based on a minimalist definition of democracy (as I will discuss in

Chapter Two). Robinson (2007) refers to this definition of low-intensity democracy (as it plays out in reality) as “polyarchy” which he describes as the domination of society by a small class of economic elites who compete for the direct control of government without ever really allowing any possibility of qualitative social change. This paper follows an inclusive, popular, participatory definition of democracy. Like Robinson and Harvey, I characterize neoliberal reforms as attempts to restrict the participatory nature of democracy in order to insulate economic decision-making from democratic pressures.

Simultaneously but conversely, the concept of democracy is important as a sub-text to this study because Robinson links his concept of polyarchy (i.e. low-intensity democracy) to neoliberal reforms which, he argues, provide an economic reinforcement for the elite’s political power by undermining the role of democratic influence over the economy. For Robinson, the ‘elite’ is a new class composed of the multinational corporate and financial managers, the technocratic leadership of the IFIs, and high-level state bureaucrats from both developing and developed countries. Harvey’s (2005) ‘elite’ is a financial and managerial elite, whose interests are not simply in manufacturing and trade, but also very much in financial speculation.

Although this research will not be able to causally link neoliberal reforms to specific changes in social structure, indicators of human health/welfare, or measurements of economic performance, I am assuming that such changes are, at least partially, caused by these reforms. Many previous studies have either demonstrated this link (Babb 2005; Harris 2000; Harris and Seid 2000; Harvey 2007; Kurtz 2004; Pastor 1987; Portes 1997; Portes and Hoffman 2003; Shefner 2000; Shefner 2005; Shefner, Pasdirtz, and Blad 2006; Veltmeyer 2007; Weeks 2000) or assumed it (Harvey 2005; Önis 2005; Pozzi 2000; Remmer 2007; Robinson 2006; Schoolman 1987; Sites 2000; Veltmeyer, Petras, and Vieux 1997). I am also assuming that neoliberal reforms are optional, in the sense that they are not unavoidable. Although many pro-neoliberals have made these reforms seem like the obvious solution to developmental problems brought on by debt and other macro-economic conditions (Friedman 2002; Hayek 1992; Sachs 2000; Sachs 1989; Williamson 1990), others point out the availability of alternative successful reforms (Barkin 2000; Brohman 1996; Kay and Gwynne 2000; Önis 1995).

Neoliberalism is not a monolithic social phenomenon. Its implementation (as a series of political economic reforms) varies between and within countries, as well as over time. Although I often refer to this theory as a singular concept, it is best thought of as “neoliberalisms” (Cerny, Menz, and Soederberg 2006). Furthermore, as Knight (1998) and Roberts (1996) point out, neoliberalism is compatible with various other sociopolitical systems such as: populism, clientelism, authoritarianism, and democracy (some of which are not mutually exclusive). Thus neoliberalism cannot really be separated out of the socio-political context and studied as if it were occurring in a vacuum. This study attempts to analyze neoliberalism within the context of Argentina.

This research is carried out as an embedded case-study of one single case of neoliberal reforms. As Yin (2003) describes this method, it focuses on several different units of analysis within one case. The case in this study is Argentina’s reforms, but to understand their effects, I also examine parties (and other formal organizations), networks (and other informal institutions), policies, social movements, and municipalities, all of which are embedded subunits of the case. In choosing to conduct this research as a single case study, I am following two of Yin’s rationales for using this method of research. First, this case is a critical one (Yin 2003: 40) in the sense that it is testing Harvey’s, Robinson’s and Veltmeyer et al’s theories that neoliberalism is elite-class struggle.

Second, Argentina represents a unique case (Yin 2003: 40-41), as some aspects of Argentina’s neoliberal experience are historically and culturally specific to this case. For example, the Peronist party had, prior to neoliberal reforms, a well established and extensive clientelist distribution network in place that allowed for a significant preemptive mechanism for controlling non-elite protest. Also, Argentina had the most organized (and largest) formal-sector working class in Latin America. Lastly, Argentina was historically the wealthiest and most developed nation-state in Latin America, with the largest and most established middle class in the region. However, I believe that a thorough examination of the specificities of this case yields some generalizable themes. The theories being tested in this research are not about any one specific country; rather they are about neoliberalism as a theory and neoliberal reform as a process. As such,

analyzing Argentina as a test case for these theories can either provide support for or raise questions about the validity of the theories more widely.

This study is designed to be “an in-depth description of a process” (Miller and Salkind 2002: 162), specifically neoliberalization. Miller and Salkind (2002) refer to this type of case study as an “instrumental case” in that its purpose is to illustrate the peculiar way in which Argentine neoliberalism played-out historically. I seek to provide an in-depth understanding of the case through the collection of several forms of data and through remaining sensitive to context. Finally, I attempt to analyze and interpret meaning from the different sources of information at which I am looking.

The research for this study examines the literature on Argentina that covers such topics as political economy, development, social movements, and recent history. The sources of this literature come from journal articles, monographs, and the English-language periodical press. Not including Spanish-language periodicals severely limits my ability to access Argentine arguments both for and against neoliberal reforms. Although these are some important limitations inherent in restricting the analysis to publications in English, this should not invalidate the research, as there is a very substantial body of scholarly analysis of neoliberalism, democratization, and Latin American studies in English. Also, there is no shortage of coverage of Argentine news in English.

Although this study is an attempt to test the theory that neoliberal reforms are a form of unidirectional class struggle, it is impossible to measure the *intent* of political and economic reformers based on a reinterpretation of secondary data and analyses that are themselves *ex post facto*. The best that this research can hope to do is to present and critically analyze the events after they happened, with an eye towards what pre-neoliberal reform society looked like, the manner in which reforms were made – including reactions to these reforms by various elite and non-elite groups, and what the post-neoliberal reform society looked like (and looks like now). Such a critical analysis will provide a clearer picture of whether or not neoliberalism is class struggle. The intent is to create a coherent narrative of the transition to neoliberalization and then, to the period after 2001, when neoliberal reforms were largely stopped (I avoid saying reversed).

This research follows an “historical structural perspective” (Cardoso and Faletto 1979) which perceives social structure as a product of social behavior, subject to historical change by social movements, conflict and class struggles. Cardoso and Faletto pointed out thirty years ago that in developing societies, structures “are founded on social asymmetries and on exploitative types of social organization” (1979: x). Thus, the analysis of mechanisms and processes of domination that maintain social structures are of central importance. Neoliberalization is such a process. This study argues that through its attacks on the welfare role of the state and its simultaneous justifications for strengthening the state’s ability to foster economic competition, enforce property rights, and insulate government from the democratic process, neoliberalism turns the state from a source of social inclusion to one of social domination.

In explaining this process, I agree with Cardoso’s and Faletto’s observation that:

economic relations and the social structures on which they are based have to be studied as a process through which different classes try to sustain, preserve, or change interests rooted in social structures. Development results therefore from the interaction and struggles of social groups and classes that have specific ways of relating to each other”
(1979: 14)

My focus on elites and neoliberalization is thus an analysis of the way that a particular segment of a social class sought to change social structures in such a way as to alter the balance of power in society. In balancing structure and social change in this study, it is important to pay attention to historic specificities (thus the decision to use a case study). As Cardoso and Faletto say, “Our approach must examine not only structural conditions and the ideologies of the social movements, but also their relations and their reciprocal determination” (1979: 13).

Although I analyze the policies and actions of several individuals in this study, I do so from the belief that they are neither wholly free in their decisions and actions, nor bound by structural imperatives that transform them into marionettes. In his later works, Marx referred to individual capitalists as “capital personified” (1990: 254, 423). He theorized the elite (capitalists) as “just as enslaved by the relationship of capitalism as is [their] opposite pole, the worker, albeit in a quite different manner” (1990: 990). He said

that “under free competition, the immanent laws of capitalist production confront the individual capitalist as a coercive force external to him” (1990: 381). I accept Marx’s deterministic view of the inherent logic guiding the actions of economic elites but when writing about political elites, there is a different logic at work. Carlos Menem is a good example of this. His structural imperatives were to maintain votes and to attempt to get the economy under control. Much of the discussion about him below centers on this dual tension.

Much of this analysis focuses on the power relationships between the elite, the working-class and poor people, and the state. In this focus, I necessarily spend time investigating what Lukes (2004) called the first dimension (or pluralist dimension) of power. Some sections however, attempt to deal explicitly with the second dimension of power where “currently observable grievances (overt or covert) [are kept] from becoming issues within the political process” (2004: 39)¹. I deal implicitly throughout the study with Lukes’s third dimension of power which revolves around the Gramscian notion of ideological hegemony and the shaping of the non-elites’ world-view – in this case, 1) the argument that ‘there is no alternative’ to neoliberalization or 2) the attempt to re-orient not only the state, but also Argentine socio-economic values in order to support neoliberalism.

Most of my research is text-based analysis/reinterpretation; however, I have included some descriptive statistics as well. The second chapter is an analysis of the particular historical and ideological development of neoliberalism as a theory and how this differs from alternative conceptions of political economy in the context of development. This chapter also details the role that government plays in the economy as well as in wider society according to neoliberal theory. In the last two sections of Chapter Two, I lay out the argument that neoliberalism is class struggle and that the implementation of neoliberal reforms is, at least in some cases, supported and facilitated by networks of clientelist distribution.

¹ See the section below on the divide-and-conquer tactics Menem used on the labor movement, as well as the sections on clientelism, and Menem’s reelection.

In Chapter Three, I take the analysis of neoliberal theory that I developed in the second chapter and apply it to the case of Argentina in the 1990s. In this chapter, I examine the nature of the specific reforms undertaken in Argentina, how these reforms came to be implemented in the first place, their effects on Argentine society, and the reactions of elites and non-elites to these reforms. In the final chapter, I conclude my analysis by showing that the case of Argentina reinforces the structural argument made by Harvey and others about the implications (both class-based and democratic) of neoliberal reforms on society.

Chapter 2

Neoliberalism

What Is Neoliberalism?

Neoliberalism is an extension of neoclassical economics that claims to be a return to some of the basic tenets of classical liberalism. David Harvey defines neoliberalism as, “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey 2005: 2). Nef and Robles identify five “streams of thought” that converge to form neoliberalism. The first of these is “neoclassical economics, rooted in Hayek’s interpretation of Adam Smith.” The second is “monetarism and its prescription of fiscal restraint, privileging anti-inflationary measures over employment” (Nef and Robles 2000: 33). The third is “political neoconservatism” that is a reaction to welfare liberalism and socialism. The fourth is “a revamped version of nineteenth century social darwinism [sic] à la Herbert Spencer, with Malthusian and deterministic connotations” (2000: 33). The fifth stream is “the quasi-mystical ‘objectivist’ individualism à la [sic] Ayn Rand” (2000: 33).

Neoliberalism is a recurrence of the belief, dating back to the followers of Adam Smith (and supported by Hayek), which holds that if the market economy is not interfered with, its invisible hand will coordinate the activities of all the individuals involved in market transactions to the benefit of all. Following this logic, the market is *the* defining characteristic of society². If the market is strictly adhered to, neoliberalism

² Karl Polanyi (2001) points out that any form of economy is historically and culturally embedded within a *social* framework and that, historically-speaking, the organization of society around market principles is peculiar to the last two centuries and *not* a natural process, but rather a social one. Polanyi’s argument is that the market society is based on a commodity fiction in which nature, people, and money are turned into land, labor and capital respectively. These fictitious commodities are then organized into markets within which social mediation takes place. In this way, the commodity fiction allows for a ‘market society’ in which the market defines social interaction. For Polanyi, this is the nature of modern capitalism *but not necessarily the nature of society*. Much of Polanyi’s work (especially *The Great Transformation*), according to Fred Block, was a response to the writings of the Austrian School, von Mises and von Hayek in particular (see Block 2001).

asserts that society will automatically move towards perfect competition and perfectly equal access to information. However, this is contrary to Adam Smith's warning that an unregulated market tends toward monopolistic consolidation and decreased competition. In fact, this is a common misunderstanding of Smith. Those who praise Adam Smith today forget that he actually called for market intervention by government in order to restrain the elite power of capitalists who all too often sought to use that power towards monopolistic ends. In discussing the relationship between the interests of three specific classes: rentiers, wage-workers, and manufacturers/merchants (who seek profit: i.e. capitalists), on the one hand, and society's general interest on the other, Smith said that in contrast to the first two classes (rentiers and wage-workers), the capitalists (profit-seekers) were always aware of what was in their own best interest and that their interests were usually opposed to the general interests of society. Smith cautioned that:

The proposal of any new law or regulation of commerce which comes from this order [capitalists] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.

(Smith 1994 [1776]: 288)

Smith's warning has been heeded by some critics of neoliberalism. In the preface to his book *Making Globalization Work* (2006), Stiglitz refers to some of his own research on the economics of information, for which he won the Nobel Prize for economics:

whenever information is imperfect, in particular when there are information asymmetries – where some individuals know something that others do not (in other words, *always*) – the reason that the invisible hand seems invisible is that it is not there. Without appropriate government regulation and intervention, markets do not lead to economic efficiency.

(Stiglitz 2006: xiv, emphasis in original)

Such warnings fail to deter proponents of neoliberalism from extolling the virtues of the market as a societal panacea. As Nef and Robles point out, “Neo-liberalism has evolved into a new form of fundamentalism or ‘economic correctness,’ a sort of holistic economic determinism of the right, draped in ‘common sense’ and folksy clothes” (Nef and Robles 2000: 36).

For purposes of this study, I conceptualize neoliberalism as a political economic ideology that seeks to re-orient society along classical liberal, economically-centered values and behaviors with the intent of reasserting the classical liberal emphasis on individualism and the rational pursuit of profit (which is seen as the utilitarian maximization of pleasure). Neoliberalism and socialism can be seen as two opposite poles on the continuum of the state/economy relationship. If most visions of socialism see any space between the political public sphere and the economy, then they see them as heavily intertwined, with the economy subordinate to the public sphere³. Assuming that we are talking about a democratic socialist state, it would be based on a collective ownership of the means of production, a relatively egalitarian distribution of goods, and significant government control of the rest of the economy.

The opposite would be true of a pure neoliberal state (again, assuming a democratic one). Neoliberal theorists like John Williamson (1990) and Milton Friedman (2002) clearly argue that the state and the economy ought to be conceived as separate. Indeed, outside of a particular minimal role in enforcing contracts, preventing physical violence (which is intimately tied to property rights), and keeping labor atomized into individual (rather than collective) interests; the state has no role in the economy. This theoretical belief that the state should not interfere in the market leads to an ideological assault on the state in practice.

³ I am not addressing any one specific theory of socialism. I am also not addressing the fact that in *some* conceptions of socialism, the political public sphere may be highly restricted and repressive rather than open and democratic.

Historical Development of Neoliberalism

Neoliberalism originated in the Austrian School debate with socialism in the early part of the twentieth century. It began to gain definite form in the writings of Ludwig von Mises and Friedrich Alfred von Hayek. They claimed that it was impossible to centrally manage an economy due to the nature of humanity's complexity, and because even the most insignificant human action can have widely-rippling unintended consequences. After the world-wide Great Depression of the 1930s, the Austrian School stood in opposition to (and in the shadow of) the more popular Keynesian model of economics. Many of the Austrian economists were forced to immigrate to the United States to escape Nazi pressure after the *Anschluß* in 1938. There, especially in the University of Chicago School of economics, their ideas took root. The Austrian school, as exemplified by Mises and Hayek, stresses the self-corrective tendencies of the market, based on the nature of knowledge, which is gained through entrepreneurial discovery.

Professor Hayek developed his theory of knowledge in response to the popularity of socialism during the inter-war period. "As he became ever more deeply entangled in the debates over socialism, Hayek decided that a more integrative approach to the study of complex social phenomena was necessary" (Caldwell 1997: 1857). He believed that it would be impossible to plan economic activities for a society because of the tendency of unintentional side-effects from an individual's action. "The subject-matter of the social sciences cannot be classified into the categories of the natural sciences for the social sciences have to do not merely with the relation between things but with the relation between man and things and man and man" (Murray 1945: 150). Hayek believed that history cannot be used for prediction because it is event-specific. Attempting to question why events happen involves the perspective of the questioner and will merely be self-relative interpretation (Murray 1945: 150). Social science can only interpret reasons for action from the results of the action. Hayek's argument is that knowledge is dispersed and that people have access to incomplete information that they use to make judgments and assumptions about the future. It is on the basis of this partial knowledge that they

base their actions. On this belief, he concluded that the competitive market itself is the only efficient means of controlling economic action.

To these arguments Mises added the role of the entrepreneur in the competitive market as a force pushing the market towards greater equilibrium⁴. Israel Kirzner (1997) describes this process saying,

Entrepreneurial discovery is seen as gradually but systematically pushing back the boundaries of sheer ignorance, in this way increasing mutual awareness among market participants and thus, in turn, driving prices, output and input quantities and qualities, toward the values consistent with equilibrium (seen as the complete absence of sheer ignorance)⁵.

(Kirzner 1997: 62)

Mises stressed the motive of profit as the driving force behind market processes. While developing the theory of entrepreneurial discovery, Mises began formulating his argument on the harmony of interests. It was this argument that allowed him to logically defend his stance in favor of laissez-faire capitalism. His greatest failure in the development of these logical arguments is his injection of the “concept of a ‘natural’ or ‘just’ order into the analysis” (Oliver 1960: 285). Mises said that some people lose in a laissez-faire environment due to their own weaknesses (because laissez-faire, by his definition is the “natural order”). He believed that market processes would somehow become more equal or fair only through competition. “For the modern Austrian approach, the perception of competition as the dynamic driving force for discovery in the market process has become central” (Kirzner 1997: 69).

⁴ The Austrian school does not accept the idea of the perfectly competitive market in equilibrium. They seek mechanisms that will theoretically move the market towards a theoretical concept of perfect competition and equilibrium but accept the impossibility of attaining this ideal. For Hayek, “The practical problem is not whether a particular method would eventually lead to a hypothetical equilibrium, but which method will secure the more rapid and complete adjustment to the daily changing conditions in different places and different industries” (1940: 131-2).

⁵ In his Nobel Prize lecture, Stiglitz (2001) -who is probably best described as a Keynesian- contradicted this idea. Though he agrees with Hayek’s and Mises’s arguments that perfectly competitive markets and perfect information are impossible, he disagrees with their theorized remedies for this. He argues that in markets (and government) where information asymmetries exist, the profit-seeking (or power-seeking) incentive would push individuals to distort this asymmetry further, creating artificial scarcity, in order to maximize profit from rent.

The popularity of the Austrian model of economics began to expand rapidly after World War II, thanks to the efforts of the Mont Pèlerin Society. On April 1, 1947, at Mont Pèlerin, Switzerland, Hayek stood before a conference of intellectuals that he had called together and addressed them on the purpose of the conference⁶. The purpose was, in short, to agree to one understanding of the word liberalism, to agree to a set of benchmarks for spreading that understanding throughout the academic world, and to begin influencing both the academic debates and the political economic policies of the world's governments. He called this a "great intellectual task" (Hayek 1992: 237-8) and charged them each to carry the fight to their respective universities and countries. This was not simply an academic conference; it was the beginning of a political mission. During the address to this conference, Hayek stated:

There is another point connected with the membership of our meeting which I should briefly mention. We have among us a fair number of writers for the periodical press, *not in order that the meeting should be reported, but because they have the best opportunity to spread the ideas to which we are devoted*. But to reassure other members it may be useful to mention that unless and until you should decide otherwise, I think this should be regarded as a private meeting and all that is said here in the discussion as 'off the record'.

(1992: 242, emphasis mine)

In Hayek's defense, this was in the period shortly after the Second World War and the open use of propaganda had not yet earned itself the negative connotation that it later would. Here it is bluntly stated that the members of what would come to be known as the 'Mont Pèlerin Society' were willing to use the media as a tool of propaganda to push their ideas on the public mind.

⁶ Harvey insinuates that this group was supported by wealthy, business elites in the U.S. (and Europe) who "were ready to embrace anything from McCarthyism to neoliberal think-tanks to protect and enhance their power" (2005: 22). He also claims that the Institute of Economic Affairs (London) and the Heritage Foundation (Washington DC) are "offshoots" of the Mont Pèlerin Society. In his address to the first meeting at Mont Pèlerin, Hayek thanked Dr. Hunold and the William Volker Charities Trust for providing funding (the William Volker Charities Trust only provided travel funding for the American delegates); however this funding could not have been too extensive, as the meetings did not include stenographers or translators and Hayek asked the participants to take their own notes and converse, as much as possible, in English, which he expressed was the most commonly spoken language amongst them all (Hayek 1992). In Hayek's biography, Ebenstein (2001) lists the William Volker Charities Trust, the Liberal Exchange in England, and Hunold's business associates as early contributors to the society (Ebenstein 2001: 146). Thus, there is some support for Harvey's assertion that the society is (or at least was) supported solely by a few business interests.

Their ideas came to be known as neoliberalism. After this meeting the views of the Austrian School were taken up around the world. The members of the Mont Pèlerin Society would strive for the next thirty years to embed themselves in the economics and political science departments of the world's universities. They worked and published relentlessly with the financial backing of corporations and other business interests.

In the 1970s, Keynesianism began to lose sway. Mainstream economists began to question the basic tenet of full-employment's upward spiral of economic growth and thus the role of the state in the economy. The wealthy elites also became dissatisfied with the imposed limits on their economic surpluses that high tax rates represented. This period is characterized by the breakdown of the capital-labor accord that Keynesianism had established in the post WWII era. By the late 1970s, the neoliberals were in enough positions that when their window opened, they were able to steer society towards a global, liberal economic system. The popularity of neoliberalism was cemented in the 1980s with the ascendancy of Ronald Reagan in the US and Margaret Thatcher in the UK.

Harvey claims that neoliberal theory grew in influence in the academy especially after Hayek and Friedman both won Nobel prizes for economics in the 1970s (see also Önis 1995, who refers to it as the dominant paradigm in development theory). This is not just important for American domestic economic policy, as many of the future economists of other countries are trained in American universities. For example, General Pinochet's economic advisors were famously known as the 'Chicago Boys'. Neoliberalism has gained dominance throughout the world for these and other reasons. Neoliberal policies have gained strong beachheads in nearly all of the developing countries throughout the world due to the IMF, the World Bank, and other economic NGOs' decisions to support only countries that adopted neoliberal policies. It is the neoliberal development model that provides the strongest ideological justification for economic globalization (Babb 2001; Centeno 1997).

For Cerny, Menz, and Soederberg (2006), neoliberalism after the 1990s has become *neoliberalisms* or "varieties of neoliberalism." After meeting poor results in post-communist Eastern Europe and Latin America, the proponents of neoliberalism

[especially the international financial institutions (IFIs) that had been pushing it] began to alter the message⁷. To make it more palatable, Cerny et al. contend, neoliberals included some broader environmental and social policy concerns. Cerny et al. provide a list of “socially significant policy innovations” that they link to these new neoliberalisms (2006:20). They go so far as to say that “we may be witnessing the emergence of a new, multi-dimensional *social neoliberalism* that a few years ago would have seemed like a contradiction in terms” (2006: 21, emphasis in original). They argue that there is no going back to statist forms of capitalism. Thus, states like Argentina, Brazil, Chile, Mexico, and Peru, which experienced significant neoliberal restructuring within the last 25-30 years, are still neoliberal states, although slightly modified.

Veltmeyer argues that many theoretical proponents of globalization and capitalist development have backed off from supporting neoliberalism due to its poor track record and growing resentment toward it by the peoples it was supposed to benefit (at least according to the ideological rhetoric). He says:

In fact, it could be argued that the neo-liberal model is staked out in the front lines of the class war between capital and labour (and the contentious arena of politics and ideology) as a false target, one that *no one* is prepared to defend but that allows the guardians of the capitalist world order to reposition themselves – to find a more defensible and sustainable form of capitalist development.

(Veltmeyer 2007: 96, emphasis in original)

There is no guarantee that a country can break away from the neoliberal model of development; it is only one of several possible futures in Veltmeyer’s work. He seems to support the conclusion that although elites favor a capitalist development like

⁷ Harris and Seid argue that the IFIs turn the economies of most developing nations into ‘captive markets.’ These countries are integrated into an international system of capitalism in which they are dominated by the transnational corporations, which are protected by an umbrella of IFIs which “regulate international finance and trade” (2000: 6). The three most important of these IFIs are the International Monetary Fund (IMF), the World Bank (IBRD), and the World Trade Organization (WTO). Harris and Seid also mention the Group of Seven (G-7) but not as an actor in and of itself. Stiles says that the IMF is particularly important in this system of IFIs. It “is considered the lynchpin of the global financial system, serving as coordinator and bill collector for the private banks, as well as, though to a more limited extent, advocate for the debtor nations” (1987: 55). In this system, the role of government in the market is ironically challenged by what amounts to a global system of governance based on a system of institutions that mimic many of the functions of states, but with far less representation for their ‘citizens’.

neoliberalism, which reinforces their power, social movements have the potential to bring about qualitative social change in an alternative direction.

Neoliberalism and the Role of the State

Harvey's discussion of the role of the state in neoliberalism begins with a description of the neoliberal state *in theory*, then moves on to an investigation of how neoliberal reforms are carried out *in practice*. In theory, Harvey says, the neoliberal state should emphasize strong private property rights, the rule of law, free markets, and free trade (Harvey 2005: 64). The state is supposed to foster (or force) deregulation, privatization, and competition. "While personal and individual freedom in the marketplace is guaranteed, each individual is held responsible and accountable for his or her own actions and well-being. This principle extends to the realms of welfare, education, health care, and even pensions" (2005: 65)⁸. Harvey also points out that it is important for the neoliberal state to promote the mobility of capital.

Harvey is unequivocal about the view neoliberals take of democracy. He says that majority rule is a direct threat to the type of individual rights advocated in neoliberal theory. He says that neoliberal theorists are more comfortable with governance by experts and elites. He says, "A strong preference exists [among neoliberals] for government by executive order and judicial decision rather than democratic and parliamentary decision-making" (2005: 66). Harvey says this is designed to insulate key institutions from democratic pressures on the assumption that these institutions will operate better with technocratic, rather than democratic, decision-making. This preference seeks to create a limited state, responding to a different constituency; one with an aversion to welfare roles.

⁸ An extreme example of this liberal philosophy is Robert Nozick's (1974) *Anarchy, State, and Utopia*, in which he argues for a minimalist state that comes into being, out of a Lockean state of nature, through the invisible hand of Adam Smith, grounded in the Lockean conception of natural rights. He says, "Out of anarchy, pressed by spontaneous groupings, mutual-protection associations, division of labor, market pressures, economies of scale, and rational self-interest there arises something very much resembling a minimal state or group of geographically distinct minimal states" (Nozick 1974: 16-7). This minimalist or 'night watchman state' is only a police, military, and judiciary apparatus that protects the 'natural rights' of its citizens. He goes on to argue that anything other than a minimalist state is a violation of individual rights (as he has defined them *a priori*).

Robinson (2006) shows us what Harvey's neoliberal state looks like. Robinson begins by pointing out the shift in U.S. foreign policy from the 1960s and 1970s (when it gave tacit or even open support to military overthrows of elected 'Leftist' governments), to its 1980s promotion of democracy (in those same military dictatorships). He says this shift "coincides with the rise of the neoliberal economic project" (Robinson 2006: 97). In Robinson's analysis,

"Market democracy" may be an oxymoron for those who see the concentration of social and economic power brought about by capitalist "free" markets as fundamentally incompatible with the democratic exercise of political power. Yet the phrase cynically captures the ideological sales pitch that a new transnational elite has used to sell the project of global capitalism in recent decades.

(2006: 97)

Robinson refers to the types of democracies that have come into existence since the 'third wave' as "low-intensity democracy" which he argues is rightfully thought of as Dahl's concept of *polyarchy*. Robinson argues that Dahl's polyarchic democracy rests on a Schumpeterian elite-driven contest for power in which the average citizen is expected to limit his or her political interaction to occasionally voting on who will rule him or her. Robinson says this definition of democracy separates the political from the socioeconomic and restricts democracy to a very limited activity in the political sphere – i.e. voting⁹ (2006: 100).

⁹ In a previous study I argued that: "In the 1990s, there was a substantial push by political scientists to standardize the meaning of the term 'democracy' along minimalist lines" (Rowland 2008: 1). The process resulted in a defining-down of the concept to the least possible number of (quantifiable) characteristics that was still seen as constituting *democratic* government. This redefinition of 'democracy' along minimalist lines coincided with the rise of an anti-state rhetoric by neoliberal economic theorists. In addition:

Such a minimal definition of democracy is normative, though limited in its normative usefulness, but this is because it is designed to be versatile in its empirical uses, especially in the field of comparative politics. Such a definition can provide us with the necessary tools to track transitions to democracy from other systems of government, but has no ability to discuss the quality (i.e. directionality) of changes beyond the minimum definitional threshold. This is because minimalist definitions "deliberately focus on the smallest possible number of attributes that are still seen as producing a viable standard for democracy" (Collier and Levitsky 1997: 433).

True to their description of the intent of minimalist definitions, Collier and Levitsky's procedural minimum for democracy consists only of contested, legitimate elections with full suffrage and civil liberties (e.g. freedom of speech, assembly association). They offer an "expanded procedural minimum" that includes the caveat that

For Robinson, this form of government coincides with neoliberalization because the consensual form that polyarchy emulates is more effective and efficient as a form of popular will suppression than direct repression. In addition, neoliberalism provides the convenient ideological claim that powerlessness or failure is the fault of the individual because it is the result of the individual's choices or actions (or inherent weaknesses). He goes on to argue that a polyarchic state cannot reverse neoliberalization even when anti-neoliberal elites are elected to office due to structural constraints built into the neoliberal state form.

Proponents of neoliberal theory would hardly be able to relate to the claims made by Harvey and Robinson. If we look at the proposed policies only as reactions to

the elected government must have "effective power to govern" (1997: 434). Similarly, Linz & Stepan (1996) define democracy in four points: 1) the government must be elected 2) through free and popular elections, 3) the elected government has the authority to enact and enforce legislation, and 4) the elected government has political autonomy from external actors. Mainwaring, Brinks, & Pérez-Liñán also have four criteria: 1) the government must be elected through free and fair elections 2) with "something approximating universal adult suffrage for citizens," 3) protection of civil liberties, and 4) the elected government has "real governing power" (2001: 39-41). Przeworski & Limongi (1997) have only two requirements for a country to be classified as 'democratic' in their study: 1) the government is elected 2) through meaningful competition (more than one viable political party and an alternation of power every so often).

Robert Dahl (2005) is the most important author in this direction of thought and has six requisite institutions: 1) elected officials, 2) free, fair, and frequent elections, 3) freedom of expression, 4) alternative sources of information, 5) associational autonomy, and 6) inclusive citizenship. Schmitter and Karl (1991) adopt Dahl's criteria in their essay. Diamond, Hartlyn, Linz, & Lipset also adopt Dahl's criterion, which they summarize in three points 1) competition 2) political participation, 3) civil and political liberties (1999: ix). Tilly (2007) follows Dahl's definition but casts it in a slightly different light. Tilly refers to Dahl's approach as "process-oriented" rather than procedural. After summarizing Dahl's necessary institutions and procedures, he adds his own categories: breadth, equality (which in this case turns out to be purely political and purely formal), protection (he is referring to civil liberties), and mutually-binding consultation (2007: 14-15).

All of the above definitions are limited in that they accept Schumpeter's view of democracy which is based on a mass electorate, voting on an elite competition for power, in other words, the ruled are allowed to choose which elites rule them. This is what Dahl's (1971) definition of democracy, which he termed 'polyarchy,' is based on. In this conception of democracy, the majority of citizens only take part in periodic elections and are otherwise not a real presence in the societal-level decision-making process. These theories are normative, but they limit normativity to the idea that democracy is better than non-democracy. They are specifically designed to avoid conceptions of the type of society that sees liberty as positive or enabling liberty. They merely seek to maximize negative liberty.

(Rowland 2008: 1-3)

economic stimuli, and ignore the consequences of neoliberalization as it actually plays out, neoliberal logic is simply a reinterpretation of classical liberalism. The most widespread image of what neoliberal policy entails is known as the “Washington Consensus.” Williamson (1990) is given credit for coining this term which refers to the economic foreign policy preferences of “Washington,” by which he is referring to the executive branch, Congress, international financial institutions (including but not limited to: IMF, World Bank, International Development Bank), the Federal Reserve, and Washington-based think-tanks. This consensus centered around ten (state-centered) policy instruments and their proper applications. In short, they are: low or no budget deficits, a realignment of public expenditure priorities away from social services and societal subsidies, tax reform, allowing the market to determine interest rates and exchange rates, a liberal trade policy (approaching complete free trade), encouragement of foreign direct investment (FDI), privatization of state-owned or state-controlled industries and services, financial deregulation, and strict enforcement of property rights (including intellectual property rights) (Williamson 1990). In commenting on Williamson’s article, Feinberg says, “In the region itself [Latin America] the old structuralists have sobered, as have their pale liberal reflections in Washington. There is less faith in the state and more respect for the market” (Feinberg 1990: 21). Ironically, all ten policy recommendations are centered on state policy. Several of them – the encouragement of FDI, tax reform, and enforcement of property rights – were expansions, rather than contractions, of state intervention in the market.

Milton Friedman was a consistent supporter of the market, and one of the founders of neoliberalism’s attack on the state. In his book *Capitalism and Freedom* (2002), Friedman outlines the proper role of government in society. This role was essentially restricted to maintaining law and order, defending property rights, enforcing contracts, promoting competition, and supplementing “private charity and the private family in protecting the *irresponsible*, whether madman or child”¹⁰ (2002: 34, emphasis

¹⁰ One of the most consistent ideas in liberal/neoliberal doctrine is that the individual is solely responsible for his or her position in society. This is due to the extreme focus on individuality in these doctrines. There is an assumption in these theories that achievement/advancement is due to merit rather than ascriptive characteristics and that competition is somehow fair. To acknowledge otherwise would be to open up the

mine). He follows this prescription for government with a list of things government should *not* do. This list includes: subsidies (to consumers or industries), regulation of industries (including minimum wages, price controls, transportation regulation, mass-communications regulation), social security and retirement programs, public housing, and national parks (2002: 35-36). He adds, “This list is far from comprehensive” (2002: 36). Although Friedman saw himself as a classical liberal, I include him as an example of the classical liberal influences on the role of the state in neoliberal theory.

This view of the role of the state is carried over into the development literature as an assumption that austerity is better for the long-term health of states than are heterodox economic policies. In an essay arguing for the adoption of the Brady Plan by the U.S. Congress, Sachs (1989) says that IMF and World Bank policies were being followed less often by debtor countries because they were emphasizing austerity too much. He argues that voluntary debt reduction (by wealthier countries) would allow the space needed for debtor countries to both pay down debt and to enact austerity measures in a way that makes it look more voluntary (which would take away the fuel for populist opposition to austerity measures). He adds that:

The IMF properly stresses the need for fiscal discipline, which is the *sine qua non* of overall macroeconomic stability. The World Bank properly stresses the need for an outward-oriented trade regime, the importance of which is most vividly illustrated by the success of the exporters in East Asia, compared with the inward-looking regimes in Latin America.

(Sachs 1989: 103)

This quote illustrates two main assumptions of this line of argument. The first is that government austerity is essential for long-term developmental health. The second is that the East Asian exporters (whom he does not name, but I assume he is referring to South Korea, Singapore, Hong Kong, Malaysia, and Taiwan) were inwardly austere as well as export-oriented. These countries are often referenced as examples of proper neoliberal development.

theory to arguments for some type of redistribution (via the welfare-state), at least in order to counteract accumulated social/cultural capital – which skews competition in such a way that individuals are born into the competition with ascriptive rather than merit-based starting positions.

Sachs himself later referenced South Korea, Hong Kong, Singapore, and Malaysia as good examples of countries that eschewed “state-led development” (2000: 6). In fact, the Asian newly industrializing countries (NICs) are often touted as exemplars of the success of neoliberal doctrine. They are frequently compared to the Latin American countries whom neoliberals criticize for following dirigiste policies of government intervention. This stance is disputed by Kay and Gwynne (2000) who characterize the Asian NICs as having “a national developmentalist state with a forceful industrial policy (imposed after sweeping land reform) in the pursuit of international competitiveness and growth” (2000: 52)¹¹. Sachs’s image of NIC development is also disputed by John Brohman (1996) who says the “strategies followed by the Asian NICs diverged substantially from the neoliberal ideal of laissez-faire” (1996: 111). He holds that the internal cultural, historical, and geographical differences between the Asian NICs and Latin America are a more important factor in understanding the different developmental outcomes. Kay and Gwynne (2000) and Brohman (1996) are joined in their dissent by Ziya Önis (1995) who compares the Asian NICs, small European countries, and Italy- all of which are successful examples of industrialization with significant government intervention in markets. She says,

In none of these cases has the state been neutral to the process of industrial development. In fact, all three cases are characterized by active state intervention of a specific kind designed to achieve an optimum mix of competition and cooperation... In all three cases, ideological input was crucial to the process of building up the degree of social stability and consensus required for a rapid and uninterrupted industrialization drive... it is the high degree of cooperation built into their domestic structures that enables these countries to take advantage of the opportunities provided by the world market

(1995: 112-114)

In fact, Önis finds that these countries used “selective import controls, subsidized loans, and tax allowances” to build up their export industries (1995: 104).

¹¹ See also: Amsden (1992), for a closer look at the South Korean developmental model.

Regardless of the amount of interference the state is supposed to play in the domestic economy, Cerny, Menz, and Soederberg argue that due to increased globalization, “the state is becoming a ‘competition state’” in the sense that it must ensure a climate of competitiveness in attracting foreign capital (2006: 4). For them, this is the result of increased competition for industry in a global marketplace that no longer allows national governments to exercise the level of domestic economic control that they once could. This competition state is a state that has adopted an embedded neoliberalism which has four dimensions. These four dimensions of neoliberalization are: (1) reduced barriers to flows of capital and trade, (2) supply-side inflation management, (3) an emphasis on regulation and indirect control rather than state interventions, and (4) ‘contracting-out’ services and seeking private funding for public expenses (i.e. schools, hospitals, prisons, etc...). They say that the combination of these dimensions vary considerably in their particular mix across political and cultural space according to a country’s existing institutions and norms, existing interest groups and their linkages, and the degree of interpenetration with global sectors (2006: 14-15). Cerny et al thus argue that all states are moving toward neoliberalism though the particular mix of neoliberal reforms is culturally specific.

For developing countries, government interference in the economy is more constrained by this ‘competition state’ scenario than it is for developed countries. This global economic competition for attracting capital from abroad is often one sided for these developing countries. As Stiglitz (2002) points out, the emphasis on market, financial, and trade liberalization that is urged upon developing countries is not adhered to by the developed countries in the European Union or by the United States. He says that the Washington Consensus (neoliberal) policies that the IMF seeks to impose on developing countries is based on a simplistic model of competitive equilibrium. He says that the diminished role for government in such a theoretical model ignores the fact that historically, a great deal of government action has been attempts to correct or compensate for market failures (2002: 73-74). Stiglitz blames the IMF for many of the developmental problems countries in the periphery have faced, saying that the IMF has been insensitive to the place-specific nuances that different countries face in trying to

develop market economies. One of the reasons for this was the IMF's lack of democratic oversight and accountability. Stiglitz says that one of the reasons for writing the book *Globalization and Its Discontents* (2002) was that,

for too long, discussion of these important matters [trade policies, IMF policies, development strategies] had gone on behind closed doors, without the public scrutiny that they deserved, on the grounds that the matters required such technical competence that there was little reason to even attempt to bring them to the public sphere. I disagreed and wanted to stir up debate.

(2002: 271)

Building off of this concern, Stiglitz published *Making Globalization Work* in 2006. In this book he urges a more Keynesian approach to managing globalization so that the process is more equitable both within and between countries. He argues for greater governance of the economy both at the national level and at the international level. In this, his arguments are close to, but a little short of Paehlke's (2003) recommendations¹². Regardless of his attempt to critically engage with the process of economic globalization, Stiglitz fails to fully do so. The main reason that Stiglitz falls into such an uncritical trap is that he fails to fully appreciate the role of ideology in the global economic system. He is fully aware, and a major legitimating force in mainstream economics of the concept that, markets are not efficient, there are always asymmetries of knowledge, and therefore the invisible hand does not exist (2006: xiv-xv). He brushes right up against ideological manipulation in this respect, even in some specific cases stating that it is at work (2006: 68, 104, 105, 125, 131-2, 138-44, 149, 188, 199), but he stops short of accepting anything approaching class warfare... or even class. He is able to do this because he carefully avoids any generalizations. All injustices are the results of specific government actions,

¹² Paehlke argues for a redefinition of development from a simplistic and economic-centered focus on GDP growth, unemployment, and inflation measures to a "three-bottom-line perspective" that includes these economic measurements, but balances them with equally important social (health/welfare) and environmental (sustainability) measurements. He argues that for this perspective to be possible, the global capitalist economy, with its non-democratic governance structures, must be brought under the control of some international democratic governmental structure that sets fair, equitable, and sustainable controls on the global economy. He argues that global economic integration has vastly outpaced the means of societies to control this globalized economy and the result is polarizing distributions of wealth and power and the rapid degradation of the biosphere.

specific corporations, or specific trade agreements, never class-based behavior. In short, Stiglitz remains captive to many liberal economic assumptions. Despite my criticisms however, Stiglitz does contribute a major critique of neoliberal theory. He argues that the stated purpose of this type of development is the benefit of society as a whole yet recognizes neoliberalism's failure to do so.

In a partial move away from his earlier writings, Jeffrey Sachs now admits that “von Hayek was wrong. In strong and vibrant democracies, a generous social-welfare state is not a road to serfdom but rather to fairness, economic equality and international competitiveness” (Sachs 2006: 42). In his (2006) essay, he looks at the data for the Anglophone countries that have traditionally been high-income, low-tax and compares them to the high-tax, high-income Scandinavian countries. He states that the Scandinavian countries consistently outperform the Anglophone countries “on most measures of economic performance” (2006: 42). This is however, a partial recant as he does not mention any other roles for the state in the economy and is still firmly supportive of economic globalization and free trade in his other writings.

It now seems as though much of Latin America is beginning to move towards the Left, mainly in reaction to the developmental failure of neoliberal reforms to provide equitable growth (Barkin 2000; Hershberg and Rosen 2006; Veltmeyer 2007; Vilas 2006). Grugel and Riggirozzi (2007) claim that the neoliberal model of development was rejected in Argentina and that, starting with Duhalde and carrying on through Kirchner, the state has returned to “recover the command instruments of political economy” (2007: 87). They call this shift *neodesarrollismo*, which they refer to as a “sometimes vague and ad hoc, strategy for growth, based on macro-economic prudence, moderate state intervention, and reindustrialization” (2007: 106). This shift, which is echoed in the “social neoliberalism” of Cerny et al (2006), the call for reinvigorated regulation by Stiglitz (2002, 2006), and the case for a strong welfare commitment by Sachs (2006), signifies that the hey-day of strict *laissez faire* neoliberalism is over and that there is once again an expanded role for the government in the economy. However, this does not address the issue of whether Harvey's (and others') elites have gained disproportionately

to the rest of society and if so, whether those gains are reversible given their partial dismantling of the institutionalized procedures of popular democracy.

Neoliberalism as a Class Project

In his book, *A Brief History of Neoliberalism*, David Harvey (2005) argues that neoliberalism as a process is a form of unidirectional class warfare. Specifically, it increases the power and wealth of a specific sub-set of the economic elite while simultaneously undermining the living standards of the rest of society. Harvey, however, redefines the traditional Marxist idea of economic elites. For him and others, the new elite is a financial and managerial elite. Veltmeyer, Petras, and Vieux agree with this realignment, saying: “And then there are the financiers or bankers of the system, finance capitalists, who as a rule have achieved hegemony over the [elite] class as a whole, controlling the large conglomerates that now dominate the capitalist economies in the [Latin American] region” (1997: 34). This new elite’s interests are not simply in manufacturing and trade; they are also heavily invested in financial speculation. Most of this change came about through changes in global financial policy brought about by the adoption of neoliberalism. According to Harvey, this change is designed solely to benefit the new elite.

This turn to financialization is well documented in the writings of Peter Gowan (1999), Susan Strange (1998), and Susanne Soederberg (2004, 2006). Soederberg summarizes how transnational financial elites have structured the Dollar Wall Street Regime (DWSR) to feed off of the global South. Following Gowan, she says that not only does the DWSR grow during economic expansion, it also grows during crises for several reasons:

First, during times of crisis or economic downturn, funds flee towards the safe haven of the US dollar and Wall Street. Second, SAPs [structural adjustment programs] encourage export-oriented industrialization so that countries can pay off their debts; this exporting into the dollar zone serves to strengthen further the centrality of the dollar. Third, the risks faced by US financial operators are widely covered by the IMF, enabling them to return to

international activity more aggressively than ever. Four, the weakening of states in the South strengthens the bargaining power of the Wall Street credit institutions and decisions on the form of future financing. In response, creditors turn to forms that are safer, such as securitized debt and short-term loans rather than long-term loans.

(2004: 77-78)

Harris and Seid agree that neoliberalism is about restructuring the global economy in favor of financial elites. It also does this within countries. They say, “in most cases... the neoliberal economic reforms undertaken by the governments of the developing countries have also increased the transfer of income from the lower and middle classes to the upper classes, and greatly weakened the position of the working classes” (2000: 14). Harvey refers to this as “accumulation by dispossession” and ties it to Marx’s concept of primitive accumulation (Harvey 2003 –see especially chapter 4, Harvey 2005).

Veltmeyer says that in neoliberal development, workers lose political and economic power “in the wake of an offensive launched on several fronts by the capitalist class and by the state in service of this class” (2007: 17). Labor became organized in many Latin American countries and gained an unprecedented (though widely varying) amount of political influence during the process of incorporation of labor into the democratic state in the early-to-mid- twentieth century. Collier and Collier (1991) classify the mode of incorporation based on whether labor was incorporated by the state (in which case it was a means of control), as was the case for Brazil and Chile or by parties which varied in three ways: electoral mobilization (Colombia and Uruguay) where labor was least mobilized; labor populism (Argentina and Peru) where a political party or movement led the incorporation and built partisan political ties between labor and a specific party; or radical populism (Mexico and Venezuela) which was the most extensive and involved an extension of the incorporation project to the rural sectors. In the cases of labor populism and radical populism, the working class made significant gains in representation. This representation served as a bulwark of electoral legitimacy for these governments. However, Veltmeyer, Petras, and Vieux argue that “propertied interests within the dominant capitalist class and the military regimes” with which they

associated halted and reversed this process throughout the region in the mid- 1970s and 1980s (1997: 15).

As background to a wider discussion on the new direction(s) in which Latin American governments are moving, Veltmeyer argues that the neoliberal model of development is “profoundly exclusionary” (2007: 86). He says that only a specific category of business (those geared towards production for the world market) is benefited by neoliberalization. This leaves “growing masses of producers and workers disposed from their means of production, marginalized in the process of capitalist development, and excluded from both the formal political and economic processes of this development” (2007: 86-7).

Robinson (2006) details how and why this exclusion takes place. He says that certain local elites and global elites were able to band together to redirect those social movements in Latin America that had arisen to challenge the dictatorships and rigidly class-based societies that had developed there. He says that this allowed for political change while keeping the socioeconomic system largely intact. He calls the resulting system *polyarchy* which he defines as: “a system in which a small group actually rules, and mass participation in decision-making is confined to choosing leaders in elections that are carefully managed by competing elites” (2006: 99). Polyarchy is a process of insulating global elites from popular pressures. It is also geared towards restructuring national economies to better fit into the global system of production.

The source of this restructuring has been debated. Some authors write as if this restructuring is an imposition of economic and social policy from external actors such as the IMF (Auvinen 1996; Stiglitz 2002) or an imperialist United States – often implicated in directing/controlling IMF policies (Bello 2000; Drake 2006; Gowan 1999; Harvey 2003; Harvey 2005: 74; Soederberg 2004). Other authors describe this relationship as one of hegemonic influence by the above actors on local political elites who either accede (Pastor 1987) or resist (Stiles 1987).

Evrensel (2002) questions the external imposition model, arguing that the results of her model show that even during program years¹³, the IMF is incapable of imposing its policy prescriptions on countries. Shefner, Pasdirtz, and Blad support this view, saying “These new [neoliberal] policies were not merely imposed from without, but often welcomed by a new group of national economic policy makers convinced of the propriety of neoliberal thought” (2006: 40)¹⁴. As states are mediators between the IMF (and other international organizations) and citizens, it is difficult to separate out the IMF’s ‘impositions’ and state-initiated policies. The issue becomes more complicated when the role of IFIs in the production of hegemonic discourses of development is included. As Goldman (2005) demonstrates, the World bank in particular is very active in constructing transnational policy networks that are trained by and employed by either the Bank or similar allied institutions. These policy ‘experts’ are conveniently positioned to advise national political leaders of developing states on economic and social policy. With this in mind, the line between external or internal imposition appears distinctly blurred.

It is especially difficult to determine the extent to which neoliberalization is imposed by IFIs when reforms are initiated by non-democratic means as they were in Chile under Pinochet, or by democratically-elected politicians who deliberately mislead voters as to their post-election intentions as was the case in Peru and Argentina under Fujimori and Menem respectively. Although brute force can push through reforms in non-democratic countries, leaders like Fujimori and Menem are constrained by the need to maintain electoral support. These two neoliberal reformers, in particular, had to maintain support from an electoral base that was most directly hurt by the reforms. Both of these leaders balanced this contradiction by hybridizing a system of neoliberal clientelist populism.

¹³ i.e. when countries are subject to IMF conditionality for the disbursement of loans to keep these countries from defaulting on their debt repayments.

¹⁴ This testifies to the success of neoliberalism as a hegemonic discourse in the last decades of the twentieth century.

Neoliberalism and Clientelism/Patronage Networks

Neoliberalism is frequently seen as eroding the pool of resources that government has at its disposal to operate corporatist (see Shefner 2005, 2006, 2007) or patron-client (Kaufman and Stallings 1991; Shefner 2000) relationships. For many researchers, this is a good thing as these patronage networks are seen as barriers to more institutionalized democracy. This drying-up of resources for patronage networks in turn is assumed to erode the base of support for populist parties if they are associated with the reforms. However, Roberts (1996) shows that in some cases, especially when institutions are weak and/or there are social dislocations or economic crises, there is a good potential for “the emergence of new forms of populism that are compatible with and complementary to neoliberal reforms” (1996: 83). Roberts goes on to show that even while enacting neoliberal reforms that drastically undercut the material base for the poor and working-class in Peru, Fujimori was able to use highly visible, selective clientelist distributions to maintain popular support. Auyero says that “In fact, a strong functionalist argument can be made out of this paradox: clientelist networks are important precisely because they fulfill the functions that the state is abandoning” (2000: 60).

Levitsky (2005) details some similar behavior, to that of Fujimori described above, in Argentina by Menem as he carried out neoliberal reforms, yet carefully used the clientelist networks of his *Partido Justicialist* (PJ) to preemptively pacify groups that might cause problems for the enacting of these reforms. In fact, as Auyero (2006, 2007) and Auyero and Moran (2007) show, the PJ and smaller allied parties went so far as to initiate neighborhood-level food riots as a social safety valve when the economic situation was no longer containable through traditional clientelism.

Giruday (2007) explores an example of clientelism at work in Argentina in the 1990s. Although she finds that the number of emergency employment programs expanded dramatically during this period, she determines that these are not always solely driven by clientelist vote-buying motives. Sometimes these programs were awarded to social groups that were engaged in insurgent activities like the *piqueteros* who were blockading major roads in the rural provinces as anti-neoliberal protests.

In a series of studies on patronage systems in Argentina, Brusco, Nazareno, and Stokes (2004), Calvo and Murillo (2004) and Remmer (2007) investigated how clientelist vote-buying affects democratic institutions. Brusco et al demonstrate that even though Argentines vote by secret ballot, the lack of the ‘Australian ballot’ and the extensiveness of Peronist penetration of social networks and neighborhoods allow that party a relatively efficient ability to infer voting behavior¹⁵. This in turn, allows them to operate effective vote-buying distributions during elections.

Calvo and Murillo determine that patronage systems benefit the Peronist party more than the opposition Radicals/Allianza because their base of support is less expensive to sway per person (due to lower socioeconomic status) than the Radical’s base of support (which is mainly middle-class). This allows them to buy a higher proportion of voters for less money. In addition to this, Remmer finds that, due to institutional over-representation in the legislature, traditionally Peronist provinces are able to allocate themselves more federal funds per capita than non-Peronist provinces, thus providing more resources for patronage networks, making them even more effective in their core areas.

What is widely agreed upon by these authors, and by many others, is that these systems of patronage serve to control the poorest (and weakest) segments of the population. This control is firm enough to ensure loyalty by those very groups that are hurt most by neoliberal reforms. As a matter of fact, Levitsky disagrees with Grugel’s and Ruggirozzi’s assessment that neoliberalism was rejected in Argentina after 2001. He and Auyero (2003) agree that the riots during and after 2001 had more to do with anti-corruption and poor leadership protest than anti-neoliberalism. All this points to a potential for clientelism (especially when associated with weak institutions and a strong populist party) to augment neoliberal reforms, such that those groups most negatively

¹⁵ The Australian ballot is a particular type of secret ballot that is marked in secret by the voter, who obtains it at the polling place, where it is provided by the government rather than by any particular party. In addition, it contains all candidates and initiatives being voted on. In Argentina, the secret ballot can be a party ballot, printed by a political party, which contains only the names of candidates and initiatives of that party or it can be one that contains all candidates. This choice is left to the voter. Also, the voter does not have to obtain a ballot at the polls, rather he/she can obtain one from a political party beforehand and bring it to the polling place.

affected by these reforms are preemptively kept from protesting – even as their material ability to organize against such reforms is being undercut.

Having detailed the development of neoliberalism as a theory and its transition into policy, the next chapter will attempt to ground this discussion in an historical example of a state that has implemented this type of reforms. As I will show in Chapter 3, the case of Argentina provides us with an interesting analysis of the roles played by class, the state, patronage networks, and ideology in influencing the type and extent of neoliberal reforms that are adopted/imposed. Although Argentina's neoliberal reforms were implemented by a democratically elected government, this does not change the class-based iniquities that resulted from these reforms.

Chapter 3

Argentina's Neoliberal Experience

In the second chapter, I described the way in which neoliberalism developed as a theoretical perspective and how it fits into the wider development literature. I also demonstrated that there is a strong case in the literature for the claim that neoliberalization is a manifestation of elite-class struggle. In order to ground this study within a particular nation-state, I now turn to a case study of Argentina's neoliberal experience.

Although many Latin American countries have experienced considerable neoliberal reforms, Argentina represents an important case in several respects. First, European colonization of the southern cone of South America was especially violent. Unlike the majority of Latin American countries, there are no significantly large indigenous populations left in the countries of the southern cone, which consequently excludes the presence of ethnically-based politics. This allows politics to be based more on issues of class. Second, Argentina and Chile have notable class-based politics, historically speaking.

I chose Argentina over Chile to test the theories of class struggle because Chile's neoliberal reforms were obviously class-initiated. After Allende was replaced by a military coup, General Pinochet led a coalition of local elites, international business interests, and the military in carrying out neoliberal reforms (Harvey 2005; Kurtz 2004; Veltmeyer, Petras, and Vieux 1997). Chile's neoliberal reforms are an example of the *most* imposed case of neoliberal reforms and they involved massive state repression of dissidents and critics. In the process of implementing neoliberal reforms, thousands (possibly tens of thousands) of people were exiled, jailed, disappeared. Argentina is a more subtle case for testing the theories I have referenced as the bulk of its neoliberal reforms were enacted by democratically elected governments, without significant social repression. As such, it is not immediately clear whether or not economic reforms in Argentina were the result of class struggle or legitimate policy responses to economic crises. Also, despite having high levels of structural inequality typical to the Latin

American region, Argentina had the largest and most established middle class of any Latin American country (with the possible exception of Chile). Petras makes a similar case that Argentina is the ideal test of the effects of neoliberal reforms, arguing that they would be implemented under “optimal conditions: a willing government, well-developed infrastructure, skilled labor force, long-term links to world markets and a significant middle-class with consumption propensities compatible with Euro-American cultural patterns” (2002: 6).

Argentine Neoliberal Reforms

Argentina’s first neoliberal reforms were implemented by the military junta that governed from 1976 to 1982. This was the third military junta in Argentina since World War II, but in many ways, it was qualitatively different from the first two (Schamis 1991). The first two had been bureaucratic-authoritarian governments (see Collier 1979, O’Donnell 1979, Pion-Berlin 2001) in an Argentine society, organized as a corporatist state (Schmitter 1974)¹⁶. Schamis (1991) argues that the southern cone countries during the late 1970s were not organized as bureaucratic-authoritarian regimes. He says that they sought to control society not through corporatist relations, but through making political action illegal. He also claims that the shift to a neoliberal restructuring of the economy more accurately qualifies the southern cone during this period as “neoconservative-authoritarianism” (1991: 210). The Junta’s reforms were minor and mostly consisted of a small number of privatizations and minor regulatory reforms.

In March 1980, four of Argentina’s largest banks failed almost simultaneously. The government liquidated one of them and used the money to prop up the other three. In 1982, after the Falklands debacle and with surging inflation, the government was handed back to civilian control and Raúl Alfonsín was elected President. By the time of the handover to civilian government, the junta had amassed an enormous national debt, much of which had been used to fight the Dirty War against the revolutionary Left (Stiglitz

¹⁶ Schmitter defines a corporatist state as “a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed by the state” which allows them to receive support from the state in exchange for supporting the state (1979: 93).

2006: 229). As Alfonsín's government came to power with a mandate to rebuild democracy in Argentina, they were hobbled by the mounting, world-wide debt crisis and its socio-economic ramifications. The debt crisis and rising inflation levels would plague Alfonsín's attempts to address what he saw as his true mandate throughout his presidency.

Early in his term, Alfonsín took significant steps toward reestablishing civil liberties. His government also sought justice for the junta's abuses during the Dirty War. However, it was forced to back off somewhat when the military rebelled against the prosecutions of senior officers in 1987, threatening an overthrow of the democratic government. The debt crisis and the crisis of what was left of the ISI structure however, were more devastating problems than the military.

Alfonsín's government had the moral ability to claim that the debts incurred by the military government were not honorable. In such a way, they could have legitimately (though not popularly internationally) chosen not to honor them. This should have provided them with some bargaining strength with the IMF during renegotiations. However, the Alfonsín government felt constrained by international pressure to honor these debts as a precondition for receiving aid and investment from the international community which Argentina desperately needed for social provisions. Initially during the negotiations with the fund, "The IMF team found a relatively sympathetic ear [to austerity reforms] in the Ministry of Economy, so much so that a former junta member called for the immediate dismissal of all civil servants who had received their training in the US, charging that they served as 'Trojan horses' for western creditors and negotiators" (Stiles 1987: 62). Though it received somewhat lenient (by IMF standards) terms for repayment, Argentina was out of compliance within less than a year.

From this point on, IMF negotiations became very confrontational. Alfonsín's government repeatedly used brinkmanship tactics and veiled (sometimes not-so-veiled) threats of defaulting or forming a debtor cartel to renegotiate for rescheduling or for better terms. The threat of default was not taken as seriously as the threat of forming a debtor cartel. Stiles says that

if debtors could coordinate a collective threat of default, the threat would be more credible since the relative harm to the bankers would be much greater. It also would not be feasible to carry out a massive retaliatory move against a large group of economically significant nations. Thus, the result of a multilateral default would be relatively more advantageous for the debtors.

(1987: 67)

At the same time Alfonsín's government tried to liberalize the economy, especially through privatizations, but Alfonsín could not consolidate enough political support to overcome the vested (and largely corrupt) interests of those elites that were personally invested in these state-owned enterprises. By 1985-1986, Argentina's governmental policies seemed to be turning the country around, but in 1987, the rate of inflation was again breaking out of control.

After a resounding defeat in the 1987 legislative elections, there was little chance for Alfonsín to pass any serious liberalizing reforms. Simultaneously, there were 13 general strikes by the CGT and other unions between 1984 and 1988 (Levitsky 2005: 74). According to Levitsky, "As the specter of a Peronist victory in 1989 elections grew, capital flight and financial speculation soared, culminating in a hyperinflationary burst that brought the economy to the brink of collapse" (2005: 74). As the economic crisis deepened, social and military protest broke out creating a general social crisis and a loss of legitimacy for Alfonsín. He hastily made arrangements in 1989 for the president-elect, Carlos Menem, to take over six months early.

Carlos Menem was raised in La Rioja, a poor, arid province. He cut his political teeth as a lawyer and Peronist activist and later became the governor of La Rioja. After the overthrow of Isabel Perón in 1976, Menem (along with many other members of the PJ) was jailed for five years without charge (O'Donnell 1991). While running for president in 1989, Menem toured the country in the 'Menemobile,' a minibus painted in the national colors, and made vague promises of prosperity and typical Peronist platitudes but laid out no detailed economic plans.

Upon winning the presidential election in 1989, Menem abruptly changed appearance and political stripes. "He trimmed his long hair and traded in his black leather jacket and his cowboy boots for a closet full of expensively tailored Parisian suits. His

Menemobile was replaced with a scarlet Ferrari” (O’Donnell 1991) – which was an illegal gift from some Italian businessmen (Coad 1991). He also announced his intention to ally himself with “sectors of Argentina’s traditional Right” (Schwarzer 1998: 63; The Economist Intelligence Unit 1995: 5). Menem allowed the giant multi-national grain corporation Bunge and Born to appoint the economy minister. His entire initial cabinet was split down the middle, with traditional Peronists in most of the ministries, but all aspects of the economy were represented by conservatives. Many of these politically conservative economic liberals had also been part of the previous military governments and were openly anti-Peronist. However, they had no compunctions about being in a Peronist government. As Schwarzer says,

Why should they reject an alliance with Peronism (that they had hated and despised) as long as the Peronists accepted their terms? For them, political power was and is a ‘natural’ consequence of their social and economic power, and they assume such power is a part of the conditions that emerged in the complicated life of Argentina.

(1998: 66)

This coalition was embroiled in (hidden) conflict and power struggles, especially during the first two years. The coalition was able to come about only because of skyrocketing inflation and the havoc it caused in society.

The major successful neoliberal reforms in Argentina were implemented by Carlos Menem in the 1990s. I will focus on four types of these reforms: privatization, austerity, deregulation (both financial and labor market), and trade liberalization. This is not an exhaustive list of the “Washington Consensus” policy prescriptions, but they are the core reforms necessary to qualitatively transform a socio-economic system in a neoliberal direction.

Privatization

Privatization in Argentina largely consisted of the selling-off of government-owned, -run, or, -controlled firms, utilities, and natural resources. Privatization is the most important of the reforms that I examine, owing to the theoretical role of the state in neoliberalism. As I argued in chapter three, neoliberals see the state as anathema to a

properly-functioning market economy. The proper role of the state is not as a planner or employer, but as a rule setter and arbitrator, an enforcer of property rights and contractual obligations, and a creator of markets where there are none. One of the most important reforms for a developing country from this perspective is to divest itself of all productive and service activities in which it is engaged in such a way that ‘efficient markets’ (seen as the opposite of ‘inefficient government’) can take over these activities. In Argentina’s case there was also an assumption that decreasing the size of the government (and the government’s social obligations) would better aid its repayment of outstanding debt. This was the main argument made by the IMF in debt negotiations.

According to the Economist Intelligence Unit: between 1992 and 1995, the Menem government privatized

most public utilities – telecommunications, airlines, power generation and distribution, gas transportation and distribution, water and sewage systems, and passenger and cargo railways – and sold off the vast majority of productive facilities (including oil and gas extraction, coal mining and steel mills). The remaining privatizations include four hydroelectric power stations..., the airports, the post office and some petrochemical facilities.

(Economist Intelligence Unit 1995)

Although the above list of completed privatizations appears miraculous for such a short period of time, the process itself was politically-charged, controversial, domestically unpopular, sometimes corrupt, and often legally complicated. For example, the privatizations of public enterprises were complicated by the fact that they had been offered as security for the national debt by the government. Thus, the government had to secure agreements from the creditors before going through with privatizations each time they tried to privatize something (Schwarzer 1998).

The first two privatizations, the national telecommunications company – *Entel* and the national airline – *Aerolíneas Argentinas*, were particularly problematic and became examples for the Menem government of how *not* to privatize government

entities¹⁷. In order to try to appease those debt holders who had been promised that public enterprises were collateral for Argentina's borrowing, the government decided that to purchase shares of Entel, the purchasers had to pay with debt-swaps. Thus, the auction was only open to holders of Argentine bonds. After the sale, the new owners were several of the largest holders of Argentine debt. They exchanged their ownership of risky Argentine interest payments on this debt for safe user fees (at an immediately profitable rate) in perpetuity. These new user fees were very expensive in Argentina and immediately hurt domestic firms that had no choice but to pay the monopolistic prices. As for cutting government expenses, "the state no longer had a deficit as owner of the company but found itself with a large bill it had to pay as a consumer of these services" (Schwarzer 1998: 76). Also, most of the deficit that Entel had run was due to unpaid bills by many domestic firms and public offices. Once the company was privatized, these companies and institutions were forced to pay and in addition to pay much higher rates.

On the privatization of *Aerolíneas Argentinas*, Schwarzer says, "The state also discovered that it was such a large consumer of the airline's services that the price increases were more significant than its potential savings as the former owner of the company that had been sold" (1998: 77). Although in macro-economic terms, as means of cutting government expenses, these two privatizations were failures, they were successful as signals to the international community that Argentina was moving in an orthodox direction. However, one of their biggest failures was that they failed to establish any form of competition or market due to monopolistic guarantees awarded to the purchasers of these companies.

Another problematic early privatization project was the federal highway system. 6,000 miles of federal highways were ceded to private contractors who were allowed to set up toll booths in order to pay for resurfacing and other repairs. "A national business group, the Commercial and Business Activities Coordinator, calculated that contractors

¹⁷ Contrary to the above statement by the Economist Intelligence Unit, two public television stations were privatized in 1989, Entel was privatized on November 8, 1990 and *Aerolíneas Argentinas* was privatized on November 21, 1990. In addition, the privatization of federal highways began in 1990, privatization of YPF (the state-owned oil and gas company) was in 1991 and the privatizations of water, and freight rail lines were begun in 1991 and carried out through 1993 and 1999 respectively.

had skimmed annualized profits ranging from 130 percent to 1,000 percent on their investments since they took over highways in September” (Dillon 1991). These companies were charged by Dillon with failing to make any repairs to their roads. One company even built earthen barriers on alternate routes to the toll roads it operated in order to force traffic to use the toll road.

Privatizations are the most significant neoliberal reform of the four that I am interested in for several reasons. First, it is highly visible especially in cases where it involves entire industries, such as airlines, telecommunications, or rail systems. Privatization’s visibility also makes it more obvious that it fundamentally shifts socio-cultural ideas about what is economic and what is social. A good example of this was Argentina’s attempt to privatize water which began in 1991 and continued through 1993 (when Buenos Aires’s water utility was privatized). Later, due to their visibility and the politically-charged debate about water, these privatizations were repealed. In the case of water, which represents a natural monopoly, the shift from a public utility to a for-profit private company is a blatant redefinition of societal reorganization. Is water a social right or an economic commodity?

Don Podesta (1992) reported in the *Washington Post* about Menem’s attempt to shift the worldviews of Argentines. He said that Cavallo’s and Menem’s plan: the “Argentine Miracle,” “amounts to nothing less than an effort to change the entire business culture of the country from one of giant, state-owned enterprises, powerful unions, paternalistic labor laws and bloated social programs to a lean, highly competitive capitalism¹⁸.” In an article in the *Financial Times* on the need for Argentines to develop a good capitalist spirit of entrepreneurialism, John Barham (1992) quotes a US business consultant about the average Argentine’s lack of ambition. The source said that they weren’t “competitive, entrepreneurial, [or] aggressive” enough. Thus, privatization accomplishes neoliberal goals not only through actual diminution of the state’s role in the economy, but also through a propaganda assault on the role of the state. The other three

¹⁸ Domingo Cavallo was the economy minister for much of the Menem presidency as well as part of de la Rúa’s Presidency.

neoliberal reforms that I examine are more subtle, less visible, in their implementation, but no less transformative of society.

Austerity

The type of austerity reforms that I examine in Argentina are decreased government spending and the down-sizing of the government – especially in terms of jobs. When coupled with privatizations, austerity reforms were effective both at lowering the rate of inflation and standards of living. In 1990, while most privatizations had yet to be carried out, the Argentine government announced that due to inflation (and the need for increased government revenue) the state would be forced to make “massive rises on public service tariffs and petrol prices” (Reuters 1990a). This was the beginning of a series of such price hikes. Also that year, the federal government announced it would no longer pay for provincial budget deficits, and the central bank would no longer be authorized to issue money (including loans) without the economy ministry’s authorization. In a symbolic gesture demonstrating the need to cut expenses, Menem took a 20 percent pay cut and decreed that all public sector employees’ salaries be restricted to less than 90 percent of the president’s salary (Mead 1990a, 1990b).

The real austerity reform measures came in the form of government job cuts. In 1990, Menem’s government cut 80,000 federal civil service jobs and another 80,000 contract workers from the government-owned companies (Reuters 1990c; Jarvie 1990). These job cuts were linked to the government’s efforts to divest itself from as many industries and services as possible through privatizations. For example, “state-owned service or industrial, sectors that found no buyers, such as passenger railroad lines, were shut down” for purposes of austerity (Pozzi 2000: 70). In a less controversial series of job cuts, the government forced over one thousand “expensive and inefficient spies” (both foreign and domestic), from the secretariate of state intelligence, to accept pensions and sold off property and assets from the secret organization (Avignolo 1990).

By 1993, the macroeconomic outlook of Argentina was turning around. Inflation was largely under control, and the GDP was growing. However, austerity was beginning to take its toll on the poorer sectors of the society. This was brought to the world’s

attention when Santiago del Estero erupted in protest in December 1993. This province's economy was largely fueled by the provincial government, which, like many of Argentina's poorer provinces, was by far the largest employer – according to Auyero, “close to 46 per cent of wage earners were public-sector employees” (2003: 124). Due to the government's refusal to fund provincial deficits, and to the level of corruption in provincial government, Santiago del Estero had been unable to pay its public workers and contractors and old-age pensioners for three straight months. After protestors burned several government buildings and the houses of several prominent politicians, the federal government agreed to disburse limited payments to compensate these citizens.

These citizens were owed an average of \$300 per month back pay (The Economist 1994), but the federal government only paid them a fixed 500 pesos for government employees, and 300 pesos for pensioners (at the time the peso was pegged to the dollar at roughly 1:1). The Economist also reported ironically that, “busy tightening the national belt, the economy minister, Domingo Cavallo, says he himself cannot survive on less than \$10,000 a month” (1994). While this debacle was unfolding, “top civil servants were raking in up to 30 times as much” as their unpaid employees (The Economist 1994). The BBC reported that “there were officials, legislators and judges earning salaries that ranged between 10,000 and 16,000 pesos per month” in Santiago del Estero (BBC 1993).

Though the government claimed that the only option available for shrinking the money supply and keeping inflation stable was to cut expenses, this example shows the class-based nature of how these cuts were made. It is interesting to note that although the state didn't have any money to pay its low-income workers and pensioners, it still had the money to pay its top officials – even top *local* officials. There were other options available to cut government expenses (i.e. trim some of the fat off the top).

After the *Santiagazo*, as the protests in Santiago del Estero were called, austerity, corruption, and privatization protests became more and more common. It also became more common for the federal government to have to allot funds to provinces for emergency social relief due to the requirements of these governments to balance their budgets (which represented a radical socio-economic reorganization).

Financial and Labor Deregulation

Financial deregulation is essentially the roll-back or dismantling of restrictions to capital whether foreign or domestic. Labor deregulation complements financial deregulation by dismantling protections and rights that had been gained by organized labor through long periods of struggle. In an effort to attract foreign investment capital and to cripple Labor's hold on the Peronist Party, Menem pushed through financial and labor deregulatory reforms. Commenting on his financial reforms, the Economist Intelligence Unit's country profile for 1996 said that:

The government has removed all investment barriers to encourage inflows into domestic capital markets. Entering, trading and leaving the market is straightforward: there are no exchange controls, no registration requirements and capital gains and dividends are not taxed. Brokers' commissions are fixed competitively and there are no sectoral restrictions on foreign investors. This has made Argentina's capital market one of the most open in the world.

(1996: 32)

On October 31, 1991, Menem signed a decree allowing "shops and factories to negotiate wages directly with employees instead of with national unions" (New York Times 1991, also reported in the Miami Herald 1991). Menem was also quoted by the New York Times as saying "We're going to totally deregulate the economy" (1991). Veltmeyer, Petras, and Vieux state that "in 1991 Argentine President [Carlos] Saul Menem signed a liberalizing 'mega-decree' with 122 articles which extinguished decades of regulations, abolishing regulatory bodies and weakened union bargaining power" (1997: 100).

As the deregulation of the labor market and privatization progressed, many formal sector jobs were shed by both public and private firms. The workers who managed to find other employment often did so in precarious jobs that did not involve contracts or social security provisions. This is referred to as increased labor market *flexibility*. As Patroni (2002a) points out, the lack of long-term success of the Convertibility Plan was attributed

in part to a lack of flexibility in the labor market due to outdated labor laws¹⁹. She counters that “It is indeed difficult to argue that flexibility did not exist in a country where up to 40 per cent of the labour force worked without formal contracts or protection under the existing labour legislation” (2002a: 263). She argues, and Weeks’s (2000) quantitative analysis corroborates, that over the early half of the 1990s, Argentine real wages actually declined as the unemployment level rose, even though the economy and productivity levels grew rapidly. According to neoliberal rhetoric, as the labor market deregulates, wages should decrease, unless the economy and productivity grow, in which case employment should rise and place an upward pressure on real wages. This did not happen.

Free Trade Reforms

Free trade reforms consist of the opening up of the domestic economy to increased foreign competition. This usually takes the form of decreased tariffs but can also be cuts in government subsidies. Cavallo began reducing tariffs on imported goods in April 1991. By June of that year, foreign goods were pouring into the country (Barham 1991). This influx of foreign goods could have been a good thing for consumers, but it is balanced by the fact that they caused hardship and unemployment in some of the less efficient Argentine industries (Vincent 1991). Cavallo acknowledged this “hardship” saying, “Of course some small- and medium-sized industries will suffer as we continue this process of economic openness. It just proves we have to restructure certain sectors in order to be competitive” (Vincent 1991).

The Implementation of Reforms and Their Effects

There were several reasons that Menem was able to carry out extensive neoliberal reforms even though his predecessor Raúl Alfonsín had not been able to do so. The most important for this was that the economic situation was different. With an inflation rate

¹⁹ For more on the specifics of the Convertibility Plan, see p. 47.

that was running into the quadruple digits, the country was desperate for a change of course. The Radical Civic Union (Alfonsín's party), who still controlled the lower house of congress in 1989, agreed to pass two emergency laws which concentrated power in the executive and strengthened the president's decree powers as well as promising not to oppose the president's reforms for at least two years, in exchange for Menem agreeing to assume the presidency six months early.

Menem had insisted on receiving these expanded powers, claiming that they were necessary for him to be able to address the economic crisis. Once in power, he made extensive use of these powers to consolidate his power and push a radical economic agenda. Menem has been criticized for his encroachment on democratic government, especially his heavy reliance on decrees, but also for his tinkering with the supreme court and the constitution (Levitsky 2005: 63; The Miami Herald 1991; Schwarzer 1998: 69; Treisman 2003).

Menem's use of presidential decrees, officially known as 'Decrees of Necessity and Urgency (NUDs), was a calculated abuse of a vague constitutional power. Levitsky says that "While constitutional presidents issued fewer than 20 NUDs between 1853 and 1983 and President Alfonsín issued just 10 NUDs between 1983 and 1989, Menem issued 545 NUDs over the course of his presidency" (2005: 78-79). In 1990, Menem managed to ram through Congress a law that increased the number of Supreme Court justices from five to nine. He then hand-picked the new justices, stacking the court in his favor.

All of these political maneuvers were necessary prerequisites to be able to carry out the neoliberal reforms that he and his conservative economic allies planned. As Treisman (2003) points out, on the issue of privatization alone, Menem had to overcome opponents ranging from public sector workers and managers of state enterprises, to businesses that supplied state enterprises with goods and services, as well as members of congress, and provincial governments. All of these interests had to be dealt with in different ways: co-optation, marginalization, expropriation, buy-offs, and concessions. Treisman argues that Menem "revealed a little of what Machiavelli called *virtù*" in his ability to deal with all of these interests (2003: 94). In an end-note on this statement, Treisman says that although it is pure speculation that Menem had ever read Machiavelli, "one of Menem's close

advisors – the future minister responsible for privatization, Robert Dromi – had read Machiavelli, and cited one of his famous passages to explain Menem’s electoral strategy to a visiting American political scientist” (2003: 107).

Levitsky (2005) argues that Menem’s ability to carry out his reforms was largely rooted in the strength of the *Partido Justicialist*. He points out that due to Menem’s successful co-optation of union leadership, the *Confederación General del Trabajo* which had been formed by Perón as the Peronist confederation of unions, held no general strikes for the first three and a half years of his presidency, and only one strike took place during his entire first term. Levitsky also points out that the PJ’s strong linkages to the lower- and working-classes at the neighborhood level, provided the government with the clientelist networks necessary to buy-off potential dissenters from specific reforms thus preempting their protests. The studies of patron/client relationships in Argentina by Giraudy (2007) and others back up Levitsky’s argument about the importance of these patronage networks for maintaining social control in neoliberal Argentina²⁰.

The Effect of Neoliberalization on Argentine Society

One important positive result of Menem’s neoliberal reforms was that the government managed to (at least for a few years) get some control of inflation. According to Patroni (2002b), the inflation rate in 1990 was 1,344 percent, fell into single digits by 1993, and remained low until 2000 (see figure 1). Stiglitz says the inflation rate had peaked in 1989 at a 3,080 percent annual rate (2006: 221)²¹. And Vacs, writing in 1989, claimed that interest rates had risen to over 100 percent per month (1989: 46). However,

²⁰ See also: Auyero (2000); Brusco, Nazareno, and Stokes (2004); Hagopian (2005: 353-354); and Remmer (2007). In addition, Auyero (2007) and Auyero and Moran (2007) offer a theoretically rich exploration of the interplay between party officials, police, and looters during the 2001 food lootings in Buenos Aires. These authors argue that the food lootings were a dynamic incident of collective violence in which the anger and desperation of the barrios were redirected to the looting of grocery stores for food and other needed household items when the traditional patronage networks could no longer meet the basic needs of the residents of these areas.

²¹ Estimates of inflation in the literature (and the press) vary based on how current the estimate is (the more current, the less reliable the economic indicators may be) and how the estimate is calculated. For example, Starr (1997) says that for monthly and quarterly data, the Argentine press usually measures price increases for a month by comparing them to the same month in the previous year, while the IMF compares them to the immediately preceding month (See note 1 in Starr 1997: 122).

these interest rates were actually negative in real terms since inflation was running at even higher monthly rates: 196.2 percent in July of that year (Reuters Feb. 1990). Starr says that one of the reasons that Menem was able to push through his neoliberal restructurings was that the devastating hyper-inflation had made Argentines desperate for any reforms that would get inflation under control (1997: 108, also see Levitsky 2005: 76).

Argentine Inflation Rate 1991-2000

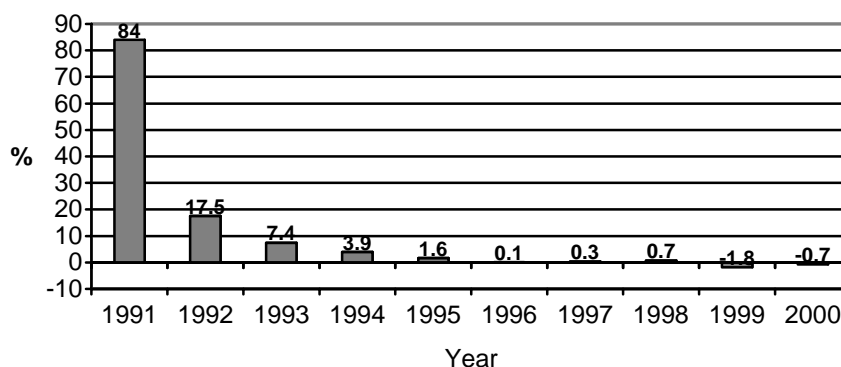


Figure 1: Argentine Inflation Rate 1991-2000²².

Although the Convertability Law, which established an Argentine currency board and the peso-dollar peg, helped to bring down inflation in the short term and improved investor confidence in Argentine markets, it also created several problems (Starr 1997). Currency boards do not control what governments spend money on, just how much they can spend. Governments must have foreign currency reserves (or financial loans) to cover budget spending. This prevents an expansion of the domestic money supply from government deficit spending – which helps to curb inflation. A negative aspect of a currency board is that it transfers any disequilibria from the international markets directly into the domestic market, especially when coupled with a hard-pegged currency such as Argentina’s. Although currency boards can help to stabilize inflation, Starr says “a

²² Source: Patroni (2002b).

currency board deprives the national authorities of the power to soften the human consequences of economic downturns and to mitigate the costs to the real economy associated with a sudden shift in international market forces” (1997: 89, also see Levitsky 2005: 81). She goes on to point out that a currency board places market forces in control of the domestic monetary system. This effectively subordinates the economy to an international investor class as exemplified by events in 1992 where “capital began to flow out of the country and interest rates soared until the government was able to reassure the markets of its firm commitment to the 1:1 peso/dollar exchange rate” – which the international investors wanted (1997: 95).

In addition to the problems with currency boards, the exchange rate peg caused the Argentine peso to appreciate in value alongside the dollar throughout the decade, relative to other currencies. This, coupled with trade liberalization, resulted in a growing terms-of-trade deficit (Patroni 2002b; Sattr 1997; Stiglitz 2006: 221-222). It also caused the effective deindustrialization of some segments of the Argentine economy when they could no longer compete with less expensive manufacturing elsewhere. This last point is especially true in relation to Brazil, whose *real* depreciated in value throughout the 1990s (and hugely in 1999), which began to flood Argentine markets with its trade goods during the late 1990s.

One of the most immediate effects of neoliberal reforms (mostly from government job cuts due to austerity and jobs cut from the newly privatized firms) was a rise in both unemployment and underemployment (see figure 2). Throughout the ‘lost decade’ of the 1980s (during the height of the global debt crisis), unemployment in Argentina averaged 6 percent.

Argentine Urban Unemployment Rate

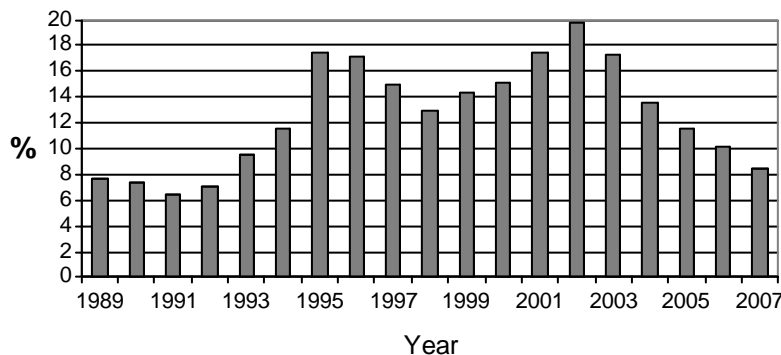


Figure 2. Argentine Urban Unemployment Rate²³.

However, the average for the 1990s (when most neoliberal reforms were implemented) rose to 17 percent (Villalón 2007: 144). This national-level estimate becomes even more grim in some areas of the provinces where the unemployment rate was much higher. Pozzi (2000) says that when the Argentine state oil company *Yacimientos Petrolíferos Fiscales* (YPF) privatized, it laid-off 80 percent of its workforce, devastating the two company towns in Neuquén province (Cutral C6 and Plaza Huincul). In those two towns, the unemployment rate in 1996 (a year after privatization) was 35.7 percent (2000: 64-65).

Patroni (2002a) says that even though the economy grew rapidly between 1991 and 1994, so did unemployment. She also claimed that “the rapid growth of unemployment and the increasingly deteriorating conditions faced by workers also operated effectively as disciplining mechanisms throughout the economy” (2002a: 258). She attributes these losses of employment directly to neoliberal reforms. Garay (2007) shows that as unemployment and underemployment grew worse, by the late 1990s, the unemployed began to form associations for the purpose of affecting policy change and as an organizational base for protest.

²³ Source: ECLAC (2008). Unfortunately, the Argentine government changed the way that it calculated unemployment in 2003. For this reason, the period 2003-2007 is not actually comparable to the prior period.

One of the most perverse, though easily foreseen results of neoliberal reforms in Argentina was an increase in economic (especially income) inequality. The perversity of this outcome is based on the fact that Argentina (like many Latin American countries) has been plagued since colonization by structural inequality. Though it had a large, established middle-class, the period of neoliberal reforms (1990s) saw a growth in inequality and a shrinking of the middle-class. Petras says that in Argentina “in 1974 the top 10% received 28% of national income, in 1992 slightly over 34% and in 2001 over 37%” (2002: 7). He adds that neoliberalization caused a “dual structural effect” of benefiting elites although harming the middle- and working-classes. Indeed, the highest quintile shows a distinct gain in reported income for the period 1992-2002. For this same period, the next highest quintile shows almost no change, but the bottom three fifths of the population show steady losses in share of reported income (see Figure 3 below).

There are many anecdotal references to this growing inequality in the press. Marcela Valente of the *Inter Press Service* reported in 1996 that the poorest of the poor (which she does not define) had increased from 14 percent of the population in 1980 to 25 percent in 1995.

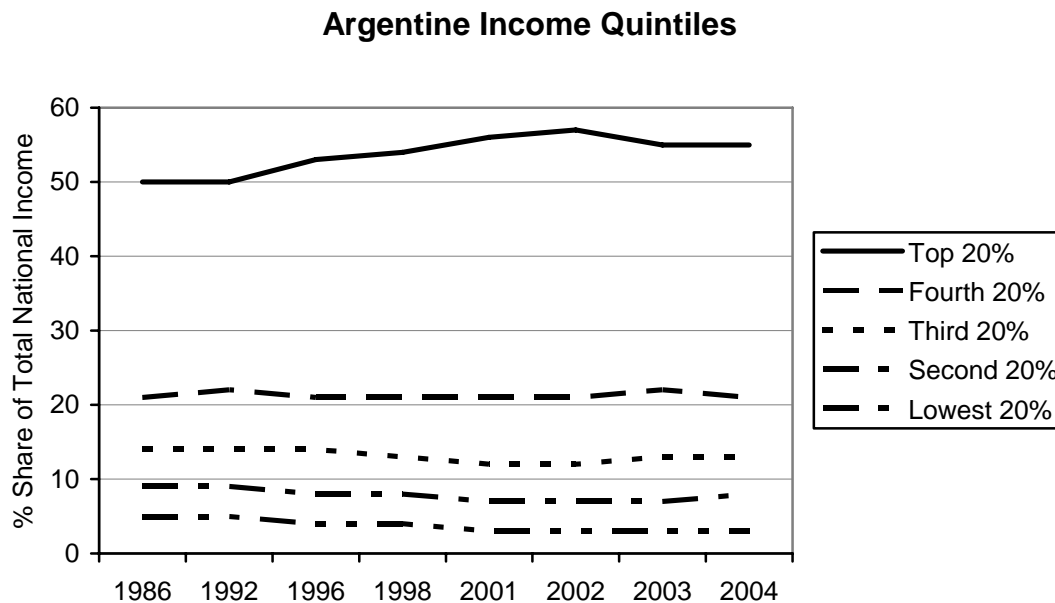


Figure 3: Argentine Share of Income by Quintile 1986-2004²⁴.

Valente added that the wealthiest decile was the only sector whose incomes increased: “from 28.7 percent of the total income in 1980, to 35.4 percent in 1995.” In 2004, Valente (again reporting in *Inter Press Service*) said that “while in 1983 the richest segment of the pyramid earned 13 times more than the poor, in 2003 the income of the top segment was 50 times that of the bottom.” In the same period, she reports, the “income poor” (i.e. the working poor) grew from 3.1 percent to 35.8 percent of Argentines living in poverty. Also, “In absolute terms, the members of the middle class who fell into poverty soared from 219,000 people in 1980 to 4.3 million in 2002.” In 2001, Moffett and Druckman reported in the *Wall Street Journal* that:

Argentina’s income distribution is more skewed now than at any time in the past 30 years, and the widening gap between rich and poor has been impossible for either the public or policy makers to ignore. Over the same decade in which a golfing boom led to a 40% expansion in the number of courses in Argentina, the country has had to deal for the first time with an increasingly visible problem of homelessness.

²⁴ Source: World Bank Group.

The graph in figure 4 shows a steady rise in income inequality from Menem's second term through the 2001 crisis, until Kirchner's presidency (beginning in 2003), at which time inequality begins to decrease.

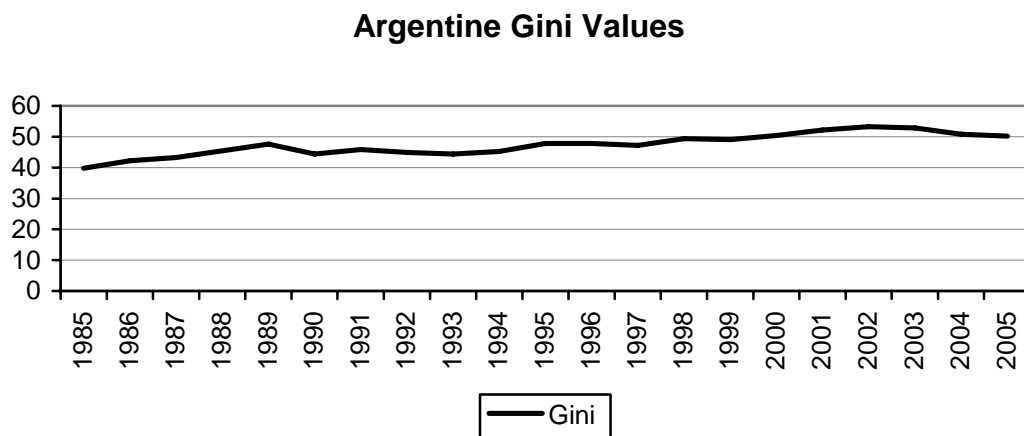


Figure 4: Argentine Inequality²⁵.

Sara Miller Llana reported in the *Christian Science Monitor* in 2008 that the classes were becoming more rigid, social mobility less possible. According to one wealthy interviewee, in the past, the children of laborers could grow up to be professionals, but today “maids’ children will be maids.” As this quote shows, neoliberal reforms were not simply creating inequality in wealth, they were also solidifying this economic inequality intergenerationally. This increased rigidity of classes creates (and re-creates) economic and social inequality. Callinicos (2000) argues that increases in socio-economic inequality represent increases in political inequality as well²⁶.

The Effects of Neoliberalization on Argentine Democracy

Due to the potential importance of Robinson's and Harvey's arguments about the anti-democratic spirit of neoliberalism (Harvey 2005) or neoliberalism's role in limiting

²⁵ Source: World Income Inequality Database (WIID2b), United Nations.

²⁶ See also Fotopoulos (1987).

democracy to some “low-intensity” polyarchical form (Robinson 2006), it is worth taking a close look at Argentina’s level of democratization before, during, and after Menem’s presidency. Most analyses of Argentina during the 1990s implicitly hold a binary conception of democracy in the sense that they don’t focus on levels of democratization (a notable exception to this is Levitsky 2005). Although some authors have pointed out the democratically limiting effects of clientelist networks; others documented an executive branch that engaged in programmatic deception, stacked courts and interfered with the judiciary, made excessive use of decree powers, and engaged in Machiavellian political machinations against political opponents (including elements of their own constituency). Still others described endemic corruption amongst political officials and the frequent mass protests by citizens who either had no other recourse or felt they had no other recourse for redress of their grievances. None of these authors frame their studies as cases of de-democratization. To the contrary, some authors see neoliberal reforms as having strengthened democracy. As Hagopian puts it:

From Mexico to Argentina, the adoption of market reforms and the opening of Latin American economies to trade and capital flows has had the effect of attenuating the great postwar conflicts between capital and labor, restricting the capacity of governments to enact redistributive policies, and halting the politically expedient practice of passing along the costs of inflation.

(2005: 324)

The method of “attenuating” the potentially destabilizing capital/labor conflict in Argentina turned out to be the state allying with capital in order to discipline labor and emasculate its ability to make political demands. Although Hagopian does not provide us with an explicit definition of democracy, she implies that neoliberalization strengthens the institutions necessary for stable democratic functioning (by insulating them from certain popular demands).

Answering the question, ‘how has neoliberalization affected democracy in Argentina?’ sets up a difficult problem. This is because conceptions of what constitutes democracy are based on differing normative arguments (Rowland 2008: 1-4). Similarly, as Mainwaring, Brinks, and Pérez-Liñán (2001) demonstrate, quantitative measures of

democracy also exhibit differences based on the particular normative definition of democracy the designers of these measurements hold when designing them. For instance, they argue that the definition chosen by Przeworski, Alvarez, Cheibub, and Limongi (2000), is “subminimal” (Mainwaring et al. 2001: 53, 57-58) and limited by being dichotomous. Mainwaring et al. also argue that Freedom House scores are politically biased against Leftist governments. Citing other studies and providing examples of their own, they show that this bias is systemic. Also, they say Freedom House changed its scoring criteria in the 1990s. They conclude that

One must exercise caution in using Freedom House scores, especially to compare over time. Some conclusions based on Freedom House scores might be misleading because of its systematic biases, and the reliability and validity of its scores are subject to question because of the lack of explicit coding rules.

(2001: 55)

Although they found the Polity III dataset to be somewhat more explicit in its coding and aggregation rules, and less systematically biased than Freedom House, they show that the definition the dataset is based upon is muddled in its operationalization and that civil liberties and political inclusiveness are omitted from the scoring, though considered essential in the definition. Concluding from this analysis of quantitative measures of democracy, it follows that such measures of democracy are as problematic in understanding changes in democratization as descriptive analyses are.

Bearing the biases and problems with these datasets in mind, it is interesting to note (in relation to the preceding discussion of Menem’s leadership style) that Freedom House shows decreases in political rights and civil liberties for the Menem regime (the years of neoliberal reform) followed by slight increases in civil liberties during Kirchner’s regime (see figure 5).

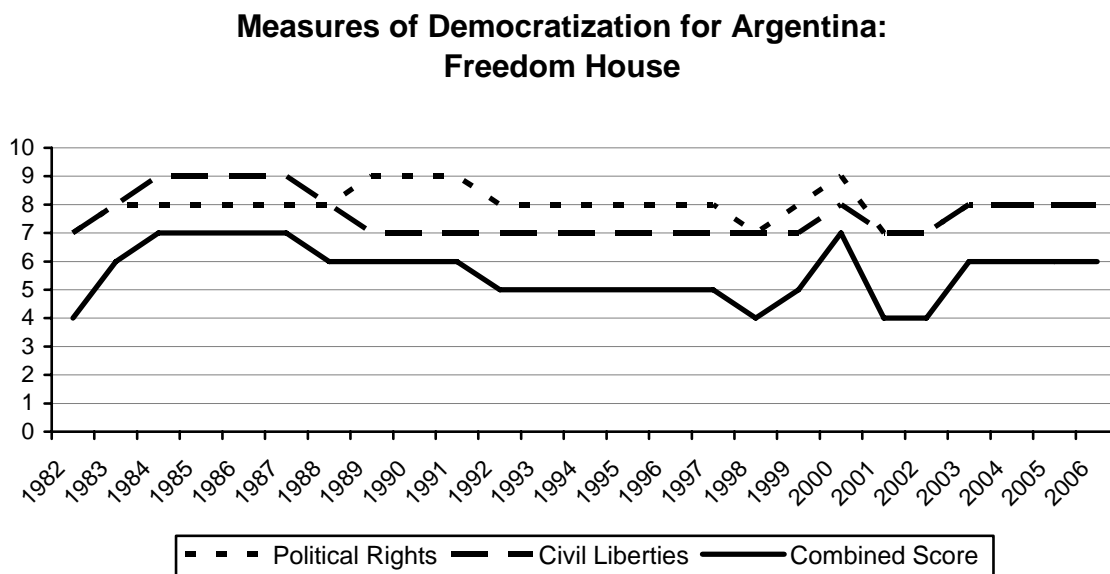


Figure 5: Freedom House Ratings for Argentina, 1982-2006²⁷

Similarly, Polity IV shows an overall decrease in level of democratization during the Menem regime, mainly reflected in changes in the level of constraint on the executive but moderated somewhat by an increase in competitiveness of participation. The overall level of democratization and the measure of executive constraint both rise slightly after Menem, but do not change under Kirchner's regime (see figure 6).

²⁷ Freedom House scores run from 1 to 10. The lower the score, the more democratic the state is. In order to make this graph visually consistent with the Polity IV graph, I took each Freedom House score (x) and subtracted them from the highest possible score (10) so that the scores in this graph (y) are based on the formula $10 - x = y$. This makes increases in levels of democracy translate into visual increases on the graph.

Measures of Democratization for Argentina: Polity IV

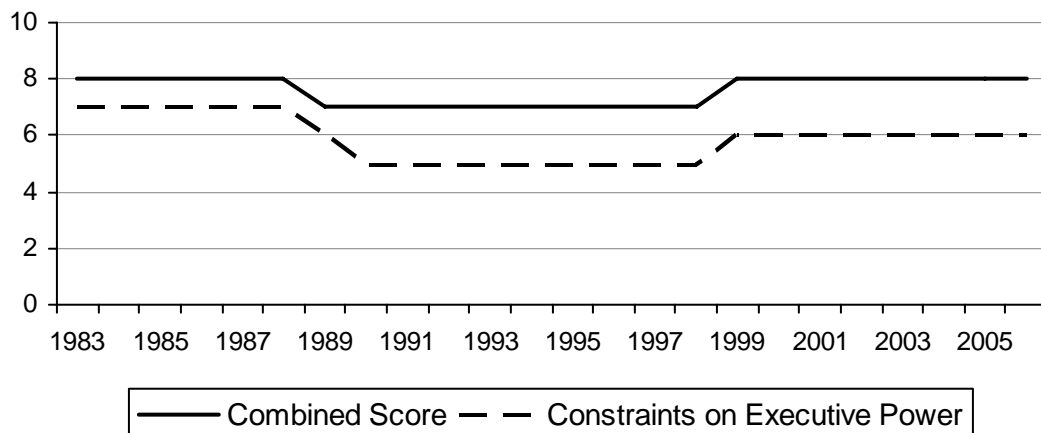


Figure 6: Polity IV Scores for Argentina, 1983-2005²⁸

Class Warfare?

Although there is no comprehensive study that seeks to measure the opinion of the Argentine financial and managerial elite regarding the neoliberal reforms of the 1990s, there are references and interviews in the periodical press that capture some of these opinions. For example, in 1991, Amelia Lacroze de Fortabat, a cement billionaire and Argentina's richest woman, told *Vanity Fair* magazine that "Everyone's a Peronist now" (Coad 1991). Similarly, O'Donnell (1991) claimed "Menem's popularity with business has soared with his success in taming the unions." He quoted Eduardo Tramutola, "a top business leader," as saying "Menem has been a pleasant surprise." O'Donnell's opinion on the business community is supported by Reuters (1990b) which reported that business leaders had agreed to support the government's efforts to fight inflation, but were impatient with the speed of privatizations. In 1994, Julio Macchi, the

²⁸ Polity IV scores run from -10 to 10. The higher the score, the more democratic the state is. Although Polity IV composite measures contain ten sub-measures, I have only included one of them: constraints on executive power, which illustrates that the main factor in de-democratization during the Menem years was due to the decrease in constraints on the executive branch.

president of the Buenos Aires Stock Exchange who was very optimistic about Menem, said “since the introduction of current economic policies, the level of share prices has accumulated a 220 pc gain” (Cowie 1994).

Although all of these interviews were positive towards Menem’s neoliberal reforms, one should hesitate to draw any hard conclusions from such information. Even taken together with Schwarzer’s (1998) and Treisman’s (2003) studies which clearly show Menem’s alliance with support coalitions of “free-market ideologues” and “major private businesses” (Treisman 2003: 104), as well as small right-wing provincial parties (2003: 98), this elite support is just one side of the evidence for Harvey’s (and others’) assertions that neoliberalism is a form of elite-driven class warfare.

The response of the middle- and working-classes and poor people to neoliberal reforms, taken along with the elite support for them, presents a more complete picture of the nature of these reforms. There is a good case that these reforms disproportionately hurt the middle- and working-classes and the poor (materially and politically) while strengthening the financial and managerial elites – who continued to see their share of income rise even during times of economic hardship (such as the Tequila Crisis and the 2001 crisis).

Argentina has seen many varied forms of social protest in the last 20 years. Even though some of these collective actions have not been consciously directed against neoliberal reforms, most of the scholars who study them have assigned these reforms some role in the creation of circumstances that led to collective protest. For example, Pozzi says,

The azos of the 1990s have had both specificities and commonalities. They were clearly the product of neoconservative market economic policies and limited democracy. Hunger, unemployment, marginality, the impossibility of obtaining redress from elected representatives, and the lack of a viable justice system were the most immediate causes.

(2000: 68)

In other cases, such as the *piquetes*, there is a direct and obvious link for the protestors to neoliberal reforms.

The earliest collective actions attributed to neoliberal policies were what Villalón (2007) calls the *puebladas* [Pozzi (2000) refers to them as *azos*]. These town revolts began in Santiago del Estero in 1993, when after three months without pay, government employees burned three government buildings and the houses of several political officials. Auyero says that the *Santiagazo* “combined protest against neoliberal structural adjustment programmes and public nepotism” (2003: 119, emphasis in original). Auyero demonstrates that the local government was under significant pressure from the federal government to cut public employment and decrease wages. At that time, the state was the primary employer in the province, employing nearly 46 percent of wage-earners (2003: 124). As Villalón points out, the *Santiagazo* was the first, but not the only, protest of this sort. “After the *Santiagazo* there were town revolts in other provinces – in La Rioja, Salta, Chaco, Entre Ríos, and Tucumán in 1994, Jujuy in 1994-1995, San Juan, Córdoba, and Río Negro in 1995, and Corrientes in 1999” (2007: 143).

The roadblocks or *piquetes*, according to Villalón (2007) started in the Patagonian Province of Neuquén in 1995. These roadblocks were a direct response to the desperate human conditions in the former YPF company towns of Cutral Có and Plaza Huincul where 23,500 people had fallen below the poverty line (Pozzi 2000: 65)²⁹. About 5,000 *piqueteros* manned barricades around the towns and were besieged by security forces until reaching a compromise with the government where they received some emergency relief aid. This form of protest became a favorite of the unemployed, underemployed, and the informal sector workers. Villalón says that “by 1997 70 percent of the provinces registered at least one protest of this type” (2007: 144). These *piqueteros* were often active in other protests such as the *Cacerolazos* in 2001.

During the Alfonsín presidency, the unions, especially those in the Peronist *Confederación General del Trabajo* (CGT), had been the biggest and most powerful force of contention against neoliberal reforms. Menem’s election caused intense confusion amongst the unions when he turned towards neoliberal reforms including deregulation of the labor market and privatization. Menem took advantage of the

²⁹ YPF is the abbreviation of the now privatized Argentine state oil company *Yacimientos Petrolíferos Fiscales*.

confusion and disagreements between union leadership within the CGT to split the power of the unions, supporting and rewarding leadership that remained loyal to the PJ and politically ostracizing and weakening the leadership that sought to remain independent³⁰. Menem was largely successful in his divide-and-rule strategy of dominating the unions. This is especially true of his first term in office which, as McGuire (1996) shows, witnessed a dramatic reduction in strike activity, as measured by number of strikes, number of strikers, and number of days lost to strikes. The CGT itself only held one general strike during his entire first term.

Although Menem was largely successful at breaking the power of the unions and in deregulating the labor market (a mutually supportive and linked process), some unions and many union members were greatly opposed to the mainstream leadership of the CGT. Patroni (2002a) describes the conditions that led to the founding of a rival, non-Peronist confederation of unions that wanted to be more militant. Known as the *Central de Trabajadores Argentinos* (CTA), this confederation began to adapt to the changing conditions of the labor market and successfully expanded its membership to non-traditionally unionized sectors of the workforce. The CTA attracted the unemployed, individuals (who could directly affiliate rather than having to affiliate through a constituted union), the self-employed, retirees, and workers from some areas of the informal economy (which greatly increased the representation of working women). The CTA also became affiliated with a number of “workers’ factories³¹.” The CTA was attractive as an alternative confederation to the CGT because “the CGT, by being part of the same political establishment that sanctioned the consolidation of neoliberal reforms in Argentina, has also become part of the problem. In short, traditional unionism has not been able to escape from the crisis of representation and legitimacy that permeates other political institutions in the country” (Patroni 2002a: 267). The CTA’s height of

³⁰ For a more in-depth treatment of this process, see Starr (1997: 102-105) and Treisman (2003:96).

³¹ For a good source of information on the occupation and re-opening of factories by workers without traditional management, see “The Take” (2004), a documentary by Naomi Klein and Avi Lewis. See also, Backwell (2003). Although “The Take” gives the impression that these factory takeovers were the beginning of a revolutionary change sweeping the economy, in reality they were a marginal, infrequent occurrence that did not substantively affect the wider economy. There is very little attention paid to them in the academic literature and virtually no attention paid to them by the press. For this reason, I have purposely de-emphasized their role as an anti-neoliberal response to reforms.

prominence was reached just before the massive protests of December 2001 when CTA was instrumental in helping the National Front against Poverty (FRENAPPO) draft an unofficial referendum in which 3.1 million Argentines voted on the creation of a national employment and training insurance program as an alternative to the neoliberal policies that had been implemented over the previous decade³². The results were completely overshadowed by the fall of the government.

Auyero does not causally link the dramatic food lootings that took place in December 2001 (see Auyero 2006, 2007; and Auyero and Moran 2007) to neoliberal reforms. He says they were not carried out, in the main, as a reaction to neoliberal reforms as such. However, there has been a strong case made in both the academic literature and in the periodical press that neoliberal reforms have resulted in growing levels of poverty and a reduction in social spending due to government austerity measures. As Auyero shows, the main participants in these food lootings were the very people that neoliberalism had left behind. They were, according to him, primarily poor and working-class people who took part in these violent collective actions. Auyero also shows that these actions were not simple, easily-explained events with political parties, police, and store owners on one side and looters on the other. There was, rather, a complex interplay between these groups within a “grey zone.” Sometimes the political brokers (*punteros*) negotiated a successful looting with the store owners, sometimes the police prevented lootings, sometimes the police joined or led them.

Auyero points out that in the Argentine investigative journalist press, there was an argument that the Peronist party had orchestrated the lootings (2006: 241-242). However, he is careful to state that there is no definitive causal link for this argument and that in many cases there is no proof that *punteros* were there at all. Some of these lootings were however, organized or at least partly instigated by *punteros*. Also, as Auyero says, “the procurement of food is the main task of brokers of the Peronist party” (2006: 262). Also:

Far from being outside organizers, political party brokers are deeply embedded in the everyday life of the poor. In poor and working-class neighborhoods, shantytowns and squatter settlements throughout Buenos Aires, the poor and

³² For more on this see Patroni (2002: 272-273).

the unemployed solve the pressing problems of everyday life (mainly access to food and medicine) through patronage networks that rely on brokers of the Peronist party (locally known as *punteros*) as key actors. Depending to a great extent on the (not always legal, not always overt) support of the local, provincial and national administrations, these problem-solving networks work as webs of resource-distribution and of protection against the risks of everyday life.

(2006: 261)

With this in mind, it is possible to see the food lootings in a new light: as violent collective actions by the poor, in a socio-political setting of financial and political crisis brought about in large part by neoliberal reforms, in which the normal functioning of clientelist networks were failing to provide the essential material goods necessary to keep the poor under social control. In this view, the food lootings could be seen as a social and political response that procured for the poor the necessities that the clientelist networks (and government services) were unable (or unwilling) to provide at that time. Auyero seems to excessively downplay the role of neoliberal reforms in initiating these food lootings. The complexity of the interactions that took place within the “grey zone” do not reduce the impact of neoliberal reforms. Even with Peronist manipulations, there had to be a minimal level of hardships in place for collective action. These hardships were largely the result of neoliberal reforms.

The *cacerolazos* were largely a middle-class protest against the political and economic conditions in December 2001. Although they occurred alongside the food lootings of that same period, they were not connected to them. Villalón describes them as a heterogenous collection of mostly middle-class people (or until-recently-middle-class people), taking to the streets and banging pots and pans (2007: 145). The *corralito*, a government freeze on bank accounts was one of the direct causes involved, although there were many other factors in bringing about such a radical collective action from what had normally been considered as a more socially-conservative class. Goddard (2006) lists several of these other factors including: a loss of memory in regards to the fate of individuals involved in such actions in the past (specifically during the junta); a decade of watching friends, neighbors, and co-workers fall from the middle-class due to

neoliberal reforms; and the realization that this was a social – not a personal – issue. In addition to these factors, Goddard says that the middle-class was mobilized over time by prior collective actions. She says due to the government’s neoliberal policies over the previous decade, society was falling into crisis. “With unemployment at nearly 20 per cent and underemployment pushing the population living in poverty to nearly 50 per cent, the national market was shutting down” (2006: 273). Goddard also argues that the middle-class was galvanized into protest by a combination of national pride and a sense of failure, disillusionment, humiliation, and shame over the change to a high risk rating of the Argentine bonds, “images and statistics about malnourished children in various parts of the country [which] caused shock and revulsion,” and the realization that they were not, as a country, more similar to Europe than to their poorer Latin American neighbors (2006: 277).

Goddard also argues that as middle-class protests, the *cacerolazos* were not sustainable over the long-term. When the middle-class took to the streets, banging pots and pans and chanting *Que se vayan todos*, it was “a frontal rejection of what was now perceived as a self-serving and corrupt governing class and a loss of faith in neo-liberalism, which was blamed for having brought Argentina once more to the brink of chaos” (Grugel and Riggirozzi 2007: 94).

Government Collapse

Fernando de la Rúa headed a coalition of centrist and center-left parties in the 1998 elections. He was from the centrist Radical Civic Union (UCR) and his vice-presidential candidate Carlos “Chacho” Alvarez was the leader of the center-left *Frente por un País Solidario* (FREPASO). The coalition of these two and several smaller parties, calling itself the *Alianza por el Trabajo, la Justicia y la Educación* (Alianza), was elected over the Peronist candidate Eduardo Duhalde and given a mandate to continue neoliberal reforms, but to increase social spending, and also, to put an end to the political culture of corruption that had come to be associated with the Menem era.

The new de la Rúa government faced a rapidly worsening economic situation that placed a series of political-economic policy constraints on it. First, there was the

Convertability Law which had successfully brought an end to hyper-inflation, but which had become a drag on the economy as the dollar (to which the Peso was pegged at an exchange rate of 1:1) appreciated in value throughout the 1990s. This appreciation had hurt the Argentine export economy, hitting the industrial sector hardest. The hit to industry was a two-fold one (domestic- and export-oriented): as the peso appreciated along with the dollar, export demand fell but foreign goods became cheaper. Along with decreased tariffs, imports began to flood into Argentine markets, putting more competitive pressure on production for the domestic market. The Convertability Law had also established the currency board, which “took monetary and exchange-rate policy tools out of the hands of governments, leaving them without the policy tools to respond to economic shocks and downturns” (Levitsky 2005: 81). De la Rúa was under pressure by the international investment community to rigidly maintain the Convertability Law despite these problems.

A second major constraint was that although the PJ no longer held the presidency, its patronage networks were still intact, it still held an overwhelming majority in the Senate, and most of the provincial governments were dominated by Peronists. This required a level of compromise with the opposition party that Menem had not been subject to and placed a strain on the Alianza coalition. When allegations of bribery in the senate surfaced in 2000, Vice-President Alvarez – whose party had run on a strong anti-corruption platform – demanded an investigation. De la Rúa balked at this and the Alianza fell apart as Alvarez and many other FREPASO officials resigned their posts in protest.

A third constraint on the de la Rúa government was the national debt, which forced the government to continue to negotiate with the IMF, which was pressuring the government not to use counter-cyclical spending to ameliorate the unemployment and underemployment problems that by this time affected 4.5 million people in Argentina (Llanos and Margheritis 2006: 88). In order to appease the IMF and foreign investors (as Argentina’s risk rate continued to rise) de la Rúa enacted a series of austerity measures that deepened the economic crisis further (Levitsky 2005, Llanos and Margheritis 2006).

By March 2001, de la Rúa was forced to replace his second economy minister. In order to try to shore-up investor confidence, he chose Domingo Cavallo for the post. “Cavallo announced a ‘Zero Deficit Plan’, cutting pensions and public sector wages by as much as 13 per cent, and reduced federal transfers to the provinces still further” (Grugel and Riggirozzi 2007: 93). This led to renewed protests and in October, the Alianza received a devastating defeat in the mid-term elections. Levitsky reports that the 22 percent of voters who placed protest votes (blank or spoiled ballots) against the entire political system exceeded that of the Alianza’s share of the vote (2005: 82).

In November, following this dramatic electoral defeat and in a worsening economy, a run on the banks started. In order to prevent total financial collapse, Cavallo announced the *corralito*, a freeze on all bank deposits. Levitsky says:

The so-called *corralito* (playpen) deprived the middle classes of their savings and starved the cash-dependent informal economy that sustained much of the poor. The political consequences were devastating. On December 18 and 19, Argentina exploded in a wave of rioting and protest. Widespread looting erupted in Greater Buenos Aires, and in various parts of the country, unemployed protesters (*piqueteros*) blocked major roads and highways. In the capital, protesters took to the streets banging pots and pans in protests known as *cacerolazos*. The government declared a state of siege and ordered a police repression that resulted in more than two dozen deaths. The killing eroded the last vestiges of De la Rúa’s authority, and on December 20, he resigned.

(2005: 82)

Llanos and Margheritis (2006) argue that the collapse of the de la Rúa government in 2001, although influenced by economic events, had more to do with de la Rúa’s style of leadership and that a different personality in that position would have had a chance to prevent the government’s collapse. Although there is no way of knowing how a different leader would/could have handled the economic collapse differently, their argument seems a bit of a moot point given that even they agree that the economic collapse was an immanent occurrence and the socio-economic structural legacy of the

Menem presidency had created a large, restive population of people who felt totally left out of the previous decade's economic growth.

De la Rúa's resignation caused a "political-institutional collapse" (Grugel and Riggirozzi 2007: 87) because without a vice-president (he had not replaced Alvarez) there was no clear line of succession. In less than a month, the presidency passed through three interim presidents and defaulted on its national debt before the congress formed a more stable interim government and elected Eduardo Duhalde (a Peronist) to operate as the acting president until elections could be called.

During Duhalde's short interim presidency (2002-2003), the social protest calmed somewhat and the economy began slowly to stabilize. Duhalde rejected orthodox economic policies, which would have been intended to restore IMF and international investors' confidence in the economy. Duhalde quickly abandoned the Convertability Law and converted all deposits and debts into pesos, automatically devaluing the currency. This devaluation led to an almost immediate increase in export demand, giving the productive economy a much-needed boost. He "considered it imperative to take control of the new sources of production and to reintegrate the new social actors [the social movements discussed above] into the formal channels of state-society networks" (Grugel and Riggirozzi 2007: 95, the bracketed insertion is mine). Grugel and Riggirozzi argue that at this time, Duhalde set out on a new development path based on a "new alliance between state, markets, and civil society" (2007: 95). He established price controls and increased taxes on exported commodities in order to lower food and fuel costs in the domestic markets. Duhalde also called for early elections in 2003 and the race saw a splintering of the *Partido Justicialist* into several factions. The Radical Civic Union and its former allies were crippled by the disastrous de la Rúa presidency and did not pose a serious electoral option (see Levitsky 2005: 85). In the ensuing election, there were three Peronist candidates, Carlos Menem, Rodriguez Saá (who had been one of the short-term interim presidents in December 2001), and the relatively unknown provincial governor – Néstor Kirchner, as well as several candidates from leftist parties.

The Peronist vote was split and the two top ranked candidates, Menem and Kirchner entered a run-off election. Levitsky claims that Menem pulled out of the run-off

election due to plummeting opinion polls (see also: Lapper and Thompson 2003; Gardner 2003), Menem claimed otherwise. Regardless, Kirchner won the election and assumed the presidency in 2003.

Kirchner's Presidency

Néstor Kirchner has been referred to as a “traditional Peronist” who responded to increases in inflation with “statist fashion” by the press (Rohter 2006)³³. Much of the press received in the first years of his administration was either cautiously hopeful that he would act more orthodox than he spoke or openly critical of his lack of commitment to orthodox economic principles³⁴. Many of these criticisms come from an uncritical acceptance among many non-academics of neoliberal policies as common sense. Levitsky describes Kirchner’s first actions in office as attacking state agencies linked to corruption, restructuring police and military hierarchies, reforming the compromised judiciary, and distancing himself from Menem and neoliberal policies (2005: 86-87). Although this does not necessarily make him a traditional Peronist, many of his policies and reforms were closer to Perón than to Menem. Grugel and Riggiozzi (2007) characterize his policies as “*neodesarollismo*” (neo-developmentalism) saying, “Kirchner focused government policy on 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” (2007:97).

When Néstor Kirchner assumed the presidency in 2003, he formed an economic advisory team that included no US-trained economists. They held the view that

³³ Although I am not sure how Rohter is defining a ‘traditional’ Peronist as opposed to just a Peronist, it would seem from the tone of his article that the term is meant to carry a negative connotation. Perón himself built a coalition of urban working class, military officers, and an industrial elite all of whom benefited from his policies of a nationalist political rhetoric, a developmentalist economic policy that included strong (but colluding) unions and a strong support for domestic industry, as well as the national control of strategic and essential services (such as railways, telecommunications, and utilities). He was also a paternalistic and borderline dictatorial leader who harassed and pressured groups that did not support him. The state he built is best described as corporatist.

³⁴ For examples of guarded optimism in the press, see: Casey and Wong (2003); Hennigan (2003); Gardner (2003). For examples of press criticism of his ‘heterodoxy’, see: Desmond (2005); The Economist (2005a) and (2005b); Mander (2006); The Economist Intelligence Unit: Executive Briefing (2005); The Economist (2006).

repayment of foreign debt was not important enough to demolish living standards for Argentines. By renegotiating the loans, Kirchner was able to restore economic growth to Argentina. In March 2005, Argentina and 76 percent of its private creditors agreed that the return of a fraction of the money they had loaned it was better than none and it was agreed that Argentina would pay 34 cents on the dollar for its debt (Stiglitz 2006: 215). Following this debt restructuring, Argentina and the IMF entered into intense renegotiations over Argentina's IMF debt and Argentina refused to cave-in. "Finally, Argentina also realized that the IMF and other international lenders had as much to lose as it did if they did not roll over their loans" (Stiglitz 2006: 223). After Argentina concluded its negotiations with the IMF and removed the fund's preferred austerity program, it experienced economic growth. According to Stiglitz, "Without IMF-style contractionary policies, without the flow of money out of the country to repay creditors, and helped by the large devaluation of its currency, Argentina racked up three years of growth of 8 percent or more" (2006: 223-224).

These hard-nosed negotiations with the IMF are one example that Grugel and Riggiozzi (2007) provide of Kirchner's *neodesarrollismo*. They point out that he was crucially different than Perón in that Kirchner's government's actions in relation to markets are selective, often temporary, and specifically targeted at limited goals like inflation, unemployment, and tax reforms. They say that this often appears *ad hoc* to analysts but that there is a logic to such interventions. It is a "new role for the state" (2007: 100), designed to re-create an independent decision making role for national governments in a capitalist world-system. This new role for the state includes a renewed emphasis on production for the domestic market (including a reindustrialization drive) as well as the targeted development of some more competitive sectors of production for export, similar to the path followed by the Asian NICs.

Early in 2006, Argentina repaid the IMF in full with money it received through the sale of government bonds to Hugo Chavez's Venezuelan government at twice the IMF's 4 percent interest rate. Kirchner did so to get the IMF off his government's back in order to regain complete economic sovereignty. It was also politically popular to do so and his ratings rose to around 80 percent after the early pay-back.

Kirchner's *neodesarrollismo* is more socially equitable than Menem's neoliberalism. The polarization of wealth, though not yet back to the levels that it was during Menem's presidency, is on a downward trend³⁵. Unemployment has steadily declined. The economy has grown almost 9 percent annually while inflation has been kept, for the most part, in the high, single digits. The main method for doing this for Kirchner has been state pressure on grocery stores and gas stations to lower prices "voluntarily" with the sometimes implied, sometimes speculative concern that their failure to do so would result in governmental action. In some situations, Kirchner would imply that the government was going to impose some form of price controls on grocery chains or gas stations that refused to voluntarily lower prices. At other times this strategy was successful when he merely speculated on whether the government should consider price controls. These kinds of pressures were always coupled with popular social pressures exerted by mobilized citizenry. An example of this would be Royal Dutch Shell's attempt to raise prices, against the government's wishes, in which large protests blocked Shell stations until the chain gave in (see Mander 2006). This pressured compliance is indicative of Kirchner's move to "bring the state back in" to the economy.

Kirchner enjoyed strong popularity during his term in office due to the resumed economic growth, lowering levels of inequality, decreasing levels of poverty, and the formal inclusion of groups such as the *piqueteros* that had no institutional role in previous governments. Whether or not this represents a move towards more inclusive institutionalized democracy is still an open question. Hagopian (2005) argues that after the last twenty years of Latin American developmental failures and economic crises, the flame of democracy burns quite low in the hearts of many Latin American citizens. She cites several polls that show that most Latin American citizens (of democratic states) are at most ambivalent about the benefits of democracy and at worst, willing to trade it all away for some better economic gains. She cites several examples of polls saying that Latin Americans are unhappy with market liberalization and austerity programs, even

³⁵ As I show above, during Menem's presidency, the level of inequality has an upward trend. This trend continued until the economic collapse in 2002. It remained on a downward trend during Duhalde's and Kirchner's presidencies but by the end of Kirchner's presidency, it was still higher than it had been prior to Menem's neoliberal reforms.

showing support for politicians with dubious democratic convictions as long as they promise to end austerity measures. In the case of Argentina, Grugel and Riggiozzi tentatively conclude that Kirchner's economic nationalism may be better than the neoliberal model. They say "To some extent, it [*neodesarrollismo*] 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; however, ... It is still too early to say whether *neodesarrollismo* represents a positive example of the kind of post-neo-liberal" model of development that the developing world needs (2007: 106).

Authors like Robinson (2006) and Cerny et al. (2006), are clear in their stance on whether an alternative to neoliberalism (like *neodesarrollismo*) is possible in terms other than rhetorical. Both say that there is no going back. Cerny et al. seem to contradict themselves in their conceptualization of the competition state, however. They say that after the failure of market reforms, economic elites are now pushing more 'social' forms of neoliberalism. If this is true, then such changes provide openings for successive social reforms that further embed the economy within the socio-political sphere. A question for future research would be: is this what Kirchner represents? Is his a social or embedded *neo*-liberalism, or is he representative of a break with the neoliberal stage of development and a return to developmentalism? Cerny et al. preclude such a possibility by pointing to the wider international political economy and claiming that such a move would lead to a loss of international economic competitiveness that would eventually undermine the domestic economy.

Although part of the subtext of my argument has been that the neoliberal phase (especially Menem's part in it) represents a decrease in levels of democracy in Argentina and Kirchner represents a possible move towards increased democratization, does this mean that democracy becomes real (rather than Robinson's low-intensity version) through class struggle? Can poor people take advantage of opportune moments of history to rebel or otherwise change the course of the system successfully, as Piven and Cloward (1979) maintain? Veltmeyer (2007) holds out hope that social movements can change the

state from a source of social exclusion to one of social inclusion. In addition, he maintains that such a change is regional and thus possibly sustainable over the long-term.

Chapter 4

Conclusion

Was Argentine Neoliberalism Class Struggle?

The above analysis of Argentine neoliberalism provides a compelling case in favor of the argument that neoliberalism is constitutive of class struggle. Beginning with the Austrian School's critique of socialism and embedded liberalism, I traced neoliberal theory from its inception to the present. In this history I attempted to show that it is a normative theory that is full of contradictions. Neoliberalism claims that the state is a barrier to the proper functioning of the market yet relies on consistent and strong state interventions of specific kinds: enforcement of property rights and contractual obligations, union busting, and promoting competition. Thus, it represents a state realignment rather than a shrinking of the state. Neoliberalism claims that the market defines society, but this has not always been the case in human history. Neoliberal theorists claim to be reinterpreting Adam Smith, in essence purifying liberalism of its Keynesian deviance, while ignoring that Smith called for government intervention in the market to provide for education and infrastructural development and to restrict the tendency for competition to lead to monopoly. Smith also expressed a very strong caution against allowing business elites to influence government decision-making. In addition to these contradictions, critics of neoliberalism, from Polanyi to Stiglitz, have argued that the creation of a pure market society is a utopian theoretical fantasy that simply *could not* work in reality.

Despite these contradictions (and neoliberalism's abysmal track record – especially in the realm of development), this theoretical perspective is still pushed by true-believers in the benefits of a commodified world market society. As Polanyi pointed out over half a century ago, the fantasy lingers because its failure to be fully implemented by societies that deteriorate more the closer that they get to full implementation, provide theorists with an opportunity to claim that it didn't work because it wasn't fully implemented (rather than the obvious: it wasn't fully implemented because it doesn't

work!). The Polanyian notion of double movement, where regulation emerges from either states or social movements when free-marketeters push society too close to the precipice, explains the failure of full implementation much more coherently than do the neoliberals.

In the second chapter I also critiqued neoliberalism for its class specific costs and benefits. I described the literature that makes these claims and explored the possibility that clientelist networks can reinforce this pattern of inequality by alleviating some of the worst effects of neoliberalization on poor people. In addition, neoliberalization and clientelist networks have an effect on democracy that I will explore below.

In the third chapter, I explored Argentina's neoliberal experience as a concrete example of the theoretical arguments I made in the second chapter. I focused on four specific reforms and the changes that they wrought on different strata in Argentine society. I showed that the implementation of neoliberal reforms carried a high social cost that eventually led to the adoption of at least the rhetoric of a new developmentalism, as well as some concrete reforms towards either a watered-down neoliberalism or the beginnings of something else. I argued that the Argentine case was a good test for the claim that neoliberalism is class struggle. This was due to a combination of factors, 1) it was a country that was fairly well-developed industrially, 2) it had a strong, well established and politically-connected labor movement, and 3) it was a democracy that, though young, had weathered a serious economic crisis during a presidential transition without resorting to undemocratic means. The evidence that I present in Chapter 3 clearly points to the fact that neoliberal reforms are constitutive of class struggle.

The Argentine state's adoption of neoliberal reforms represented an alliance between the economic elites and the state that realigned the socio-political structure such that the working class and the poor lost power, influence in the democratic process, and material economic welfare. At the same time, a certain section of the elite gained in economic power. Simultaneous to these gains for the elite and losses for the majority, there was a hardening of the social structure that was a result of the creation of many small barriers to social mobility that neoliberalism imposed. Cuts in healthcare and education spending; the imposition of tuition in national universities (which had been

free); privatization of public services and utilities that resulted in higher costs to consumers; and rising unemployment, underemployment, and informal employment; all represented this new hardening of the social structure. Taken individually, any one (or even a couple) of these small barriers to social mobility would represent merely an inconvenience – a speed bump. All together however, they result in a hardening of class structure. The most telling support of this argument is the international (investment-oriented) media's and the domestic Argentine elites' praise and acceptance of Menem and his reforms.

Prior to Carlos Menem's presidency, the Peronistas' working-class interests were represented primarily by the *Partido Justicialist* (PJ) and the *Confederación General del Trabajo* (CGT). The PJ was always more of a social movement than a traditional political party. Although Perón designed it this way in order to retain a less structured, more personalistic control over the organization, after he was exiled and successive military juntas banned the PJ, this informal organizational structure helped it to survive periodic government crack-downs on Peronism. Throughout this period (1946-1972) and up until the present, the PJ has remained the primary mobilizing force of working-class political expression. Similarly, the CGT (which was also created by Perón – to provide control over the organized labor movement) remained the most important organization for the labor movement until Menem's presidency. Although there were more radical elements of the Left that had links to Peronism (such as the Monteros – a revolutionary socialist Peronist group), these groups were largely squashed by Isabel Perón and the last military junta during the 'Dirty War' of the 1970s. Also, the majority of the working class remained more firmly aligned with the more conservative traditional Peronism (represented by the PJ and CGT).

As I argue above, the CGT under Menem became a somewhat complicit partner in the stripping away of the political influence of the labor movement. At the same time, Menem and his economy ministers were stripping away the social safety net that had been constructed since Perón in a move that undermined the middle-, working-, and lower-classes' abilities to meet their material needs of social reproduction and their ability to engage in institutionalized political activity. The response by the working-class

was divided. Many unions remained loyal to the CGT – though many of these sought to change the organization from within. A significant number of more militant unions broke away and formed the *Central de Trabajadores Argentinos* (CTA), which resisted many attempts by the government to impose neoliberal reforms. As the 1990s progressed, the impact of strikes decreased as union membership on the whole declined, Menem moved away from Peronism's traditional labor base, and privatizations eviscerated the once powerful public sector unions.

In this atmosphere, the CTA adopted new tactics and entered into new social alliances (all of which I describe in chapter three). One of the new alliances that the CTA was attempting to establish was between labor and groups within the rising population of the unemployed (whether they were formerly from the working- or middle-class). However, this population of unemployed people were sometimes heavily reliant on clientelist networks; a situation that was at once a valuable survival option for structurally poor people and an attempted means to control their political allegiance. While cutting spending on social services, the Peronist-led (and later the UCR-led) federal government began in the late 1990s to implement emergency aid and employment programs to alleviate some of the worst poverty that resulted from economic liberalization. This reinforced the power and importance of clientelist networks because the local and provincial level political parties (especially the PJ and its allied parties) got to control how the money was dispensed through these emergency programs. Most of this emergency aid was funneled into the clientelist networks.

An argument could be made that a democratically elected government, such as Menem's, which garnered a great deal of the working class and poor vote, is hardly an expression of elite-class struggle and unlikely to be successfully used by elites as a tool of class struggles.³⁶ The facts of the case stand in stark contradiction to this argument. Menem's difference in behavior prior to and after the election, his radical departure from the social and economic expectations of his constituents, the domestic *realpolitik*

³⁶ There is a long-standing literature among European Marxists who have argued vociferously if class struggle may be furthered through ballots and governments, or whether the struggles must be held in the streets.

exemplified in his strategic use of clientelist networks and divide-and-conquer control of the unions, all point to a record that, at best, represents an instrumental using of the existing Peronist power structure for a totally different agenda. At worst, Menem looks like an elite Trojan Horse that was able to badly mangle the institutional sources of non-elite political influence.

Menem's reelection is more difficult to explain. It took place however, before the true costs of neoliberal reforms were manifest. Though unemployment was on the rise and austerity reforms were beginning to bite, no one had forgotten the hyper-inflation – which Menem could claim to have successfully ended (for a while). Also, by the time of his bid for reelection, the Peronist patronage networks were well-established, the major unions were largely compliant, and Menem was making pledges to increase social spending. In addition, the opposition Radical Civic Union was directly linked to the hyper-inflation that came at the end of Alfonsín's presidency.

The presence of clientelist networks in a democratic state raises some important questions about the legitimacy of democracy as a process in such a state. Assuming that (contrary to Schumpeter) democracy means more than a regular opportunity to vote, the presence of clientelist networks signal a serious societal problem. To begin with, clientelist networks are not effective – and therefore are unlikely to persist – in a society where it is difficult or impossible to monitor the behavior of the poor people who are the recipients of clientelist disbursements. Argentine clientelist networks are persistent for just this reason. It is possible for patrons (*punteros*) to monitor clients because the voting system does not use Australian ballots (see my note on p. 32). Also, the flow of goods, services, and other resources that flow down through these networks does so in such a way that it is possible for there to be many local level career party officials that penetrate social groups and small communities, thus enabling the monitoring of everyday behavior of the clients even during non-election cycles.

A second issue with patronage networks is that their presence in a country as developed as Argentina signals an unhealthy structural poverty that is itself an impediment to political activity. How can structurally poor people be expected to actively take part in democratic processes if they are constantly preoccupied with survival? For a

democracy to function at more than a surface appearance, as many citizens as possible must not only have the formal right to take part, they must also be capable of doing so meaningfully. This is where clientelist networks serve a dual purpose. If there is no one else providing poor people with the necessities for life that they are unable to acquire otherwise, then they are keeping people alive. In some narrow cases, they can even give these people some limited agency in the sense that if the goods don't flow, the party that operates the networks doesn't get votes. However, the networks also constrain action when they can effectively monitor political behavior, and their control over necessities of life gives them great power over people's lives.

As Harvey, Robinson, and Veltmeyer et al. have argued, the policies that states implement have very direct implications for class – and they do in this case. It is undeniable that the market liberalizations carried out by the Menem and De La Rúa governments harmed the working class, the lower-class, the middle-class (including small business owners), industrial capitalists, pensioners, and the public sector. It is also clear that these same reforms benefited certain segments of the upper-class (financial elites and the more corrupt politicians). Thus, in the case of Argentina, neoliberalization represents a clear case of class-struggle in which an identifiable segment of the elite-class was able to influence government policy in their favor at the expense of virtually the entire rest of the population.

There is however, one aspect of Argentina's neoliberal experience that does not bear out Harvey's arguments. Harvey states that neoliberal reforms are unidirectional forms of class struggle. In the case of Argentina, although the benefits of successful reforms may be unidirectional, the struggle involved over adopting and successfully implementing these reforms is clearly *not* unidirectional. Whether non-elite response comes in the form of *azos* and food lootings, *cacerolazos*, *piquetes*, or labor strikes, the non-elite (at least some of them) see these reforms as being contrary to their own class-interest and seek to oppose the implementation of such reforms... or, if they are already enacted, to express their opposition to the reforms' continuance. In this way, these collective actions target the state from the positions of the middle- working- and lower-classes.

How did class struggle in Argentina influence democracy, and vice versa? In its liberal democratic form, the state serves as a mediator for various social conflicts in society³⁷. It does not do this equally or neutrally though. In Argentina, the state has been a site of struggle for power over society. Following the last Junta, Argentineans struggled to create a government that would work to distribute power more equally across society. Argentine citizens wanted a democratic state. However, the idea of what democracy looks like depends on an individual's location in the social hierarchy.

For most of the conservatives that Menem brought into his government, democracy was what Robinson calls low-intensity democracy. This type of democracy seeks to create buffers between the political system and the economy so that changes in whichever ruling elites are in office do not necessarily relate to changes in the rules or structure of the economy. For this to be the case, the Argentine government had to extricate itself from markets except in some limited and fundamental roles as organizer and guarantor of "free markets" and protector of private property. An important aspect of this process is the cutting back of social provisions like welfare, employment, and other areas where the government traditionally insulated individual people from the vicissitudes of the market.

Such reforms are exactly what the conservatives (who represented Argentine elites) got from the Menem government. Under the pretence of reducing the national debt (which actually grew during the Menem years), Menem carved away at what the pro-market press frequently referred to as a "bloated state." As I pointed out above, the result of these reforms was the creation of many small barriers to social mobility. These also acted as small barriers to political participation effectively insulating economic decision-making by government-appointed officials from the democratic process.

In this environment, when coupled with extensive corruption among government officials, the only real recourse people had was to barricade roads, protest in the streets, and bang pots and pans to *make* themselves heard by the government. By the time of the economic collapse in 2001, such collective actions had reached fever pitch and consisted

³⁷ I am thinking here of class, ethnic, cultural, gender, tribal, or other conflicts that must be subsumed in order for society to function.

of all classes of people from middle-class to the desperately poor. With such widespread participation, these protests were able to force three different presidents to step down in a matter of weeks.

The case of Argentina illustrates the different ways in which social classes can exert power in a liberal democracy. Elites are in positions that lend them easy access to political power. Their positions represent a certain level of social and economic power that translates more or less directly into political power. For non-elites however, political power is atomized into the vote and more direct exercises of power must come in the form of collective action. The case of Argentinean neoliberalism demonstrates that class struggle and democratic politics will continue to be fought in the halls of government and international financial institutions as well as in the streets.

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