

**Economic Policy Reform in Late Industrialisers:
Argentina and Spain since 1950**

Thesis submitted for PhD examination

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Abstract of Thesis:

The new institutionalist school of economics addresses the divergence between countries' long-run economic performance by attributing it to differences in institutional heritage. Institutions which suppress the kleptocratic inclinations of governments and enshrine a 'credible commitment' to protect property rights encourage productive activity. But that is not to say states that cannot ensure universal property rights have not achieved economic growth. Such governments may resort to clientelist arrangements that guarantee a subset of asset holders their property rights will be protected in exchange for political and economic support. Such a system of 'crony capitalism' is an inefficient allocator of resources but it can ensure political stability which in turn allows an otherwise weak government to preside over sustained growth. This thesis compares the fortunes of Spain and Argentina, two 'crony capitalist states' characterised by distributional conflict, between 1950 and 2000. The principal hypothesis is that Spain's economic performance far outstripped that of Argentina over subsequent decades because the web of alliances between the state and society included a greater variety of economic interests than its Argentine counterpart and consequently achieved a closer approximation of a credible commitment to universally guarantee property rights.

Argentine corporatism constructed in the late 1940s by president Juan Peron failed to integrate powerful interests and Argentine society is consequently defined by a variety of well-organised and powerful economic interest groups that compete for a share of national rent. The executive is forced to negotiate directly with these groups to secure support for new economic policy rather than operate through an effective state bureaucracy. Interests left out of the alliance will act to change the policy or remove the president, resulting in Argentina's perpetual cycle of economic and political instability.

In Spain, the executive presided over a state segmented between interest groups. Each group was rewarded in return for loyalty with control over the ministry pertinent to a particular area of Spanish society. Economic interests such as labour, business and agriculture, meanwhile, were represented through compulsory membership of a monolithic syndicate. Within this bureaucracy, different factions representing a variety of economic interests engaged in a war of attrition to shape policy before the arbitrating dictator. This highly centralised state bureaucracy survived the transition to democracy and Spanish political parties abandoned their class-based identities and became mass movements organised under disciplined hierarchies of control. Thus negotiations over reform continued to operate within the state which ensured political stability which is a pure public good and encourages productive activity.

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Introduction

In the mid twentieth century many underdeveloped economies embarked on state-led drives to industrialise and renegotiate their status on the periphery of the world economy. In its early stages forced industrialisation through fiscal expansion is redistributive and transforms society. It empowers a new industrial bourgeoisie to challenge old, land based elites and encourages such processes as urbanisation and the growth of a proletariat to eclipse the peasantry. Later in the cycle, the expansionism characteristic of this model proves inflationary, puts a strain on reserves and the increased instability creates the need for an orthodox stabilisation.¹ Yet in the newly industrialised economy, fiscal restraint and deflationary structural adjustment will meet stiff opposition from groups associated with or nurtured by industrial growth. The prescribed austerity will be resisted at popular levels because reduction in excess demand to curb inflation translates into reduced purchasing power for urban waged labour. Meanwhile, the elite ideologues who elaborated the model as a blueprint for modernisation will consequently reject a change in policy direction in the name of order and progress. In short, rapid economic change necessarily creates tensions that threaten political and, by extension, economic stability.²

Political order is commonly identified as a public good and an economy's long-term path dependence is defined as directly influenced by a state's capability to provide it. This depends in turn on whether the state has the capacity to convince its citizens that it would fastidiously enforce their property rights which means a robust set of institutions are required as a foundation of secular success.³ But what if the state is unable to make this 'credible commitment' on account of institutional shortcomings? The argument suggests progress will necessarily be pedestrian yet strong economic growth rates sustained over decades are by no means exclusive to countries with a tradition of unconditional protection of property rights. More recent work suggests governments that cannot universally enforce such rights adopt clientelist arrangements to protect the interests of a subset of asset holders in

¹ See for example, Alesina, A. 'Political Models of Macroeconomic Policy and Fiscal Reform,' in: Frieden, J., Pastor, M. and M. Tomz, *Modern Political Economy and Latin America: Theory and Policy*, Boulder, 2000, or Haggard, S. 'Inflation and Stabilisation,' in: Frieden, J and Lake, D, *International Political Economy*, London, 1995.

² Huntington, S. *Political Order in Changing Societies*, New Haven, 1968.

³ North, D. *Institutions, Institutional Change and Economic Performance*, Cambridge 1990; North, D. Summerhill, W. Weigast, B. 'Order, Disorder and Economic Change', in Bueno de Mesquita, B and Root, H *Governing for Prosperity*, New Haven, 2000; North, D.C. 'The New Institutional Economics and Third World Development' in Harriss, J, Hunter, J, Lewis, C, *The New Institutional Economics and Third World Development*, London, 1995

exchange for political and economic support. This 'crony capitalism' is an inefficient allocator of resources but can ensure political stability, which in turn allows an otherwise weak government to preside over sustained growth.⁴ The literature is less clear, meanwhile, on what determines divergence in long-term economic performance between crony capitalist systems.

This study uses a comparison of two such state systems, Spain and Argentina, to show that the greater the variety of economic interests 'vertically integrated' into the web of clientelism, the closer the approximation to a credible commitment regarding universal property rights. The state is thus able to exist more autonomously and is less prone to capture by specific interests. If a government forms an alliance with a narrower range of interests, then groups excluded from the embrace of that credible commitment may mobilise against it. If they are sufficiently organised they will exert economic and political pressure on the government to grant concessions, or even seek to topple the regime and replace it with one more sympathetic to their interests.

At the start of the period addressed here, economic policy under president Juan Domingo Perón in Argentina and general Francisco Franco in Spain was state-led and autarkic with industrialisation held up as a priority. Both regimes were acutely aware of social polarisation in their respective societies and were at pains to construct corporatist states that subordinated class discourse. Indeed, such tensions in Spain had shortly beforehand boiled over into a highly destructive distributional struggle, the 1936-39 Civil War. But from this shared institutional and ideological tradition mid twentieth century, their respective fortunes diverged considerably in terms of economic growth. This thesis holds that the root of this divergence lies in the fact that Spain's post-Civil War corporatist state achieved a more broad based vertical political integration than its Argentine counterpart. Though the state evolved over time in Spain, its democratic successor inherited many of its structures after the political transition of 1975 and it was better able to withstand the strains associated with the progression of the industrial development model.

By the end of the twentieth century, both countries had attempted to reduce the state's role in the economy through deregulation, liberalisation and privatisation yet in spite of the continued similarities in policy trajectories, growth had diverged

⁴ Haber, S. Maurer, N. & Razo, A. 'Sustaining Economic Performance under Political Instability', in: Haber, S. (ed.) *Crony Capitalism and Economic Growth in Latin America*, Stanford, 2002.

conspicuously. Figures 0.1 and 0.2 demonstrate the comparative economic performance of the two countries over the period in question. Spain, which remains one of Western Europe's least developed economies, has caught up, converged with and overtaken Argentina, Latin America's most advanced. In a sense therefore, each case represents a crude counterfactual of the other in that the Spanish political economy would continue to resemble Argentina's had it not installed a relatively inclusive system of political integration that harnessed potentially awkward economic interests.



Figure 0.1: Source: World Bank, World Development Indicators (WDI) April 2005 , ESDS International, (MIMAS), University of Manchester

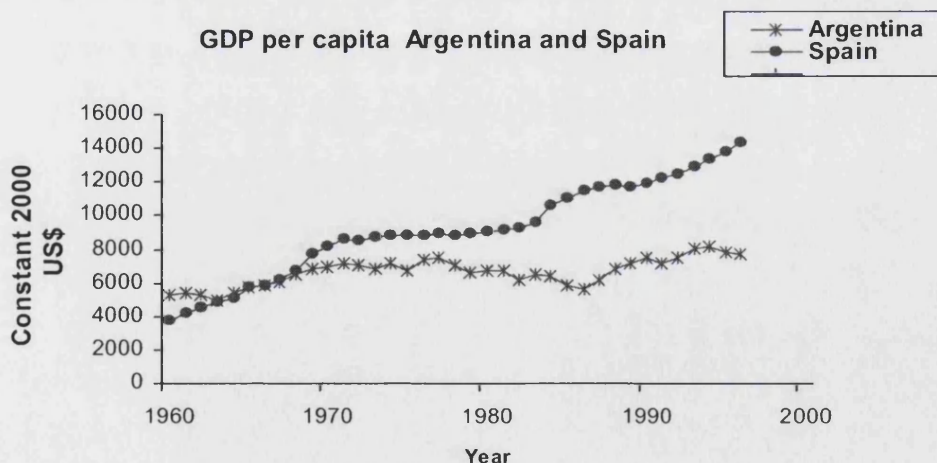


Figure 0.2: World Bank, World Development Indicators (WDI) September 2006, ESDS International, (MIMAS) University of Manchester

This introductory section of the thesis will proceed with an explanation of the choice of Argentina and Spain as appropriate case studies before elaborating a methodological framework for subsequent substantive chapters. This incorporates an overview of the principal literatures of the political economy of economic divergence with a focus on shifting views of the role of the state in economic policy. The final section of the introduction will outline the structure of the thesis with a comment on the sources used in its elaboration and its principal findings.

Why Argentina? Why Spain?

Argentina and Spain are bound together by a separateness in that they present challenges to political scientists and economic historians alike on account of their dissimilarity to other nations in their respective regions. Argentina is a glaring inconvenience to scholars seeking to identify factor endowments as an explanation for the diverging fortunes of North and South America because of its temperate climate and fertile Pampas.⁵ Similarly, an abundance of comparisons with other large Latin American economies are forced to address Argentina's *northern*, characteristics of a relatively homogenous population and large middle class which render it distinct to its neighbours by the early twentieth century. Attempts to compare it with other settler economies are presented with the institutional and historical difference between a Latin heritage and the Anglo Saxon institutions of Canada, Australia or even the United States. This is used with some success in explaining divergence in long-term economic performance exploring the notion of path dependence associated with institutional heritage but does not offer any suggestions on differences within subsets of institutional regimes.⁶

Spain, meanwhile, evolved in isolation from its European neighbours for much of the twentieth century and as such is neglected by comparativists working on Europe from the economics and political science disciplines because of a lack of

⁵ Engerman, S and Sokoloff, K. 'Factor Endowments, Institutions and Differential Paths of Growth among New World Economies', in Haber, S *How Latin America Fell Behind*, Stanford, 1997 - 'The Evolution of Suffrage Institutions in the New World', *Journal of Economic History* Vol.65 (4) 2005

⁶ North, D. Summerhill, W. Weigast, B, 2000. For a comparative study of long-run economic performance in Mexico and Spain since 1800 see: Coatsworth, J. and Tortella-Casares, G 'Institutions and Long-Run Economic Performance in Mexico and Spain', *1800-2000*, Working Papers on Latin America, Paper No. 02/03-1, David Rockefeller Center for Latin American Studies, Harvard University, 2002, who adopt the Northian approach of attributing both countries' relative underperformance to poor institutions resulting from a shared historical legacy.

points of reference. This is not helped by the fact that both economics and political science are something of a novelty in Spanish academia.⁷ Clearly, it would be futile to attempt a crude comparison of economic performance between the two countries from a factor endowments perspective on account of huge differences in size, climate, topography and resource wealth. Indeed, according to the terms of this model, Argentina's physical characteristics should have served it well compared with Spain, because its abundance of high quality land lends itself better to less concentrated ownership of resources (and political power). Poor quality land is associated with social inequality and less efficient domestic markets because it favours the pursuit of economies of scale through larger landholdings and bonded, even slave, labour. A temperate climate and high quality land such as that found in Argentina, on the other hand, is associated with mixed farming centred on grains and livestock and encourages the evolution of more equal distributions of wealth, more democratic political institutions and the pursuit of more growth-oriented policies.⁸

Another camp in the institutionalist school rejects the centrality of factor endowments as a conclusive explanation for divergence in long term economic growth. One influential essay compares North and South America during the eighteenth and nineteenth centuries and attributes the economic divergence between them to the institutional regimes inherited from distinct colonisers. At independence the United States inherited a set of institutions from the British which were enshrined in the Constitution, buoyed by societal consensus and a shared belief system. The result was what the authors term, 'a consensual basis of political order.' The British North American colonies had existed as semi autonomous units, later becoming components of a federation of states, with the British Crown's (*laissez faire*) authority replaced by a central government. This allowed a strong system of market preserving federalism to emerge and the crucial "credible commitment" to limited government and enforcement of property rights.

Spanish America, on the other hand, had experienced a colonial regime where the Crown had imposed authoritarian political order. The Crown's removal at independence left a vacuum and there was no emergence of institutions capable of keeping order. Furthermore, the Crown had relied heavily on a corporatist organisation of society and politics, granting rights in land to elites in return for

⁷ Heywood, P. *The Government and Politics of Spain*, Basingstoke, 1995. p.6

⁸ Engerman, S and Sokoloff, K, 1997. p.262

loyalty. Together with a mercantilist trading system, the overall institutional structure inherited by the new republics was not conducive to economic growth.

Yet the analysis does not explore sufficiently differences within the latter institutional group, focusing instead on seeking to explain evident success with relative failure. This is the gap in the institutionalist literature that this study aspires to address. From an institutional and ideological point of view, Spain and Argentina shared much in common and faced similar challenges during the period under scrutiny in this study. In addition to a common institutional root, namely the Roman Iberian legacy which Spain transmitted to its colonies,⁹ the economic models of the early Franco dictatorship before 1957 and the Perón presidency were both inspired by nationalism and a quest for national autonomy from foreign capital which was perceived as extractive. They also prioritised a push for modernisation through import substitution, state patronage of a nascent industrial sector and increased purchasing power for an urban wage earning proletariat.¹⁰ Periodic and cumulative reforms imposed from the late 1950s to address fiscal imbalances and monetary instability centred on similar ideas of continued, centrally planned industrial development complemented by hitherto prohibited foreign capital.

The authoritarianism of Spain's Franco regime invites speculation that the ability to keep interest group conflict to a minimum, most obviously by subduing popular protest with the threat of violence, explains the more ordered political economy. But this alone does not account for the divergence between the two countries as the potential for military suppression of popular protest also existed in Argentina. Furthermore, work by political scientists such as Geddes and Maravall shows the idea that authoritarian governments are more capable of implementing painful economic reforms does not stand up to scrutiny. Rather than whether a regime

⁹ Coatsworth and Tortella 2002

¹⁰ Argentina's Peronist economic policy was not the product of a deliberate economic model and was never coherently articulated. The prioritisation of state intervention, social justice and economic nationalism reflected the regime's support base among popular classes and the military (See: Torre, J-C. 'Argentina since 1946' in Bethell, L. (ed.) *Argentina since Independence*, Cambridge 1993). Spain's policies of the 1940s, on the other hand, reflected an ideological movement elaborated by senior figures in the early Franco dictatorship such as Antonio Robert, director general of industry immediately after the Civil War, and Manuel Fuentes Irurozqui, inspector general of trade and tariff policy at the Ministry of Trade and Industry. The most influential of these was Juan Antonio Suanzes, Minister of Industry and founder of the Institute of National Industry (INI).

is democratic or authoritarian, it is internal variations within regime categories that determine the success of economic reforms.¹¹

It is worthwhile at this point to stress that the historical approach employed here compares two less than ideal economic systems and does not claim the Spanish model offers a winning formula for crony capitalist economies to converge with leading economies. Economic policy in both cases focused on inward looking development strategies that are by their very nature costly for growth because the distortions they engender in the economic system compromise efficiency and undermine entrepreneurial incentive.¹²

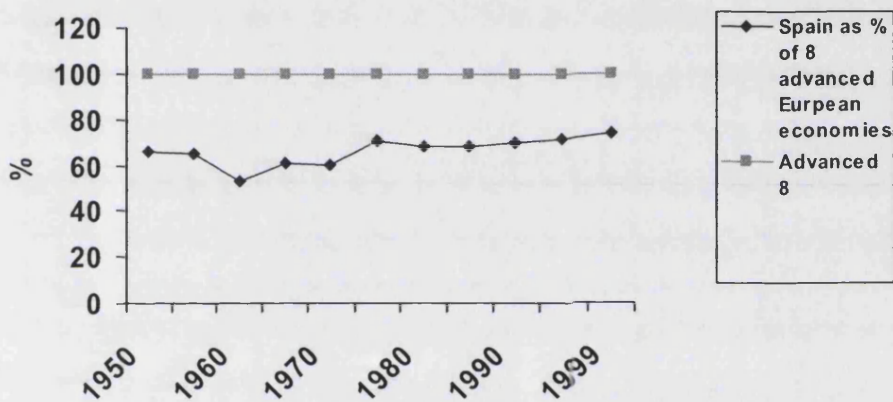


Figure 0.3a: Spanish GDP per capita in 1990 US \$ compared with average of eight advanced European economies (Austria, Belgium, Denmark, France, Germany, Great Britain, Netherlands, Sweden). Source, Prados de la Escosura, L. *El Progreso Económico de España*, Madrid, 2003, p.177.

¹¹ See: Geddes, B. 'Challenging the Conventional Wisdom', in: Frieden, J, Pastor, M. and Tomz, M, *Modern Political Economy and Latin America: Theory and Policy*, Boulder, 2000. or: Maravall, J-M, 'The Myth of the Authoritarian Advantage', *Journal of Democracy*, 5(4) 1994:17-31

¹² Taylor, A. 'On the Costs of Inward Looking Development: Price Distortions, Growth and Divergence in Latin America', *Journal of Economic History*, Vol.58 (1) 1998, p.9

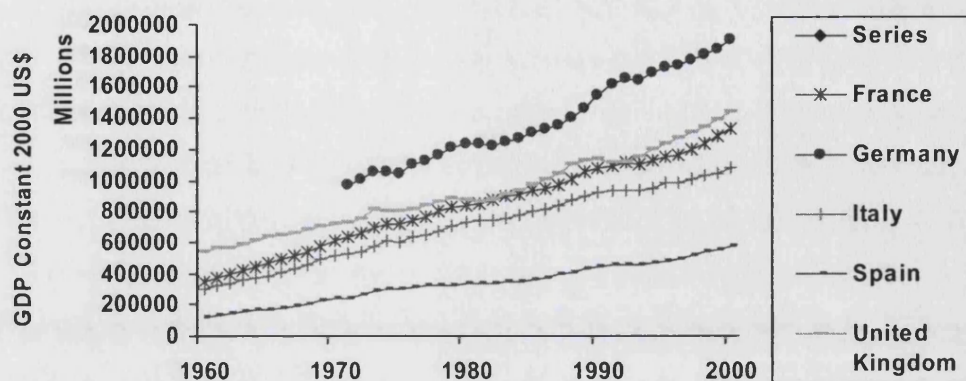


Figure 0.3b: Spanish annual GDP compared with advanced European economies.

Source: World Bank, World Development Indicators (WDI) September 2006, ESDS International, (MIMAS) University of Manchester

Figures 0.3a and 0.3b show that while Spain may have surpassed Argentina in terms of GDP, both absolute and per capita, the extent to which it has caught up with its European neighbours is negligible though there is a small relative improvement in the latter. Economic growth during the second half of the twentieth century was sustained and represents conspicuous advances in Spanish levels of productivity and living standards. In relative terms, however, the Spanish economy did not progress towards convergence with western European peers, underlining the approach employed in this thesis of not treating Spain as a success to compare with Argentine failure so much as an example of a system that is less than ideal but more functional at an institutional level than the Argentine political economy.

A Framework for Analysis

A common 'centralist' tradition has endowed both cases with a top-down structure of government dominated by an executive who is permitted extensive decision making power by the Constitution.¹³ This lends itself well to personalistic politics and what O'Donnell calls 'vertical accountability'¹⁴ This constitutes a plebiscitary form of government whereby once the presidential candidate achieves

¹³ See: Veliz, C, *The Centralist Tradition of Latin America*, Princeton, 1979

¹⁴ O'Donnell, G. 'Delegative Democracy', *Journal of Democracy* Vol.5(1), 1994

high office, institutional checks on his power are limited in practice. A weakness of such a system is that it is prone to cronyism as the executive has the power to appoint directly, or at least has the final word on nominated candidates, to important positions in the State including the judiciary. If the hierarchy of State is rigidly disciplined, and if economic interests have limited power to disrupt implementation of policy, then the system can present a coherent front. The Spanish model fits broadly into this category. Highly centralised government is a historical feature of Spanish politics that was enhanced by the Franco regime.¹⁵ The corporatism of the dictatorship successfully diluted the social conflict that had destabilised society in the run-up to the Civil War by incorporating all the main factions into the State hierarchy. Non coalition members, such as the socialist union confederation the UGT (General Workers Union), were proscribed and pursued a strategy of opposition that included infiltration of the official syndicate. This syndicate was considered a 'natural' unit of society as was local government and the family, each of which was represented by elected *procuradores* in parliament. Ironically, this may have served to legitimise the syndicate as a representative voice of labour in government. In the process of policymaking, therefore, labour's priorities were represented against differing views from other factions of the ruling coalition, be they economically liberal technocrats, the Catholic Church or the business and landed elites. Franco himself arbitrated more as a referee than a team captain so policymaking was an orderly war of attrition between factions who unquestioningly adhered to the rules of the game. In consequence all sides were granted some concession in new economic policies while enforcement of discipline prevented them pushing for more and destabilising the system (see figure 0.4).

This centralised, highly disciplined hierarchy was inherited by the regime's heirs, namely the political parties of post 1976 democratic Spain and the networks of cronyism reflecting a far reaching but weak state survived the transition.¹⁶ Although Spain's principal parties are federations of regional affiliates, they are tightly controlled and centrally administered according to a top-down pyramid shaped hierarchy of power originating with the leader and ending at the grass roots municipal level. This structure translates into administration of the State when

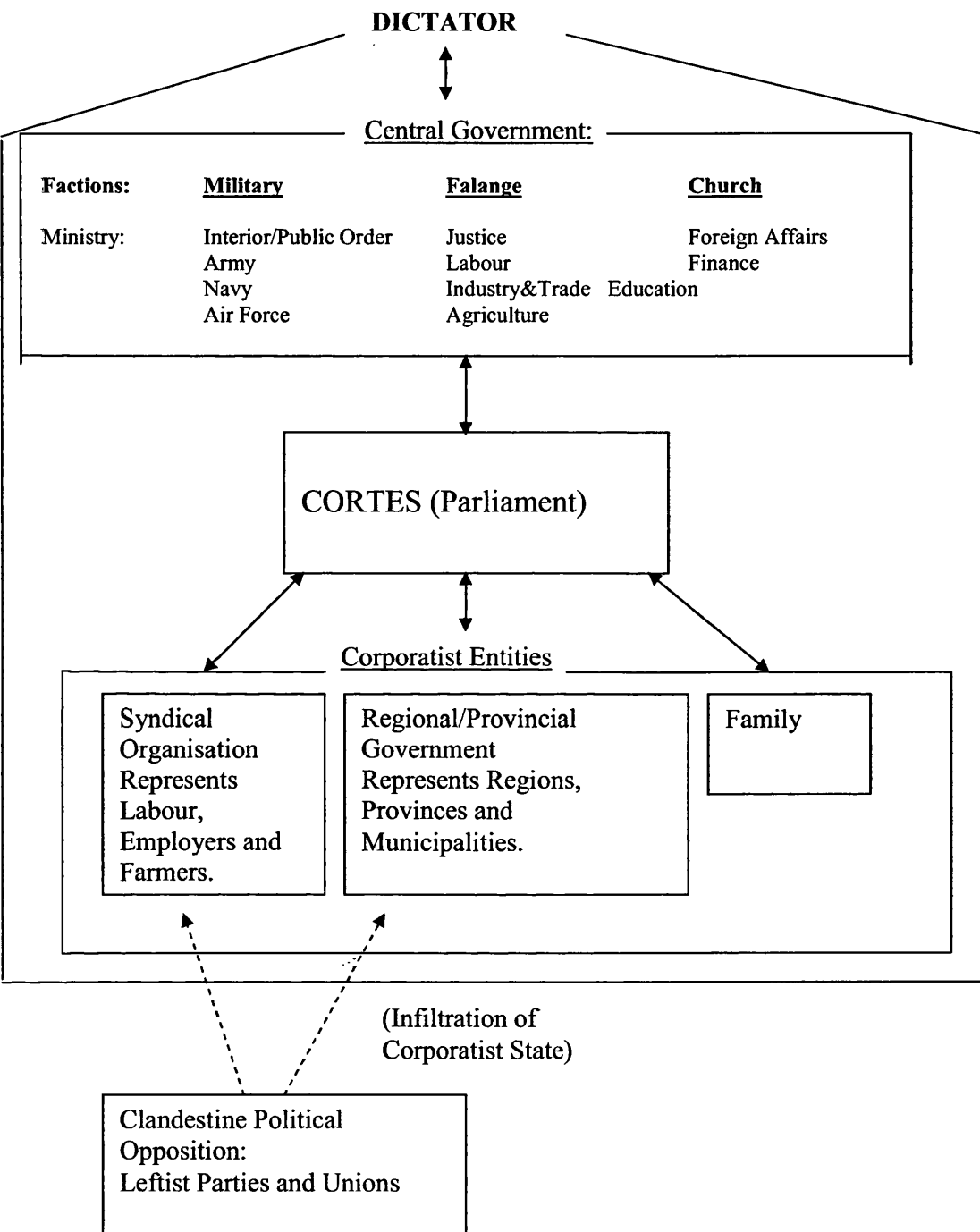
¹⁵ Preston, P. *Franco*, London, 1995. pp.339-342

¹⁶ Heywood, P. 'Continuity and Change: Analyzing Political Corruption in Modern Spain', in Little, W and Posada-Carbo, E. (eds), *Political Corruption in Europe and Latin America*, New York, 1996, pp. 115-36.

the party gains power and the party leader occupies the office of the presidency (see figure 0.5).¹⁷ Furthermore, Spain's main parties, particularly the Spanish Socialist Workers Party (PSOE) and later the Popular Alliance (AP/PP), evolved from representing partisan, class oriented interests into centrist mass parties jostling for the middle class vote. As part of this process, the PSOE jettisoned its affiliated associational group, the General Workers' Union (UGT) and consequently resembles the cross class coalition conceived by the architects of Franco's dictatorial state in the 1940s as a 'natural' structure that promotes the national interest over specific class priorities. The strength of State and party in Spain leaves little room for associations as a real influence on policy or as standalone entities as they are too fractious and weak to exercise real economic power to challenge the government. That is not to say, however, that the Spanish political economy is not oligarchic and that some interests have closer influence over policy than others. But the case presented here is that even the most powerful vested interests, the most favoured "cronies", are ultimately subordinated to central government.

¹⁷ Newton, M. and Donaghy, P. *Institutions of Modern Spain*, Cambridge 1997 p.91

Figure 0.4 Structure of hierarchy of representation within the Spanish Corporatist State c1946.



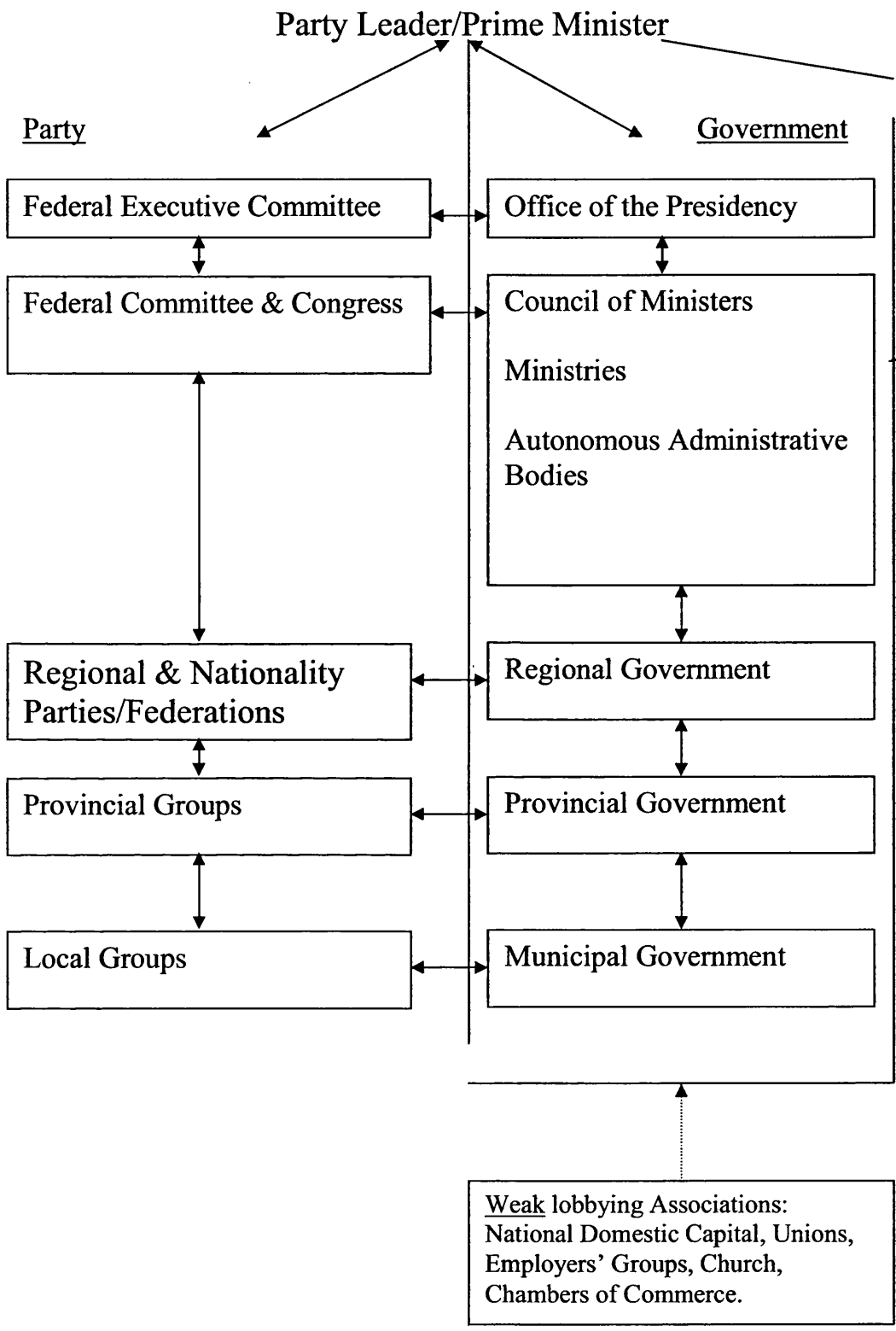


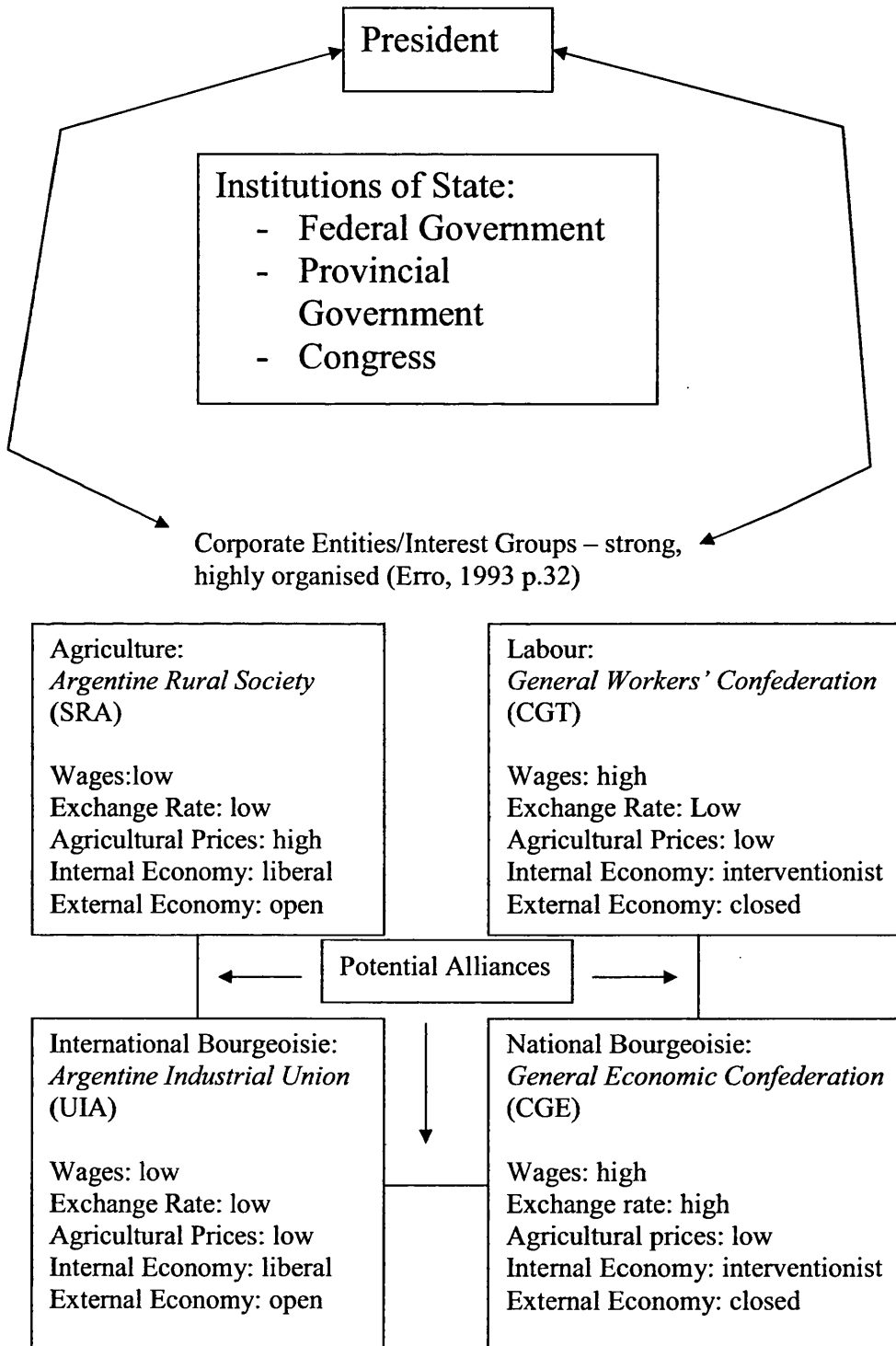
Figure 0.5: Structure of hierarchies of representation within the state bureaucracy and the political party after 1975

This contrasts with Argentina where ostensibly similar constitutional provisions for top-down, centralised government exist alongside far more powerful organised economic interests. Associations such as the Argentine Rural Society (SRA), the Argentine Industrial Union (UIA), the General Economic Confederation (CGE) and the General Workers' Confederation (CGT), in spite of frequent internal strife have represented the reasonably coherent voice of primary exporters, the international bourgeoisie, the national bourgeoisie and labour respectively. The reason for their relative coherence and power is that different governments devoted greater attention to them as mobilisers of political and economic support than they did to political parties. On the demise of the patron regime or the proscription of the relevant party, the association remains as the most coherent representative of a vested interest. These interests, because of their coherence, are thus able to wield devastating economic weapons. Labour can organise the disruption of economic life through strikes or factory occupations. Industry, incorporating national and internationally oriented capital, can withhold products from market, as can agricultural interests, pushing up prices and inflationary pressure. Common interests among groups mean alliances are possible between, for example, labour and the national bourgeoisie, national and international capital or agriculture and the international bourgeoisie.¹⁸ This makes the institutions of state redundant because the executive has to negotiate directly with the interests in order to secure their cooperation in addressing an economic crisis with structural reforms. But despite the potential for alliances, what pleases one interest may be at odds with the priorities of another. Some executives have attempted to appease all interests simultaneously and made unfulfillable promises to each. Figure 0.6 outlines the way in which the executive bypasses institutions of state such as Congress, the judiciary and even his own party to bargain directly with organised interests to gain their acquiescence. Though he may be able to secure alliances between more than one at a time on issues where two groups share the same priority, at least one will always be disenfranchised and alienated. So a low exchange rate policy, for example, will please sectors with access to export rents such as 'international capital' (i.e. the component of domestic capital tied to foreign trade

¹⁸ Lewis, C.M 'The Political Economy of Macroeconomic Stability: history, democracy and the rules of the economic game in the Argentine', in J. Buxton & N. Phillips (eds.) *Case Studies in Latin American Political Economy*, Manchester, 1999; Erro, D *Resolving the Argentine Paradox: Politics and Development 1966-1992*, Boulder, 1993

and investment) and agricultural interests. On the other hand, labour will prefer a high exchange rate that increases its purchasing power while the national bourgeoisie will agree to it as a labour subsidy that might neutralise pressure to raise wages.

Figure 0.6. Hierarchy of Representation between executive and interest group in Argentina.



As suggested in the diagram, attempts to pursue greater economic openness and liberalise the current account will elicit opposite reactions from different groups. Agricultural interests and international capital will approve while domestic capital (the national bourgeoisie) will attempt to block it on the grounds of concern about competition. Because, therefore, survival politics in such a polarised arena is unsustainable, groups that are excluded from the alliance will seek to replace the executive. This relationship is used to explain the persistent failure of democracy in Argentine political life and the frequency of military intervention.¹⁹ Conservative groups representing capital and land who lack a popular support base are traditionally unable to achieve a change in government democratically and may see to it the president is deposed and replaced by a military concerned about the breakdown of social order in the ensuing economic crisis. The alliances of Argentine history were not static and some administrations were inconsistent in their allegiances. The impact of this on economic performance is twofold. Firstly, 'distributional coalitions' are self centred, monopolistic, oligopolistic and impede efficient allocation of economic resources.²⁰ Secondly, in a system pervaded by cronyism such as the two cases examined here, an executive negotiating directly with powerful coalitions will reward them for cooperation by appointing representatives of the favoured interests to government posts. When the executive is replaced and a new alliance is formed, the appointees will also be overhauled. This results in fragmentation of policy and is severely detrimental to institution building. Economy-oriented institutions of state will be subjected to persistent political meddling reflecting the priorities of the favoured coalition.

As mentioned above, strong associations with influence over factors of production wield considerable power through mobilising to disrupt supply of goods and services. Given that such actions, by cutting supply quickly drive up prices, they are inflationary and have been used in Argentina with some success in achieving wage increases. Comparative data on wages in figure 0.7 shows that from a similar starting point, the two cases diverge considerably with Argentine wages growing ever

¹⁹ Cavarozzi, M. 'Political Cycles in Argentina since 1955', in: O'Donnell, G. Schmitter, P. and Whitehead, L. *Transitions from Authoritarian Rule, Volume 2, Latin America*, Baltimore, 1986.

²⁰ Olson, M. *The Logic of Collective Action*, Cambridge MA, 1971

more rapidly after the 1960s. Figure 0.8 shows inflation in both cases during the 1940s was at similar levels but diverged thereafter with a marked acceleration in Argentine price rises and volatility throughout the period. In contrast, Spanish inflation becomes less acute as the period progresses, reflecting a more ordered political economy. The assumption here is that wage and price inflation is a crude measurement of associational strength.

Industrial Wages in Argentina and Spain 1964-1983

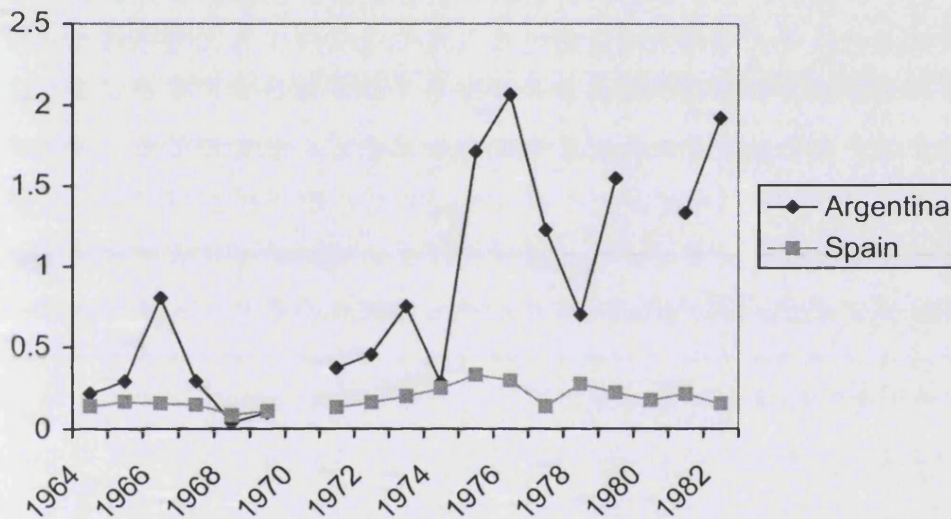


Figure 0.7. Source: Mitchell, B.R. *International Historical Statistics: The Americas 1750-2000*, Basingstoke, 2003; *International Historical Statistics: Europe 1750-2000*, Basingstoke 2003.

Annual Inflation (consumer prices) 1940 to 1974

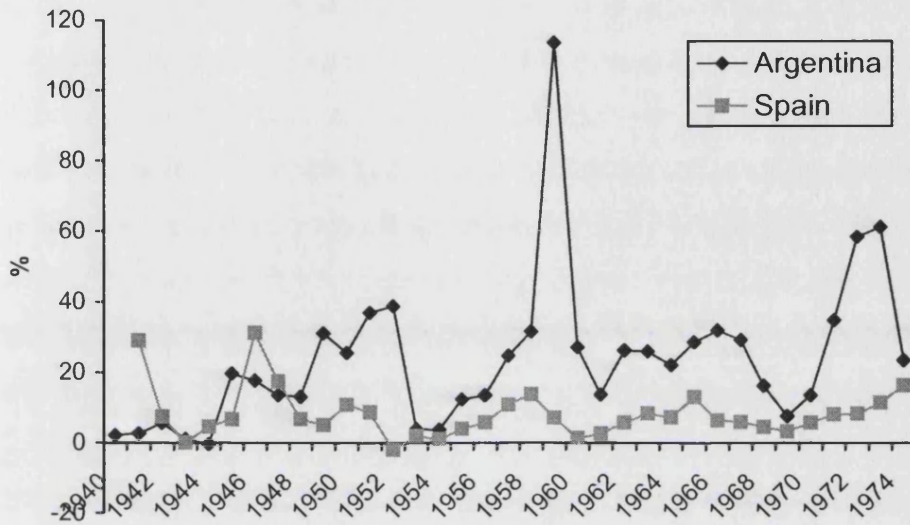


Figure 0.8: Source: Mitchell, B.R. *International Historical Statistics: The Americas 1750-2000*, Basingstoke, 2003; *International Historical Statistics: Europe 1750-2000*, Basingstoke 2003.

So what is the solution? Albert Hirschman believed he had identified a social concertation occurring in Argentina as far back as 1987 where some parties were abandoning notions of ‘intransigence’ and there was ‘give and take’ between left and right.²¹ Orthodox policies in the late 1970s which broke with the inward looking development models in place since the 1940s had exhausted Argentines who were now more inclined towards compromise.²² Some analysts take the view that Argentina has changed for the better because of the demise of associational strength, either gradually through persistent attacks by the state²³ or more recently following aggressive neutralisation of both labour and bourgeois power by president Carlos Menem in the early 1990s.²⁴ This study argues there was no fundamental reordering

²¹ Hirschman, A. ‘The Political Economy of Latin American Development’ *Latin American Research Review*. Vol.22(3) 1987. pp.30-31

²² Kahler, M. ‘Orthodoxy and its Alternatives: Explaining Approaches to Stabilisation and Adjustment’, in Nelson, J. (ed.) *The Politics of Economic Adjustment in Developing Nations*, Oxford, 1989 p.40

²³ Erro, D. *Resolving the Argentine Paradox, Politics and Development 1966-1992*, London 1993.

²⁴ Acuña, C. ‘Politics and Economics in the Argentina of the Nineties (Or Why the future is no longer what it used to be) in: Smith, W. Acuña and Gamarra, E. (eds.) *Democracy, Markets and Structural Reform in Latin America*. Miami, 1996.

of the Argentine political economy, however. Though certain associations lost their bite as threats to economic and political order, particularly labour, there was no parallel strengthening of political institutions, particularly the party system. The dynamic of negotiation between executive and economic interests remains in place in Argentine policy making.

Two common themes in social sciences literature purport to explain variations in long-term economic growth between cases such as these. The first, from the political science discipline would identify a shift from conflictive to consensual politics in Spain while social conflict never subsided in Argentina.²⁵ The second, which is the argument of choice in leading multilateral institutions charged with financing economic development in laggard countries and coming to the rescue during financial crises, focuses on economic discipline in public policy. The differences between Spanish and Argentine long-term performance might be explained by different qualities of economic management in areas such as fiscal and monetary policy and debt maintenance.²⁶ This view, often referred to as ‘the Washington Consensus’, prioritises fiscal discipline over Keynesian stimulation. It is preferable, meanwhile, to reduce the fiscal deficit through a cut in spending, ideally by reducing the burden of the state sector, rather than by raising taxes which is associated with less lasting solutions to fiscal crises.²⁷ Certain types of government spending are regarded as beneficial on condition that they constitute investment in social capital by being directed at education and health rather than indiscriminate subsidies. Subsidisation, encourages inefficient allocation of economic resources because it plays into the hands of, and can be manipulated by, vested economic interests. Interest rates should be market determined rather than politically conceived, thus avoiding the type of resource misallocation that results from bureaucrats rationing credit according to non economic criteria. Similarly, exchange rates should be left to market forces to prevent them being hijacked and set according to the priorities of specific economic interest groups. In terms of trade policy, liberalisation is positive while protectionism is not ideal because in shielding domestic industries,

²⁵ O’Donnell, G and Schmitter, P. *Transitions from Authoritarian Rule. Tentative Conclusions about Uncertain Democracies*, Baltimore, 1986, pp. 6-9

²⁶ Balassa, B. et al *Toward Economic Growth in Latin America*, Mexico City, 1986, pp. 13-15

²⁷ Alesina, A; Perotti, R; Giavazzi, F; Kollintzas, T ‘Fiscal Expansions and Adjustments in OECD Countries,’ *Economic Policy*, Vol. 10, (21) October 1995 pp. 205-248.

one stifles their progress by not exposing them to competitive pressures, thus creating costly distortions. This system penalises exports and impoverishes the domestic economy. Foreign investment should be encouraged as a source of capital, skills and know how so economic nationalism will always be to a country's detriment. Lastly, deregulation, to dismantle monopolies and liberalise the market leads to a more efficient economy, encourages entrepreneurial activity and stifles rent seeking by interest groups.²⁸

Gross Domestic Savings (% of GDP) 1960 to 2000

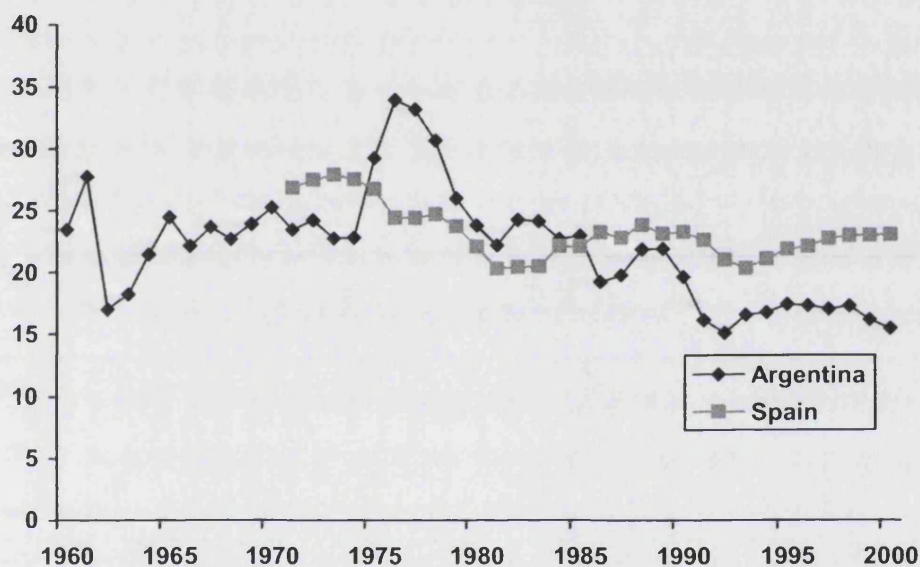


Figure 0.9a: Source: World Bank, World Development Indicators (WDI) September 2006, ESDS International, (MIMAS) University of Manchester

Figures 1.9a and 1.9b compare the two cases according to the Washington criteria. The former charts gross domestic savings a measure of the sum of public savings and private savings. Public savings is the difference between total revenue and current expenditures of the consolidated public sector and reflects the discipline of the government in terms of spending and can also be taken as a proxy measurement of monetary stability if we assume people are more inclined to save in a more benign,

²⁸ Williamson, J. 'What Washington Means by Policy Reform' in: Williamson, J. (ed.) *Latin American Adjustment: How Much has Happened*, Washington DC, 1990 pp. 9-15

less volatile environment. Throughout much of the period, Argentina boasts the higher rate, indicating a better quality of growth because of the implied investment potential. The Spanish rate only surpasses that of Argentina in earnest after 1985. But the most telling feature of the comparison, however, is the difference in volatility. The smoother Spanish trend reflects a consistency while the fact that the Argentine rate swings between wider extremes indicates rapidly shifting circumstances, and by implication, economic instability. Spanish economic policymakers have steered a steadier course and this is reflected in more consistent rates of savings in both the public and private sector.

Figure 0.9b compares the current account balance of each case as a percentage of GDP. An economy that conforms more closely to the Washington consensus with a more liberal policy in terms of trade would have a healthier balance sheet and be less susceptible to imbalances. In this case, Spain fares better over the period. But it is the purpose of this thesis to argue that Spain since the mid twentieth century was more successful at creating the right conditions to encourage economic activity because of the way it managed the political economy of a conflict society. What the data shows is consistent with this because it highlights a divergence between the two cases with Spain inching ahead from a similar starting point.

Current account balance (% of GDP)

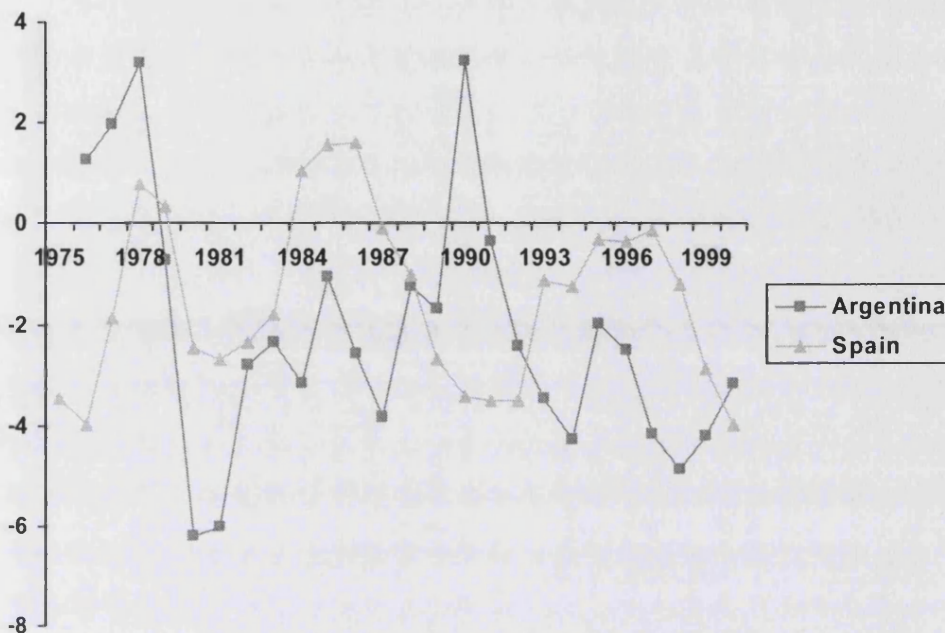


Figure 0.9b: Source: World Bank, World Development Indicators (WDI)

September 2006, ESDS International, (MIMAS) University of Manchester

Accepting that tighter economic management is beneficial for long-term economic performance, the type of short-term pain associated with initial deflationary policies make a regime resembling the “consensus” an elusive goal in divided societies. What this thesis suggests is that its central theme of higher qualities of crony capitalism resembling more closely than less successful peers a credible commitment on property rights can be applied to the Washington hypothesis. The Spanish system, by embedding vertical political integration, is a crony capitalist system where the cronies are more easily managed, resulting in an environment where disciplined monetary and fiscal policy is less difficult to implement than is the case in Argentina where groups are better equipped to prevent it. As subsequent chapters show, however, in Spain economic discipline falls far short of what technocrats in Washington view as the ideal because it remains a less than perfect, semi clientelist system.

This analysis also seeks to contribute to, rather than challenge the second politically focused hypothesis that Spain benefited from a more concerted shift from conflictive to consensual political debate than Argentina. Both cases have come under considerable scrutiny because of their respective political transitions to democratic government during the 1970s and 1980s. The theorists state that a concerted move to pluralism is more the result of a crisis of confidence and legitimacy in the authoritarian regime itself rather than the initiative of a restive and disgruntled populace whose part in the process is secondary and comes at a later stage.²⁹ According to this model, the process of political liberalisation begins when authoritarian incumbents begin to modify their own rules to provide better guarantees for the rights of both individuals and groups.³⁰ Individuals may gain institutional guarantees such as habeas corpus or freedom of speech while groups might regain the right to express collective dissent from government policy without the threat of punishment.

The political transitions experienced in Argentina and Spain do not challenge the worth of this idea. Change occurred in response to economic instability and the discrediting of previous policies, leading to shifts within the authoritarian regimes and new policy directions. In Spain, economic crisis during the 1950s led to reforms that included a degree of economic opening, with a view to deflecting opposition and ensuring continued social stability (see chapter 3). But the “reactionary agrarian” Franco regime in the late 1950s planted the seeds of its own eventual disintegration. The reforms resulted in a shift of power away from the old guard who had dominated during and immediately after the Civil War, to a new financial elite, more international in perspective and likely to call for further changes.³¹ A reshuffle in the hierarchy of cronies, therefore.

In Argentina, taking the most recent episode of democratisation after 1983, in a context of severe economic imbalances both political opponents and elements within the military regime concluded authoritarian rule had failed. Thus the military suffered a loss of confidence in its own capacities. Argentina’s transition was brought about in this instance by a political collapse, hastened by military defeat in the Falklands, whereas the Spanish transition was a more ordered affair with no challenge

²⁹ See O’Donnell, G and Schmitter, P *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*. Baltimore 1986, pp.6-20

³⁰ *Ibid.*, p.6

³¹ Preston, P. *The Triumph of Democracy in Spain*, London 2001 pp.4-11

to the legitimacy of the outgoing authoritarians. But what this thesis aspires to show, is that social division in Spain was just as entrenched as in Argentina. Indeed, the experience of the Civil War and the Franco regime's tactic of rule by division into victorious and defeated suggest that its divisions were deeper. But the structure of the state and its relationship with society and economic interests, conceived along similar lines to the Argentine state being constructed in the late 1940s by Perón, ensured better management of the social conflicts. It also suggests that the Spanish transition to democracy is not so complete as often assumed in that many vestiges of the original post-Civil War state are still in existence as shown in figures 0.4 and 0.5 above. This maintains a system that can be defined as crony capitalism, reliant on clientelist relationships and patronage. Though at a political level Spain is now a well established parliamentary democracy, many features of its political economy retain elements of the original authoritarian corporatist state. Argentina's state was built using many of the same ingredients but was never consolidated and is less able to override conflicts between different interests and suffers from perpetual crises of legitimacy and credibility. The drama of political collapse, and indeed the acuteness of the economic crisis in early 1980s Argentina, therefore, can be taken as the accumulated result of failure to manage division between rival cronies and vested interests.

The Theoretical Background to Economic Divergence and Convergence.

Theories of Economic Growth and Catch-Up

The ostensible relevance of growth theories developed on the back of Western European and North American industrialisation would appear to challenge the conventional view that Spain is exceptional. Indeed, Juan Pablo Fusi and Jordi Palafox present a case that Spain's experience of the last two centuries is more ordinary than is traditionally believed. An absence of industrialisation during the nineteenth century was by no means unique to Spain; many European countries were late developers. The restructuring of the Spanish economy and its incorporation into the rich group of nations in the twentieth century conformed to a wider phenomenon

that was taking place across the European continent.³² In terms of growth theory, therefore, Spain might be taken as a textbook example of the orthodox models of catch-up and convergence articulated in the 1950s by such figures as Robert Solow.³³ At the end of Spain's autarkic period, technocratic ministers opened the economy sufficiently to allow the country to absorb some of the 'pure public good' of technology developed in more advanced nations, resulting in accelerating productivity levels. Logically, therefore, we might deduce that Argentina's relative underperformance is attributable to the persistence of protectionist policy. However, an important point of comparison between the two cases is their retention of inward looking protectionist policies of import substitution in addition to relatively high levels of state intervention. While this approach may explain the relative underperformance of both economies, it does not help us understand the divergence between them. Certainly, believers in a more orthodox interpretation of economics despair at continued Spanish belief in the responsibility of the state in managing the country's economy. Gabriel Tortella, for example, acknowledges that state intervention in the Spanish economy has moderated since 1959 but suggests that the 'mercantilist tradition' continues to exert strong influence in the country, so that the state considers itself to be providential with the agreement of the populace. While the country's unfortunate and turbulent history has left most Spaniards fearful of the state, they simultaneously harbour 'unreal expectations' of an institution regarded as possessing inexhaustible coffers and powers that extend in every direction. "Most Spaniards seem utterly impervious to the elementary principles of economics," Tortella states.³⁴ Likewise, Fuentes-Quintana believes that Spain's leading economic agents, the business sector, workers and the state, have failed to fully embrace the principles of an 'open' economy because of the legacy of a protectionist economic 'pedigree'.³⁵

Furthermore, the Solowian neo-classical model assumes convergence in terms of productivity levels and does not allow for divergence after the catch up. Another

³² Fusi, J. Palafox, J. *España 1808-1996: El Desafío de la Modernidad*, Madrid, 1997; See also. Prados de la Escosura, L. *El Progreso Económico de España*, Madrid 2003.

³³ Solow, R. 'A Contribution to the Theory of Economic Growth' *Quarterly Journal of Economics* Vol.70, 1956

³⁴ Tortella, G. *The Development of Modern Spain: An Economic History of the Nineteenth and Twentieth Centuries*, London, 2000 p.409

³⁵ Fuentes-Quintana, E. *El Modelo de Economía Abierta y el Modelo Castizo en el Desarrollo Económico de la España de los Años 90* Zaragoza, 1995 p.23

strand of growth theory that addresses this is the 'endogenous growth' model. This differs from the neo-classical school because it assumes economic growth is an endogenous consequence of an economic system rather than the result of external forces.³⁶ Varying degrees of growth across countries are therefore determined by choices made by actors in both the private sector and government. Therefore, if productivity growth is an outcome of different incentive structures in different countries, countries can diverge and overtake the leader. Exogenous technical change is not as important as a country's own efforts at innovation in promoting higher per capita income. The Argentine and Spanish states attempted to create an incentive structure through promotion of industry with ambitious public investment and a complex system of subsidies, tax breaks and protectionism against foreign competition. Endogenous growth theory can explain both economies' inability to converge with industrialised leaders by blaming poor choices and misguided policy with Argentina making the worse decisions in terms of achieving higher productivity.

Abramovitz and David identify two constraints on a country's ability to catch up. First is the degree of 'technological congruence' between new technology and the conditions of a country that might wish to adopt it. It would be extremely costly for a firm to switch from one practice with its associated technologies to an entirely new regime developed elsewhere. Laggard countries therefore face varying degrees of difficulty in adopting and adapting the current practice of those who hold the productivity lead.³⁷ Second is the notion of 'social capability' and whether there are embedded constraints to entrepreneurship. Does the aspiring power have the right levels of education or technical competence for growth to run smoothly and is there an institutional structure capable of financing and operating modern large-scale business? Abramovitz and David argue that social capabilities transform in the long term as proven methods gain credibility and are emulated elsewhere. This approach was devised to explain how Western Europe closed the gap in productivity levels with the United States after the 1950s. Can it be applied to the cases examined here? Indeed the model might again help explain why Argentina and Spain remain well behind their neighbours and rivals. A lack of social capability and technological congruence is again, perhaps a consequence of inward looking development models

³⁶ Romer, P. 'The Origins of Endogenous Growth' *Journal of Economic Perspectives*, Vol.8,(2), 1996

³⁷ Abramovitz, M and David, P. 'Convergence and Delayed Catch-Up: Productivity, Leadership and the Waning of American Exceptionalism' in Landau, R. Taylor, T. and Wright, G. (eds.) *The Mosaic of Economic Growth*, Stanford, 1996. p.32

that stifle the adoption of methods and technology developed elsewhere. But is Spanish society more socially capable than Argentina's? It would appear that an interventionist state provided the requisite institutional structure to start the industrialisation effort from the 1940s while Spanish technological congruence and social capability did indeed shift over time so that Spain was able to progress further. The corporatist state, where interest groups were less able to veto policy decisions may have allowed a higher degree, therefore, of social capability compared with its counterpart in Argentina.

Theories of late industrialisation

Walt Whitman Rostow argued in 1960 that development was best analysed in terms of stages through which every society passed. A country experienced a 'drive to maturity' when certain 'preconditions for take off' were in place.³⁸ Then in 1962 Alexander Gerschenkron argued that the shortcomings of institutional actors in the marketplace, particularly the capital market, prevent the kind of spontaneous industrialisation outlined in Rostow's work. In this case the state can substitute for those prerequisites by creating new institutional arrangements that will catalyse a 'spurt' in industrialisation. Gerschenkron's thesis came out of a comparative analysis of the industrialisation experience in Europe. The first country to industrialise, England, did so because it had an institutional framework supporting property rights alongside a prosperous agricultural sector allowing markets to function and private agents to thrive. More 'backwards' parts of Europe suffered from an absence of crucial factors of production such as skilled labour, sufficient savings ratios, low literacy or ideological approval, particularly from the ruling class. When the state overcame one or all of these factors, industrialisation would 'spurt', proceeding at a relatively high rate of growth of manufacturing output. The more backwards an economy prior to take off, the greater the part played by institutional factors designed to increase supply of capital to new industry. Furthermore, the greater the extent of required catching up, the greater role the state played in providing the new industries with centralised entrepreneurial guidance.³⁹

³⁸ Rostow, W, *The Stages of Economic Growth: A non-Communist Manifesto*, Cambridge, 1960, p.4

³⁹ Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge MA, 1962. pp.353-4

Albert Hirschman,⁴⁰ a contemporary of Gerschenkron, rejects the notion that the state is motivated to undertake the required effort to industrialise when the realisation of relative backwardness makes the advantages of growth appear more obvious. This, he argues, implies actors in the backwards country are endowed with an unrealistically clear idea of exactly what is required of them prior to undertaking the drive to modernisation. Hirschman argues that the perception of what is required to develop is acquired only gradually in the development process and it is the role of the state to act as a 'binding agent' to reconcile society's perceptions with realities. Firstly, the state has to steer a path between two inappropriate perceptions of growth; a 'group focussed' view where growth is seen to affect the wider group so an individual's relative position will remain unchanged, and an 'ego focussed view' where change is a zero sum game beneficial to the individual at the expense of others. Both of these are inimical to genuine development as the former suffocates dynamism while the latter stifles the cooperative component of entrepreneurship. Meanwhile, the crucial reality is that growth is 'unbalanced' in that it occurs in some sectors before others and the benefits to wider society filter through later. A development minded government should therefore not be afraid to favour certain sectors or indeed regions in its drive to industrialise, acting as an 'initiator'. When the advances of the favoured industry or area highlight shortcomings elsewhere it can act on them. For example, the growth of a steel industry will expose deficiencies in energy provision and transport thus acting as a 'necessary detour' allowing the government to learn how to maintain a transport or energy network. If a government is understandably reluctant for political reasons to favour a particular sector or region even temporarily, the discerning and objective nature of foreign capital can make those difficult decisions instead, Hirschman argues.⁴¹ Thus, like Gerschenkron, Hirschman identifies a need for inducement mechanisms to nurture the entrepreneurial contribution to the development process. If there are social or cultural constraints on innovative behaviour, then the state can intervene by acting as a surrogate. But Hirschman's point of departure is to reject the idea that underdeveloped countries suffer from a shortage of capital in favour of a theory that capitalists lack motivation.

Developmentalist policies with parallel concepts of assisted capitalism were applied in both Argentina and Spain from the mid twentieth century. The best known

⁴⁰ Hirschman, A *The Strategy of Economic Development*, New Haven, 1959

⁴¹ *Ibid*, p. 204

'grand theory' associated with Latin America was what came to be known as the theory of structuralism. This was directly enshrined into policy, comprising a drive to industrialisation across Latin America. It was forged following the creation in 1947 of the Economic Commission for Latin America (CEPAL), a United Nations agency based in Santiago, Chile. The theory elaborated by Raul Prebisch, the Argentine executive secretary of CEPAL, argued that a lack of development in the world's 'periphery' is part of the same economic process as development at the 'centre'. Latin American countries had been peripheral since the colonial era as producers of primary products, the prices of which were in long-term decline on account of low elasticities of demand.⁴² Prebisch believed that productivity gains at the centre were not reflected in lower prices at the periphery.⁴³ The *Cepalista* solution was Keynesian style state managed industrialisation in a protected environment to shelter the 'infant industries' from the rigours of the free market until such time that they are mature enough to compete in their own right. Alongside import substituting industrialisation with an eye on eventual diversification of exports, Prebisch prescribed agrarian reform and regional integration so that wider markets in mutually minded developmentalist states would facilitate economies of scale. Essentially, Prebisch was advocating a renegotiation of the terms under which peripheral countries participated in the world economy so that they might gain what Susan Strange calls 'structural power' in taking greater charge of their own terms of trade in an international system.⁴⁴

The remit given to the state to supplant market forces in nurturing new industries puts *Cepalismo*, 'developmentalism' or structuralism as it has come to be known, in the same tradition that informed Gerschenkron. While the thesis was consistent with an increasingly prevalent perception in Latin America of the region as perpetually disadvantaged by unequal terms of exchange, it was also firmly within a tradition that had central European antecedents such as the work of Mihael Manoilescu.⁴⁵ Nevertheless, it provided an influential alternative to modernisation theories postulated by Rostow and others. Cristobal Kay hails CEPAL as "the first

⁴² See Prebisch, R. *The Economic Development of Latin America and its Principal Problems*, New York, 1950

⁴³ Thorp, R. *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*, Washington, 1998 p.133

⁴⁴ Strange, S. *State and Market: An Introduction to Political Economy*, London, 1994 pp.24-29

⁴⁵ Fitzgerald, E.V.K. 'ECLA and the Formation of Latin American Economic Doctrine', in: Rock, D. (ed.) *Latin America in the 1940s*, Berkeley, 1994 pp.100-102

original body of development theory to emanate from the Third World.”⁴⁶ Prebisch’s ideas marked a watershed in development economics. CEPAL’s status as a United Nations agency meant Prebisch, as a Latin American economist based in Santiago, exerted global influence, hitherto unthinkable.⁴⁷

Spain’s impressive late twentieth century growth and successful transition to democracy might be taken as support for Rostow’s idea that a ‘mature’ society will be inclined to support individual liberty rather than issue monolithic directive from above as observed in statist planned economies during the Cold War. On the other hand, for much of the period in question, centrally administered development ‘Plans’ were the order in Spain while industrialisation was not spontaneous in the Rostowian sense in either Spain or Argentina. The links to Gerschenkron are easier to qualify. The Gerschenkronian view of ideology as a central prerequisite has parallels in the history of Spain, where success may be attributed to conviction by certain sectors of the regime that industrial growth was in their interests. But if modernising elites are unable to overcome traditionalist objections, the result might be a polarised society where there are two elite factions with different interests each of which will persistently hamper any process that aids accumulation by the other.

This scenario would apply to the divisions within Spain’s Franco regime during the 1960s where there was conflict between conservatives and modernisers⁴⁸. It is also an apt description of Argentine history which an influential analysis defines as a protracted struggle between a rural exporting elite and industrialists, both vying for control of the state through ‘colonisation’ of the bureaucracy.⁴⁹ Spanish industrialisation had only recently started in earnest when Gerschenkron elaborated his work. Nevertheless, the Spanish example nominally supports his argument that a value system favouring economic progress originating in a subset of the elite, the availability of an entrepreneurial group in society and wider ‘social approval’ will prevail over the old guard and facilitate industrialisation.⁵⁰ In Argentina, however, despite the existence of an urbanised, wage earning working class and an industrial,

⁴⁶ Kay, C. *Latin American Theories of Development and Underdevelopment*, London 1989, p.10

⁴⁷ Abel, C. Lewis, C (eds.) *Latin America, Economic Imperialism and the State, the Political Economy of the External Connection from Independence to the Present*, London, 1998 p.4

⁴⁸ Preston, P, *The Triumph of Democracy in Spain*, London, 2001, p.3

⁴⁹ O’Donnell, G, ‘State and Alliances in Argentina’ in Bates, R, *Toward a Political Economy of Development* (Berkeley, 1988), p.202

⁵⁰ Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge MA, 1962, p.353

entrepreneurial elite, the power of the landed oligarchy has never been truly overcome. Indeed, while Argentina underwent developmental state led experiments during the mid 20th Century, the regimes that implemented them did not enjoy a great degree of longevity. New ideologies favouring industrialisation never suppressed the interests of the landed aristocracy.⁵¹

The Argentine experience may represent a societal failure, therefore, rather than a discrediting of Gerschenkron's ideas. On the other hand, Gerschenkron describes variation in the rates of industrialisation across countries more in terms of their relative backwardness at the outset rather than the quality of government intervention. Borrowing Hirschman's terminology, perhaps Argentine perceptions of growth are too 'ego centred'? Progress can only be achieved at the expense of others, in this case other sectors of society, so the country's failure lies in an inability to capture the public imagination with a presentation of change or reform as universally beneficial?

While features of all the 'grand theories' outlined above can be found in the experiences of both Spain and Argentina it is worth pointing out that unlike Rostow, neither Gerschenkron nor Hirschman outline a role for democracy in their view of an interventionist, some might say heavy handed, state. So an unkind interpretation of their respective visions might dismiss them as manifestos for authoritarian regimes. On the other hand Spain's successful democratisation after the mid 1970s might be taken as vindication of Rostow's view that economic development naturally fosters a democratic society.

The onset of authoritarianism in the 1960s and 1970s provoked an intellectual crisis in Latin America. In terms of 'grand theory' the phenomenon posed a serious challenge to development literature, and Rostow in particular, that had suggested a positive association between economic modernisation and democracy. An intellectual consequence was the quest for an answer and a critique of the old ideas, comprising what came to be labelled 'dependency theory'.⁵² The common thrust, was that

⁵¹ Schvarzer, J. 'Empresarios del pasado. La Union Industrial Argentina' Buenos Aires 1991

⁵² See: Cardoso, F.H. and Faletto, E. *Dependency and Development in Latin America*, London, 1979; Furtado, C, *Economic Development of Latin America: Historical Background and Contemporary Problems*, Cambridge, 1976; Sunkel, O. 'National Development Policy and External Dependence in Latin America' *Journal of Development Studies*, Vol.6, (1), October 1969; Evans, P. *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil*, Princeton, 1979; O'Donnell, G. *Modernization and bureaucratic-authoritarianism : studies in South American politics*, Berkeley, 1973.

authoritarianism was a consequence of the socio-economic tensions that had grown out of developmentalism. The CEPAL ideas gave too much ground to international capital, resulting in a colonisation of Latin American economies by multinational enterprises. Industrialisation, in the language of the literature, had become 'externally integrated'. One way or another, this meant that capital was not accumulated in the periphery because the capital intensity of the new industries meant minimal impact on employment, and the foreign firms were inclined to repatriate profits. Perhaps, then, the multinational had become the Gerschenkronian substitute, a private agent hired by the state to create the appropriate conditions for a spurt in industrialisation. From this perspective, their function would lie in their impartiality when promoting the unbalanced growth identified by Hirschman.

A radical strand of the dependency literature which is arguably its best known version particularly outside Latin America, is that of Andre Gunder Frank who published the work: 'Capitalism and Underdevelopment in Latin America' in 1967. Frank modified the *Cepalista* notion of centre-periphery and reproduced it as 'metropolis-satellite' whereby the latter, because of its integration into the capitalist system was condemned to deepening underdevelopment (as opposed to backwardness diagnosed by Gerschenkron, Prebisch and others). The relationship between the two poles is exploitative and the cycle needs to be broken if the metropolis is to develop. This, Frank suggested, is most likely to be achieved through socialist revolution.⁵³

The arguments of the dependency theorists are to a certain degree supported by this thesis in that authoritarian government was evidently a response to social conflict arising from the empowerment of certain social and economic sectors as a direct consequence of redistributive policies. But the authoritarian form of government did not endure in either Argentina or Spain and policy was elaborated and reformed under both pluralist and dictatorial systems. The focus here is on underlying institutional continuity determining how groups are represented to and within government and the ability of a state to dissipate interest group self interest by applying rigid rules of the game to negotiations over policy.

After decades of broadly similar policies of state-led, import substituting industrialisation applied around the world it was clear that the model was more successful in achieving development, measured in productivity levels, in some

⁵³ Frank, A.G. *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil*, New York, 1967

countries than others. The contrast between Eastern Asia and Latin America was especially conspicuous but the theoretical literature of Gerschenkron and others lacked a framework to explain divergence among late industrialisers. This inspired a cross regional literature from the political economy tradition which took up the Gerschenkronian mantle to assess why some developmental economies were more successful than their peers. Among the best known work is that of Alice Amsden who argues that the success of industrialisation will depend on the extent to which the state acts as a 'disciplinarian' for the industries it nurtures.⁵⁴ She does not accept Gerschenkron's idea that the later the process of industrialisation, the larger the participation of the state. In Amsden's model, late industrialising countries are successful if the state intervenes 'to get prices wrong', in other words to subsidise nascent industries, on account of the fact that they could not compete on the basis of low wages alone.⁵⁵ In this situation it falls on the 'disciplinarian' state to impose the conditionality of high performance standards on subsidy allocation. If much is expected of subsidised industry by the state, then society ultimately expects more of the state because the performance of bureaucrats involved in choosing which firms to subsidise can be judged. Higher performance standards thus reduce rent seeking in both the public and private sectors, Amsden argues. In short, rather than the degree of backwardness dictating the speed of economic growth, it is the extent to which government imposes 'reciprocity' on its relations with firms.⁵⁶

Higher performance standards lead to greater efficiency and ultimately lower subsidies. So was the Spanish state a more effective disciplinarian of industry than the equivalent in Argentina? Work by Mauro Guillén, which compares industries in Argentina, South Korea and Spain suggests that the Spanish state was more effective at nurturing its industrial sector in a way that did not suffocate the wider economy. Argentine industry suffered, meanwhile, because of persistence in employing inward looking industrial policy and industries remained perpetually inefficient so that they could never be weaned off subsidies and other forms of state aid.⁵⁷ A related line of analysis highlights the extent to which a state achieves the correct balance between autonomy of the state from interest group pressure and ties to business. A state which

⁵⁴ Amsden, A 'A Theory of Government Intervention in Late Industrialisation' in Putterman, L and Rueschemeyer, D (eds.) *State and Market in Development: Synergy or Rivalry*, Boulder, 1992

⁵⁵ *Ibid*, p.61

⁵⁶ Amsden, A. *Asia's Next Giant: South Korea and Late Industrialisation*, New York, 1989, p.146.

⁵⁷ Guillén, M. *The Limits of Convergence: Globalisation and Organisational Change in Argentina, South Korea and Spain*, Princeton, 2001.

is too autonomous stifles innovation and alienates private enterprise. If it is too 'embedded', defined by clientelist relationships, then it is vulnerable to capture by interest groups.⁵⁸ This would suggest that the Spanish and Argentine states during the period were too embedded, the former less so than the latter. A common criticism of Argentine industrial policy focuses on the domination of elites in the policymaking process, forcing governments to favour firms engaged in activity associated with the traditional agro-exporting sector.⁵⁹ Yet it would be hard to substantiate an assertion that the Spanish state was less clientelistic in its relations with business than its counterpart in Argentina. Local capital comprised an important component of the Franco regime and the state sector was used throughout the period as an instrument of influence peddling (see chapter 1). The focus on this thesis is to support work attributing the ability of the state to act as disciplinarian to subsidised industries by focusing on the broader based concept of political stability. Essentially, the principal concern is whether a state, or head of state, can act as an effective disciplinarian in the struggle between economic interests to capture rents rather than as an assessor of industrial performance.

Theories of State Capacity

Thus, the line of enquiry applied here concentrates on state capacity and institutional strength as an enforcer of political stability that can withstand factional objections to policy. The varied success of third world structural adjustment programmes in the wake of the 1980s debt crisis led to an intellectual revival of Weberian views of the state's role: an organisation invested with authority to make decisions on behalf of the populace and implement them, forcefully if necessary.⁶⁰ But for that implementation to be effective, that State requires an extensive, internally coherent bureaucratic structure. If such a system is in place with functioning hierarchies and regulations, the abuse of power by individuals is minimised as is the possibility of disproportionate representation of a partisan interest from the wider society. In short, an effective institutional structure overrides the pursuit of personal gain by individuals or groups.

⁵⁸ Evans, P. *Embedded Autonomy: States and Industrial Transformation*, Princeton, 1995.

⁵⁹ Schvarzer, J. *La industria que supimos conseguir*, Buenos Aires, 1996.

⁶⁰ Rueschemeyer, D and Evans, P. 'The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention', in: Evans, P, Rueschemeyer, D and Skocpol. (eds.) *Bringing the State Back In*, Cambridge, 1985, pp. 46-47

is too autonomous stifles innovation and alienates private enterprise. If it is too 'embedded', defined by clientelist relationships, then it is vulnerable to capture by interest groups.⁵⁸ This would suggest that the Spanish and Argentine states during the period were too embedded, the former less so than the latter. A common criticism of Argentine industrial policy focuses on the domination of elites in the policymaking process, forcing governments to favour firms engaged in activity associated with the traditional agro-exporting sector.⁵⁹ Yet it would be hard to substantiate an assertion that the Spanish state was less clientelistic in its relations with business than its counterpart in Argentina. Local capital comprised an important component of the Franco regime and the state sector was used throughout the period as an instrument of influence peddling (see chapter 1). The focus on this thesis is to support work attributing the ability of the state to act as disciplinarian to subsidised industries by focusing on the broader based concept of political stability. Essentially, the principal concern is whether a state, or head of state, can act as an effective disciplinarian in the struggle between economic interests to capture rents rather than as an assessor of industrial performance.

Theories of State Capacity

Thus, the line of enquiry applied here concentrates on state capacity and institutional strength as an enforcer of political stability that can withstand factional objections to policy. The varied success of third world structural adjustment programmes in the wake of the 1980s debt crisis led to an intellectual revival of Weberian views of the state's role: an organisation invested with authority to make decisions on behalf of the populace and implement them, forcefully if necessary.⁶⁰ But for that implementation to be effective, that State requires an extensive, internally coherent bureaucratic structure. If such a system is in place with functioning hierarchies and regulations, the abuse of power by individuals is minimised as is the possibility of disproportionate representation of a partisan interest from the wider society. In short, an effective institutional structure overrides the pursuit of personal gain by individuals or groups.

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It is an unfortunate truth, however, that the state will itself necessarily become an arena of social conflict because groups will always attempt to use its structures as a means of realising their particular interests.⁶¹ Therefore, the state in a crony capitalist system can only function 'autonomously' if a faction gains an upper hand. So the coherent and effective state is one where a hierarchy has fallen into place reflecting a "pact of domination".⁶² But once that structure is in place, it strengthens, argue Rueschemeyer and Evans, evolving into an approximation of Weber's effective and autonomous bureaucracy. It is social divisions, they argue, that can inadvertently strengthen the state. Figure 1.4, which outlines the structure of the Spanish corporate state in the 1940s shows the protagonists of this pact of domination, namely the members of the winning coalition from the Civil War. The Church, the military and the Falange, a fascistic ideological organisation that elaborated the Spanish inward looking autarkic development model and much of the corporatist system that endured through the period under study here, were each given control of ministries and other state agencies that related to particular areas of Spanish life. The *Cortes*, was effectively an impotent rubber stamp parliament but it was the arena in which societal interests interacted with the upper end of the hierarchy. Representatives in the congress were elected members of the 'natural' units of Spanish life, namely the family, the community and the national syndicate which represented both labour and the employers. Labour, though not a member of the pact, was a beneficiary of Falangist expansionism and therefore incorporated into the state, albeit in a way that did not recognise it as a distinct group.

A further means by which social division might empower the state is the rift within the dominant class as a result of Gerschenkronian industrialisation, whereby the once unassailable landowners are forced to compete with the industrial class which itself may be divided between loyalty to foreign and local capital. Thus a lack of coherence within a once cohesive dominant group may unshackle the bureaucracy from serving interests that are now much harder to define. A corollary to this argument suggests that popular discontent might further state autonomy in that as demands grow on the state to suppress protest by one group, it will become more willing to move against dominant groups as well.⁶³

⁶¹ North, D. *Institutions, Institutional Change and Economic Performance*, Cambridge, 1990. p.59

⁶²Rueschemeyer, and Evans, 1985. p.48

⁶³ *Ibid.* p.63

These arguments appear to be vindicated by the findings of this study regarding the experience of economic reform in Spain. The 'elite' of landowners represented by the dictatorship in the mid twentieth century found itself weakened by the regime's own policy of forced industrialisation which rendered them less economically dominant in Spanish society. Furthermore, authoritarian suppression of popular discontent during and after the Civil War might be interpreted as increasing the authority of the state in the face of other sectors. The Argentine experience, however, presents some problems to the hypotheses. Divisions in society, between elites and popular sectors and within these groups resulted in different parts of the state becoming affiliated at different times to specific interests, according to the O'Donnell view. So such division, rather than freeing the state, divided it to such an extent that it was unable to act coherently or consistently.

Thus what might distinguish the two models, is that success or failure in attempts to reform policy may not be decided merely on an institutional level. Another theme much explored in the analysis of state capacity is the role of individuals in the process with a school attributing much to the role of technocrats. A seminal analysis in this tradition is provided by Merilee Grindle and John Thomas who focus on the role of decision makers in government.⁶⁴ Policy elites are forced to operate within a 'policy space' which is determined by the ability of a regime and its leadership to introduce a reform without provoking political upheaval or without being forced to abandon the initiative.⁶⁵ The size of that space depends not just on the 'environmental context' within which decisions are made but also on the ability of the reformers to utilise information and exploit relationships with key actors. So the emphasis on decision makers thus goes beyond the institutionalist path dependency idea that the 'environmental context' is shaped by history and therefore static. Policy elites are capable of expanding policy space by using their own initiative.

In pursuit of this line of inquiry, came the 'technopols' categorisation of politically minded technocrats or politicians with a grounding in economics. A technopol designs economic policy with an eye on the nation's circumstances. The ability to achieve this balance is what separates successful from unsuccessful reforms.

⁶⁴ See Grindle, M and Thomas, J. *Public choices and policy change : the political economy of reform in developing countries*, Baltimore, 1991

⁶⁵ *Ibid*, pp. 7-8

In other words, *bad* reform will be entirely technical to the exclusion of political sense or vice versa.⁶⁶

The examples and case studies examined in this study in both Spain and Argentina appear to be dominated by particular personalities, either heads of state or technocratic economics ministers. Indeed, many of the policies, particularly in the Argentine case are closely associated with the policy architect. But the idea of a “technopol” suggests a platonic ideal of the statesman striving selflessly for the common good which may be deemed unrealistic.

A well known model elaborated by Barbara Geddes portrays the state as subject to the actions of “rationally self interested political leaders... who attempt to maximise career success.”⁶⁷ Thus state autonomy is defined by the behaviour of these individuals. Those same figures, on the other hand, may choose to represent particular societal groups if they consider it to be in their interests. The worth of this argument in either of the cases examined here is difficult to qualify, however, and the extent to which episodes of reform were attempts to resolve macroeconomic crisis might undermine the personal ambition idea. Though the architects of Argentina’s Convertibility Plan in the 1990s, for example, might have enjoyed the praise heaped on them when they successfully curbed hyperinflation in 1991, it was as a solution to severe macroeconomic imbalances (see chapter 5). So to claim vanity or personal ambition was the leading motive behind its conception would not stand up to much scrutiny. Reformers under Spain’s Franco dictatorship in the late 1950s (see chapter 3) similarly appear, as members of a conservative Catholic lay group and an intellectual clique, to have taken inspiration from religious zeal and ideological conviction rather than ambition. Their predecessors and successors, meanwhile, were obsessed with the need to keep popular discontent to a minimum in order to maintain political stability.

A further problem presented by the rational choice model of the state, is that such a system does not lend itself well to ensuring the consolidation of a new policy. If action is the product of individual choice, whether motivated by personal ambition or not, the policies are associated with their figurehead. This makes them more vulnerable and less able to withstand popular discontent. The departure of the man

⁶⁶ See: Dominguez, J. *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, Pennsylvania, 1997, or: Williamson, J. ‘In Search of a Manual for Technopols’, in: Williamson, J. (ed.) *The Political Economy of Policy Reform*, Washington DC, 1994

⁶⁷ Geddes, B. *Politicians Dilemma: Building State Capacity in Latin America*, Berkeley, 1994, p.7

permits the reversal of the reform and the next generation of technocratic civil servants or politicians can implement their own agenda based on an entirely different ideological tradition. To avoid these analytical problems, therefore, this thesis emphasises the role of institutional continuity rather than the actors themselves in dictating the success or failure of attempts to implement economic policy reform.

Concluding Remarks.

The structure of the thesis will proceed as follows. Chapter 1 identifies the principal political and economic forces in Argentina and Spain, comparing the structure of the State, the polity, associational life and the hierarchical relationships between these agents. It argues that the extent to which a corporatist system was successfully embedded into state-society relations in Spain distinguishes it from the Argentine case which is regarded as a system founded on an incomplete corporatism. Corporatist entities which represented interests such as business or labour were built into an official syndicate by the Franco regime, which represented an approximation to a credible commitment by the state to consider the interests of a broad range of groups. Similar bodies were created as pillars of Perón's state in Argentina but after he was overthrown and his party proscribed, the entities were orphaned. They subsequently operated as autonomous, highly organised bodies that could either oppose or support, wielding potent economic weapons such as threats to strike or withhold production. The executive thus interacted with society either through suppression or direct negotiation with these groups, offering economic incentives in return for political support rather than through a strong and effective political party system.

Chapter 2 gives a short comparative economic history of the two cases. After a summary of the relevant literatures, it addresses both histories as stories of simultaneous quests for development which the respective regimes, like Gerschenkron, Prebisch and their contemporaries, equated with industrialisation. Both economies were undeniably industrialised by the middle of the period in question, though Spain alone is considered developed. The difference lies in how the Gerschenkronian-Hirschmanian projects pursued by both mid twentieth century were modified subsequently. The harnessing of economic interests by the Spanish state resulted in gradual but consistent change, whereby opposing factions within government, subordinated and disciplined by centralised authority, negotiated on equal terms.

Though slow, and by many estimations inadequate, change in Spain was orderly and continuous and comprises the pure public good of political stability. Argentina, also characterised by centralised power and a history of social conflict was not able to subordinate or co-opt economic interests which remained divorced from the state. A zero sum conflict between groups simultaneously supporting or opposing the policies of any particular president exacerbated political instability and resulted in policy instability which harmed the progress of the process of industrialisation.

A second section to the thesis attempts to illustrate the varying success of different approaches to implementation of policy change through the use of case studies. The section examines three historical moments which represent attempts by policymakers to change the rules of the game for national capitalism in response to economic crisis associated with exhaustion of existing policies. The methodology of the thesis assumes the Argentine and Spanish political economies are shaped by comparable historical legacies of powerful groups jostling for access to national rents. In such a scenario, economic crisis, in part caused by groups “over appropriating” resources, leads to a need for difficult reform whereby one or more groups are forced to relinquish some of their privileges.⁶⁸ The chapters in this second section of the thesis, therefore, use such scenarios as tests of Argentine and Spanish institutions to withstand the strains associated with unpopular reform that strikes at hierarchies of interest group privilege.

On account of international conditions, the first two studies in chapters 3 and 4 are near simultaneous reforms carried out in Spain and Argentina. Thus chapter 3 assesses attempts in both countries to implement macroeconomic stabilisation ‘plans’ sponsored by the International Monetary Fund at the end of each economy’s initial cycle of fiscal expansion in the late 1950s. The studies show that liberalisation of the autarkic Francoist economy during this period was a partial and gradual process representing a war of attrition between distinct groups with opposing economic ideologies within the regime. On the one hand, a generation of reforming technocrats wished to end Spain’s economic isolation. On the other, the Falangists and military old guard, because of an ideological slant towards economic nationalism, were opposed in principle to features of the reforms such as entry of foreign capital and greater fiscal restraint that threatened Spain’s march to greatness through

⁶⁸ Tornell, A. ‘Economic Crises and Reform in Mexico’, in Haber, S. (ed.) *Crony Capitalism and Economic Growth*, p.130.

industrialisation. An industrial bourgeoisie that had benefited from the model of autarkic and protected industrialisation were also threatened by the notion of economic opening. Under the Spanish corporatist system, all such groups were represented by branches of state that claimed a monopoly of legitimacy and recognised the authority of the dictator who acted as a final arbitrator between technocrats and diverse economic interests. The reformers consequently found that the dictatorship acted both as a brake on their attempts to liberalise the economy and impose fiscal restraint, as well as an enforcer of discipline on groups which might have mobilised against what reforms were carried out.

At the same time, Argentina was experiencing a parallel attempt to transform the economy under president Arturo Frondizi whose policies focussed on deepening the industrialisation presided over by previous regimes but with the help of foreign capital. Yet his vision antagonised certain groups and his democratic hold on power was not strong enough to withstand that opposition. Frondizi was politically weak, elected to power through tenuous pacts so subsequent efforts to build alliances of support for his new programme were severely disadvantaged. The flirtation with foreign capital upset nationalist elements in both the military and the Peronist working class while the pursuit of heavy industry fostered suspicion among elites that he intended to continue discrimination against the agricultural exporting sector that characterised Perón's administration. Thus Frondizi was forced to focus on heading off the threat of a coup, ultimately a vain effort as he was deposed in 1962 and succeeded by a 'nationalist' administration that reversed much of his progress in opening the economy to international capital.

While this first episode contrasts the success of an authoritarian transition in Spain with frustration of attempts at reform in Argentina by a democratic president, the models are reversed in the subsequent section. Chapter 4 looks at an episode marked by an Argentine attempt to implant a neo-liberal economic model in 1976 under the disciplining auspices of an authoritarian military government. Simultaneously in Spain, the death of Franco in 1975 had permitted a transition to political pluralism for the first time since the 1930s which inauspiciously coincided with economic crisis caused by the global economic downturn of the era. Both cases represent frustrated economic orthodoxy, whereby market focused economics ministers saw attempts to put an end to *dirigiste* practices stymied by authorities wary of exacerbating political and social unrest. Argentina's Cambridge educated

economics minister José Martínez de Hoz attempted a profound break with past interventionism while his Spanish counterpart, Enrique Fuentes-Quintana pursued monetary discipline but because of the political tensions of the time, tempered it with fiscal magnanimity. Paradoxically, however, Fuentes-Quintana's 'pacted' economic transition of 1977 bore many of the hallmarks of an authoritarian reform. Interest group representatives were excluded from negotiations, their voice captured by political elites while the threat of military intervention disciplined civil society so that demands were softened. Democratic post-Franco Spain is frequently interpreted as characterised by negotiated settlements with interest groups. The argument presented here acknowledges that there were wage agreements with trade unions and other groups throughout the 1970s and 1980s but the most important, and significant economic reforms, the Moncloa Pacts addressed in this chapter were negotiated between political parties that claimed exclusive legitimacy to represent clearly identified constituencies, or economic interests. As under the corporatist dictatorship, therefore, reform was a negotiation within the state.

In Argentina, meanwhile, Martínez de Hoz represented the interests of an ascendant social group, in his case the economically liberal elite, following suppression of its rival, the salaried middle and working classes. While for the time being at least, the ruling military junta was unassailable and enforced an assault on the institutions of Peronism on which it blamed Argentina's ills, Martínez de Hoz's tenure was weak. His liberalism was at odds with the nationalistic ideals of certain factions of the armed forces who balked at his proposals to privatise 'strategic' state-owned industries and were predictably resistant to pressure for fiscal restraint. As such, the neo-liberal reforms were curtailed and Martínez de Hoz eventually replaced. Significantly, the liberal idea he espoused was briefly adopted by a dominant faction of the military on account of its unflattering interpretation of Peronist economic ideology as a root of economic imbalances. But the military itself, like Argentine society was factional and incoherent so the seven year period of military rule was characterised by coups within the coup, and saw four heads of state. Martínez de Hoz, thought the most ambitious, was just one of six economics ministers appointed under the junta. Military defeat in the Falklands put an end to the military's credibility and democratisation followed with another lease of life for traditionally 'heterodox' economic policy. Though factions within a ruling military junta might be deemed comparable to this study's interpretation of the Spanish model, whereby negotiation

takes place within a state, the armed forces had a tenuous claim to legitimate representation of particular factions. In spite of Martínez de Hoz's attempts to put an end to corporatist practices, the executive continued to negotiate directly with vested interests outside the state, often bypassing the economics minister. The clandestine nature of these negotiations, the variety of deals made and resulting contradictions in policy reflect Argentine institutional weakness and indiscipline.

It is important to note that both these moments in history came before Spain's accession to the European Economic Community, as it was then known, in 1986. It would be tempting to argue that membership of the rich trading bloc offered an instant solution to Spain's backwardness, a kind of end of history which superseded domestic rigidities. This study argues that this is a simplistic view, as Spain had to travel a long and arduous road to reform before it could qualify for membership. The two historical snapshots narrated here were crucial episodes in that process, but took place years before Spain joined. In other words, helpful though membership may have been in terms of lending credibility to Spanish economic institutions, channelling development funds south of the Pyrenees and offering an incentive to political and economic actors to accept reform, it was primarily the culmination of progress already made.

The third and final moment examined in Chapter 5 differs from the previous two in that it represents a thematic rather than chronological comparison. It addresses exercises by both economies to impose 'neo-liberal' reform of the economy, by Spain's Socialist government led by Felipe González after 1982, and Argentina's Peronist president Carlos Menem who was elected in 1989. For the Spanish the early 1980s represented an economic end game whereby the pace of change was increased ostensibly in readiness for membership of the European Community. Markets were deregulated, state enterprises privatised and labour law liberalised in direct contradiction to the ruling party's working class ideological origins. But the snapshot shows that the reforms were limited, privatisations were selective or partial and in spite of deregulation, Spain continued to operate as a crony capitalist system. Spanish companies had too long a history as instruments of development policy dating from the early years of the twentieth century. Utilities, banks, the state oil company, the steel industry and the state telecommunications company had been nurtured under Franco because of their Hirschmanian linkages to the wider economy, but also because of their 'strategic' importance to national security. Thus the modern,

privatised enterprises are still run by political appointees and monopolies are not all dismantled. Private they may have been but political they remained. Political power, meanwhile, albeit subject to democratic methods of selection, was highly centralised and dominated by a top down hierarchy within the monolithic and highly disciplined ruling party which turned its back on ever weaker non state associations. In short, the democratic system of policy reform continued to operate along similar lines of internalised negotiation with an arbitrating supreme leader as that pursued by Franco's single party state.

The Argentine section for this case study covers the early 1990s and finds the country again undergoing concerted economic liberalisation in response to macroeconomic crisis. Argentina underwent a puritanically implemented example of the 'new economic model' imposed by the democratically elected government of president Carlos Menem and thus broke a historical association of economic liberalism with political authoritarianism in Latin America. This involved a rapid retreat of the state from the economy with the wholesale privatisation of hundreds of state-owned enterprises. The sell off included such monolithic firms as the state oil and steel companies, one time dirigiste altarpieces and therefore representative of the extent of the shift in paradigm. But this apparent rupture with tradition and the suddenness of the dismantling of a statist economy is deceptive and this thesis states that the period does not represent a fundamental change in the Argentine political economy. It was possible to implement the new model at the start of the decade because of the discrediting of alternatives by recurring crisis and the weakness of traditional institutional obstacles to liberalism such as the national bourgeoisie and popular sectors such as organised labour. But though particular groups were weakened, others such as foreign capital were strengthened and thus the dynamic of presidential negotiation with economic interests outside the state in order to ensure acquiescence to reforms continued. There was no deepening of representative institutions such as a political party system to supplant the old dynamics and the Argentine state remains further than its Spanish counterpart from extending the perceived reach of its credible commitment to asset holders and economic interests. Thus in the hierarchy of crony capitalist systems, Argentina is necessarily less able to ensure the political stability required to encourage productive activity.

The final section offers some conclusions which hinge upon the idea that Spain's economy outperformed Argentina's because of a more successful

management of social conflict and the ability to offer political stability as a pure public good. This occurred despite institutional, ideological and historical similarities, and Spain's disadvantage in terms of factor endowments. Key to political stability was the weakness of associational life, so that representation of economic interests was channelled through a monolithic state via official corporatist entities, and later, a ruling 'mass' party. Political representation during and after the dictatorship was highly disciplined and centred on a head of state who acted as an arbitrator between factions, and solutions were compromises. In Argentina, construction of the corporatist state was truncated which left a variety of highly organised and autonomous corporatist entities that were disconnected from the state. Each one of these passed through periods of cooperation and enmity with the head of state who was forced to negotiate with them directly rather than via the institutions of state which were inherently weak. Such a situation lends itself to political instability in that a president is necessarily friend to one interest and enemy to another. It also facilitates macroeconomic instability because powerful economic interests are likely to generate inflation. Organised labour can mobilise to pressurise the government for higher wages, increasing demand and driving up inflation. Producing groups, both industrial and agricultural can withhold production, thus restricting supply and driving up prices.

Finally, a brief word on the sources used in the research to complement the methodology and approach outlined above. The thesis rests on documentary evidence, including legal texts, many now obsolete but still available in archives, government reports as well as economic and political analyses carried out by international organisations such as the World Bank and the International Monetary Fund. The principal handicap presented by this kind of material is that records in ministries and government depositories in both the countries are often incomplete. Many of the regimes involved were non transparent, authoritarian and patriarchal which means in house studies were at times less than objective. The poor human rights records of governments in both cases also resulted in much documentation being hidden or destroyed while access to the researcher is at times restricted. Where possible, therefore, the research seeks evidence from international sources less influenced by vested interests. Some archival material, such as the personal correspondence of Antonio Suanzes, founder of Spain's state industrial holding company, childhood friend to Franco and the architect of post Civil War economic policy is used here for the first time in any academic study thanks to progress by Spanish government

archivists in organising the material. But a similar resource in Argentina, the Frondizi archive of personal correspondence and other records, is no longer available to the researcher following its acquisition by Argentina's National Library which lacks the resources to catalogue the material. On the other hand, this is compensated for to some extent by an excellent archive of largely untapped World Bank documents at the Argentine Economics Ministry dating back to shortly after the institution's foundation, including declassified memoranda and reports covering all three periods scrutinised in this thesis.

Meanwhile, much use is made of newspaper archives as sources of contemporary accounts and in search of views held by participants in the events in question. But the regime of Francisco Franco in Spain was not known for its protection of press freedom, and at the time, debates were ideologically charged so newspaper sources must be treated with some caution. Again, a solution was sought through the use wherever possible of international non partisan sources such as the Financial Times and The Economist newspapers.

Chapter 1

The State, Vested Interests, Political Parties and the Management of Distribution.

This chapter examines the relationships between government, parties and interest groups in Argentina and Spain. It is a comparative survey that puts evolving state-political party-interest relations into historical perspective. The principal argument is that both cases are best understood as systems shaped by parallel corporatisms left in different stages of completion by their respective architects in the 1940s. This impacted on the capability of the state to embed new policies that might be opposed by vested interests.

Corporatism is defined as a system whereby economic interests and social groups are represented by non competitive, hierarchically ordered organisations, recognised by the state which grants them monopolies of legitimacy within their respective categories. The state, acting as the overall authority, takes the role of mediator between groups as well as the ultimate decision maker on policy.⁶⁹ It is a system of 'vertical integration' whereby corporatist entities representing interests such as labour, industry or agriculture, have direct access to the state, and indeed may form a part of it. The premise of this study is that the system functions most effectively if all the entities are granted, in theory at least, equal access to the executive in a state which adopts a pyramid shaped structure. Each interest is granted legitimacy before the arbitrating head of government who in turn is accepted as the only possible channel for negotiation, so groups engage in a war of attrition to shape policy within the state. But if economically powerful interests are excluded from the hierarchy, and if they are sufficiently organised, they will attempt to scupper policies that they deem to reduce their share of national rent. They may even try to achieve this through the overthrow of the government so that it might be replaced by one more sympathetic. In which case the corporate entities originally favoured by the regime will find themselves cast adrift and the cycle starts once more.

Wolfgang Streeck and Philippe Schmitter argue that associations are a source of social order because they act as 'organisational concertations' that amalgamate other institutional bases of order, namely state, market and community.⁷⁰ This model is associated, however, with advanced industrialised economies with functioning liberal democracies which benefit from an additional unit of representation and

⁶⁹ Schmitter, P. 'Still the Century of Corporatism', *The Review of Politics*, January 1974 p94; Wiarda, H. *Corporatism and National Development in Latin America*, Boulder 1981.

⁷⁰ Streeck, W and Schmitter, P. 'Community, Market, State and Associations? The Prospective Contribution of Interest Governance to Social Order', in: Streeck and Schmitter (eds.) *Private Interest Government: Beyond Market and State*, London 1985

bargaining because of the bluntness of a universal voting system. In less developed economies associations are potentially more disruptive. Mancur Olson has shown that 'distributional coalitions' seek to capture national rent and maintain monopolistic or oligopolistic positions harmful to economic growth. This in turn prevents coherent government and stifles social mobility.⁷¹ Early seminal work by O'Donnell focuses on conspiracies between social groups to ensure public policies benefited them while non coalition members bore the costs as a stage in the process of economic modernisation.⁷² O'Donnell's work seeks to provide models rather than case studies and his writing does not explicitly mention Argentina though it is clearly a principal inspiration. The thesis was rebuffed by Benjamin Most who acknowledged that while such coalitions are undoubtedly important for undertaking public policies in some instances, the dynamic is more incoherent than O'Donnell claims. Rather than the rational choice of unified coalitions, policies may just as often be the results of bargaining and compromise and as a result, what is achieved may not be what the groups' leaders had in mind.⁷³ Such a scenario is observable in the histories of Argentina and Spanish policymaking. But if that bargaining takes place between factions of the state hierarchy with a powerful executive to act as arbitrator and final decision maker, as in the case of Spain, the compromise will not threaten political stability because of the existence of institutionalised rules of the game. If on the other hand, those interests are free standing and outside the state, as they are in Argentina, then the undesirable outcome will not be recognised as legitimate and the system becomes prone to political instability as groups seek to install an executive who will conform to their priorities.

This section will proceed with a brief comparison of the two corporatisms of the 1940s, arguing that the Spanish version was more inclusive and more successfully consolidated than its Argentine equivalent. An overview of how subsequent relations between ruling parties, organised interests and government are shaped by this founding system follows before a conclusion which conceptualises these interactions into a model that explains greater institutional continuity and policy coherence in Spain than in Argentina.

⁷¹ Olson, M *The Logic of Collective Action*, Cambridge MA, 1971.

⁷² O'Donnell, G. 'Tensions in the bureaucratic-authoritarian State and the Question of Democracy', in: Collier D. (ed.) *The New Authoritarianism in Latin America*, Princeton 1978.

⁷³ Most, B. 'Authoritarianism and the Growth of the State in Latin America: An Assessment of their Impacts on Argentine Public Policy 1930 – 1970', *Comparative Political Studies*, Vol.13 (2) July 1980, pp.173-203

The Two Corporatismisms of the 1940s and Beyond.

The early administrations of Franco and Perón were 'vertically' conceived, designed to transcend, or at least negate, class differences by incorporating such factions as business and labour into the state on equal terms. They were also designed to shape societies so that the maximum amount of energy should be directed at greater productivity to achieve modernisation and greater autonomy of the economy. Consequently each regime constructed a system of 'vertical syndicalism', whereby both employers and unions were incorporated into the state. In the case of Argentina, this meant the creation of a new industrial association, the General Economic Council (CGE) to mirror the existing labour union confederation, the General Workers Confederation (CGT), as a second pillar of Peronist populism. The two groups were to act together as representatives of societal interests in advising the government on economic policy.⁷⁴ In Spain, meanwhile, the Franco government of the 1940s, recognising the need to address the social conflict which had caused the 1936-39 Civil War, established the Syndical Organisation (OS), a catch-all association with compulsory membership for workers, management and employers.⁷⁵ Thus state syndicalism in Argentina and Spain institutionalised control over the entire process of industrial relations and social welfare, ensuring the maintenance of 'populist' labour policies such as high real wages to nurture a domestic market of consumers catered to by new state owned enterprises. The difference between the two is the extent to which these institutions, which were incorporated into the state, reflected the structure of society as a whole.

Peronist corporatism was exclusive, disproportionately representing, and rewarding, Perón's support base among the working and middle classes. Because Perón sought to transform the Argentine economy, ending its orientation towards exports of agricultural produce in favour of internally integrated industrialisation, policy necessarily discriminated against agricultural producers. Indeed, the corporatist machine expropriated export rents from Argentina's traditional elite, the owners of

⁷⁴ Teichman, J. 'Interest Conflict and Entrepreneurial Support for Perón' *Latin American Research Review*, Vol.16 (1) 1981, pp.144-155; Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1990. p.168.

⁷⁵ Balfour, S. 'From Warriors to Functionaries: The Falangist Syndical Elite 1939-76', in: Lannon, F. and Preston, P. *Elites and Power in Twentieth Century Spain*, Oxford, 1990.

land, through the creation of IAPI (Argentine Exchange and Promotion Institute). This was a marketing board to which farmers were compelled to sell their produce so that it could be sold on the international market at a profit as a means to raise fiscal revenues.⁷⁶ It also sold beef and grain cheaply to the domestic market as a mechanism to increase real wages at the expense of landowning elites. The low prices offered for produce in addition to an aggressively progressive tax regime enhanced the perception of discrimination against traditional Argentine agriculture in favour of industry and intensified opposition among the elites. Furthermore, the creation of the CGE and its incorporation into the state did not mean Perón managed to co-opt the entire bourgeoisie. The existing Argentine Industrial Union (UIA) was closed down under Perón as an oligarchic bastion of traditional industry, closely integrated with the now discredited agro-export economy. The favoured economic model, oriented towards light 'horizontal' industrialisation to provide consumer goods to a market enriched through full employment and generous wage policy, did not sit comfortably with the older, larger enterprises affiliated to the UIA. These were more likely to be integrated with foreign capital and the export economy.⁷⁷

The state did achieve a degree of autonomy from the traditional dominant classes for the first time but Perón's legacy proved to be a divisive one that infused a sickness into Argentine state-society relations. Because of the expansion of the state's operations under the banner of Peronism and the overt discrimination against traditional holders of capital, he created the perception not of a state serving the national interests so much as one that could be wielded by groups in power against groups out of power.⁷⁸ Ultimately, Perón was removed from office and his reorientation of the state and the economy truncated. He had served long enough, however, to construct important components of the corporatist state, strengthening and enriching the organised labour movement in particular. Though Perón himself was exiled and his party proscribed, Peronist labour remained a force to be reckoned with, adding to the number of freestanding distributing coalitions severed from the state and struggling to capture a share of national rent.

⁷⁶ Torre, J-C. 'Argentina since 1946' in Bethell, L. (ed.) *Argentina since Independence*, Cambridge 1993 p.250

⁷⁷ Teichman, J. 'Interest Conflict and Entrepreneurial Support for Perón' *Latin American Research Review*, Vol.16 (1) 1981, pp.144-155

⁷⁸ Sikkink K. *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, 1991 p.180.

In contrast, the corporatism constructed contemporaneously in Spain, was more successful at incorporating a wider variety of interests into its structure even if it favoured some groups over others. At its inception, the state reflected the coalition which had defeated the forces of liberalism, Socialism and Anarcho-syndicalism in the Civil War, namely the Church, the military, the rural aristocracy and its allies in the industrial bourgeoisie and the Falange a fascistic movement inspired by Mussolini style national populism. None of these groups had much in common but were united in their loyalty to Franco whose executive power was unlimited. The reason for their acquiescence was the role of the dictator as protector against an unpalatable alternative, namely a left leaning, anti clerical redistributionism of the kind they had just defeated. In return for their loyalty, they were each granted control over an area of public life. Thus, the Catholic Church regulated the moral life of the nation with control over the Ministry of Education while the armed forces administered their own ministries and several others including the Interior Ministry. The Falange, meanwhile, was left in charge of labour and economic policy and founded institutions to implement their vision. In addition to the state syndicate, the OS, Falangists established the Institute for National Industry (INI) as a holding company for state enterprises and planner, financier and guardian of the drive to industrialise. In the late 1950s, supporters of Falangist ideology lost control of economic policy to a younger generation of economically orthodox technocrats but retained the INI, the Labour Ministry and for a time, the Ministry of Industry. The technocratic young Turks, meanwhile, led the newly created ministries of Trade and Finance. In a sense, therefore, economic policymaking was divided between two factions. But the nature of the system meant that the dictator, having delegated power to ministers representing different interests while retaining absolute authority, arbitrated between the factions. Less a captain of the team than the 'referee', therefore.⁷⁹

Argentine and Spanish corporatism served to cement a common feature of both political systems, namely a disproportionately strong executive in a system vulnerable to domination by a personalistic style of politics.⁸⁰ Although according to

⁷⁹ Gilmour, D. *The Transformation of Spain: From Franco to the Constitutional Monarchy*, London 1985 p.7

⁸⁰ Amodia, J. *Franco's Political Legacy: From Dictatorship to Façade Democracy*, London, 1977 pp.62-63; Jones, R. *Beyond the Spanish State*, London 2000 pp.52-53: p.91; Johnson, D. 'Argentina: Parties and Interests Operating Separately by Design and in Practice', in: Thomas, C (ed.) *Political Parties and Interest Groups: Shaping Democratic Governance*, Boulder 2001. p.229; O'Donnell, G.

the Argentine Constitution, laws require approval by both chambers of Congress before they can be passed, in practice bills are sponsored by the president in a top-down process. This was in part a historical legacy of the exclusionary state constructed by the oligarchic governments of the nineteenth century, manipulated to prevent potentially hostile economic interests gaining access to policymaking.⁸¹ Perón exploited this structure that stifled the effectiveness of democratic institutions such as the Congress, using corporatist entities such as the CGE and CGT to rally support for his policies. Bills were typically only submitted to Congressional debate after they had been sponsored by the executive which meant the legislature's primary purpose was to enact into policy, laws decided upon by the president. Similarly in Spain, the executive dominates the policymaking process and the Constitution affords higher priority to bills sponsored by the Prime Minister than by legislators.⁸² But the varying reach of each system has dictated the capacity of the next tier of the state under subsequent regimes, namely the party political system. In Argentina, the strong executive presides over a weak party system whereas in Spain, the opposite is true despite the youth and initial fragility of Spanish democracy after Franco's death in 1975. This reflects greater success in centralisation of control by Franco, leaving a legacy of enhanced central government and inhibited associational life.⁸³ In Argentina, Perón's centralisation of power was curtailed leaving an institutional legacy of untethered and powerful organised interests to compete with each other for power and access to subsequent governments.

It is now possible to make a more detailed reference to the diagrams of the previous chapter. Figure 0.4 (p.12) refers specifically to the structure of the Spanish state during the early stages of the dictatorship. Branches of central government were divided between members of the Civil War's winning coalition according to which ministries controlled the area of public life such entities as the military, the church or the Falange wished to influence. This represented a distinct feature of Franco's variety of European Fascism. Unlike its equivalent in 1930s Italy, for example, the

'Delegative Democracy' in: Diamond, L. and Plattner, M. (eds.) *The Resurgence of Democracy*, Baltimore, 1996.

⁸¹ Manzetti, L. *Institutions, Parties and Coalitions in Argentine Politics*, Pittsburgh 1993 pp.4-5; Sikkink, *Ideas and Institutions*, Ithaca, 1991, p.178; Manzetti and Snow, P. *Political Forces in Argentina*, London 1993 ; Johnson, D. 'Argentina: Parties and Interests Operating Separately by Design and in Practice', in: Thomas, C (ed.) *Political Parties and Interest Groups: Shaping Democratic Governance*, Boulder 2001. p.231;

⁸² See: Spanish Constitution, 1978, Article 98, 2

⁸³ Jones, R. *Beyond the Spanish State*, London 2000 pp.52-53

dictator was a supreme authority but acted more as a constitutional monarch than a despotic dictator. His method, which proved effective in pacifying an eclectic group of coalition members, was one of divide and rule. He was prepared to allow his ministers much influence in formulating policy, and initially the structure of the state as long as it continued to bolster order. He was not himself a designer of Spain's economic model, rather an endorser of what was suggested to him by others on the condition that it was effective. The next tier of government was the *Cortes*, a parliament comprising representatives from the same coalition in addition to 'natural' groups from socioeconomic life, namely the OS, regional and provincial government and the family. This system remained in place throughout the dictatorship though shifts in power and influence within the regime influenced the direction of policy. The rise of a technocratic generation of civil servants and ministers in the late 1950s, for example, presented a challenge to the Falangist vision though this old guard remained in place to temper liberalisation of the economy (see chapter 3).

Figure 0.6 (p.15), meanwhile, illustrates the perennial problem of Argentina's political economy. While the institutions of state are constitutionally enshrined, they are undermined by the strength of corporatist entities, each representing a distinct economic interest.⁸⁴ Two of these, the SRA and the UIA representing agricultural interests and upper end, oligarchic business respectively, predate the Perón governments of 1946-1955. The remaining sectors if not created by Perón such as the CGE representing national capital, were strengthened and acted as mobilisers of support for him, particularly the organised labour movement associated with the CGT. Perón had bolstered these two groups as pillars of his corporatist state and the lines of contact between his office and society at large ran via these entities. After the system was decapitated in 1955 and Perón forced into exile, these organisations acted as the most effective representative of Peronism in the absence of the movement's figurehead and under the proscription of the party.

⁸⁴ For meticulous description of the Argentine institutions of state see: Anzoategui, V. and Martire, E. *Manual de Historia de las Instituciones Argentinas*, Buenos Aires, 2004

Party-Group relations in Spain and Argentina: Parties, Leadership and Power

Much is made in the political science literature of the weakness of Argentine party politics and its failure to represent society in government.⁸⁵ In the absence of an effective mediator between executive and society, economic interests such as labour or industry are forced to appeal directly to the executive. If the appeal fails, options include the use of economic weapons such as strikes or the withholding of produce from market. There is an extensive literature on the zero sum distributional conflict that pervades political discourse which presents Argentine policymaking as a perpetual struggle between groups to control political decision making.⁸⁶ Distinct economic interests such as landowners, labour and business view the economy and the state as commodities to be captured. Gains by one group are necessarily at the expense of another. In other words, Argentina's perennial problem is that groups have fought to claim the largest possible slice of the pie rather than work towards increasing the size of the pie. But why does the Argentine state fail to manage this conflict? There are a number of approaches by political scientists to this question. One branch focuses on 'factionalism' in Argentine discourse, whereby political parties remain fragmented and split along lines of regionalism, ideology or personalism. In other words, forces such as 'Peronism' or Radicalism, while nominally reflecting distinct political movements, are really unwieldy 'movements' of collective identity rather than institutionalised political parties. Factions emerge within these movements that become effectively parties within the party. Presidents thus find that they cannot

⁸⁵ McGuire, J. 'Political Parties and Democracy in Argentina', in: Mainwaring, S. and Scully, T, *Building Democratic Institutions*, Stanford, 1995; Manzetti, L. *Institutions, Parties and Coalitions in Argentine Politics*, Pittsburgh 1993; Manzetti and Snow, P. *Political Forces in Argentina*, London 1993; Johnson, D. 'Argentina: Parties and Interests Operating Separately by Design and in Practice', in: Thomas, C (ed.) *Political Parties and Interest Groups: Shaping Democratic Governance*, Boulder 2001. p.231;

⁸⁶ Mallon, R and Sourouille, J. *Economic Policymaking in a Conflict Society: The Argentine Case*, London, 1975; Wynia, G *Argentina in the postwar era : politics and economic policy making in a divided society*, Albuquerque, 1978; Lewis, P, *The Crisis of Argentine Capitalism*, Chapel Hill, 1990; O'Donnell, G 'State and Alliances in Argentina' in Bates, R 'Toward a Political Economy of Development: a rational choice perspective', Berkeley, 1988; Peralta-Ramos, M. *Étapas de acumulación y alianzas de clases en la Argentina (1930-1970)*, Buenos Aires 1972, Gerchunoff, P and Llach, L *El ciclo de la ilusión y el desencanto : un siglo de políticas económicas argentinas*, Buenos Aires, 1998

rely on the unified support of their own party and seek to bypass the party as well as Congress.⁸⁷

An increasingly influential line of analysis reflecting on the changing relationship between the state and interest groups in Argentina suggests that while the state has strengthened, groups have lost power on account of persistent political persecution and economic crisis.⁸⁸ If this is indeed the case, and the policy style of president Carlos Menem who sought to 'neutralise' both 'capitalist' and union opposition to his economic reforms in the 1990s suggests the argument has some credibility, then Argentina may have turned a corner. Nevertheless, this optimistic view agrees that distributional conflict has contributed to Argentina's history of political and economic instability while it is a central theme of this thesis to argue that in spite of a shift in distributional fault lines, the dynamic of direct negotiation between executive and interest groups in the context of a weak political system, remains very much in place (see chapter 5).

Spain has received less attention from political scientists though the literature on state-society relationships is growing. This is partly because of the location of politics in Spanish academia as a subset of law which means political analyses focus on the minutiae of the 1978 Constitution rather than its application, as highlighted by Heywood.⁸⁹ The transition to democracy, on the other hand, produced a wealth of work and the fact that it persisted in spite of acute economic crisis, inspired attempts to conceptualise it as a potential model for reference elsewhere.⁹⁰ Attempts to analyse political parties, their linkages to interest groups and the effect on policymaking burgeoned after the 1990s.⁹¹ This section attempts to explain the relative strength of

⁸⁷ Snow, P and Manzetti, L *Political Forces in Argentina*, London 1993; McGuire, J. 'Political Parties and Democracy in Argentina', in: Mainwaring, S. and Scully, T, *Building Democratic Institutions*, Stanford, 1995

⁸⁸ Erro, D. *Resolving the Argentine Paradox: Politics and Development*, Boulder 1993; Acuña, C. 'Politics and Economics in the Argentina of the 1990s' in: Smith, W, Acuña and Gamarra, E. *Democracy, Markets and Structural Reform in Latin America*, Boulder, 1993.

⁸⁹ Heywood, P. *The Government and Politics of Spain*, London 1995 p.6

⁹⁰ Maravall, J-M. and Santamaria, J. 'Political Change in Spain and the Prospects for Democracy', in O'Donnell, et al, *Transitions From Authoritarian Rule: Southern Europe*, Baltimore 1986; Gunther, R. 'Spain: The Very Model of Modern Elite Settlement,' in: Higley and Gunther, eds., *Elites and Democratic Consolidation in Latin America and Southern Europe*, Cambridge, 1992; McDonough, P et al, 'The Growth of Democratic Legitimacy in Spain,' *American Political Science Review*, Vol. 80, (3) Sept. 1986

⁹¹ Wozniak, L 'The Dissolution of Party-Union Relations in Spain' *International Journal of Political Economy*, Vol.22 (4), 1992; Hamann, K. 'Spain, Changing Party-Group Relations in a New Democracy' in: Thomas, C. *Political Parties and Interest Groups*, Boulder 2001; Keating, M. 'Spain', in: Keating (ed.) *The Politics of Modern Europe: The State and Political Authority in the Major Democracies*, Cheltenham, 1999; Jones, R. *Beyond the Spanish State*, London 2000

Spanish political parties compared to their Argentine counterparts and the manner in which they have eclipsed organised interest groups in the ability to influence political decision making.

Political parties in both Argentina and Spain have experienced a precarious existence and were outlawed in the name of public order for periods of varying length both collectively and individually. An underlying weakness of the Argentine party system identified by Snow and Manzetti is the failure of the landowning elite which monopolised power in the late nineteenth century and ensured the continuity of liberal economic policy, to tolerate increased participation in political life by groups other than their own. Yet the example of Spain illustrates that this is by no means exceptional. Just as Argentina's old order, on realising they could not regain political hegemony through pluralistic means, backed a military coup in 1930, the Spanish Civil War began when a conservative faction of the army led by General Francisco Franco revolted against the democratically elected ruling coalition of the Second Republic. Indeed, in Spain as in Argentina, the political scene of the nineteenth and twentieth centuries was dominated by a politicised military which intervened in political life whenever it perceived stability or public order to be under threat.⁹²

Both party systems also display features of what Latin Americanist political scientists term movementism (*movimientismo*), whereby they operate as vehicles to rally popular support rather than representatives of a coherent ideological tradition. Mass parties such as the Spain's Socialist Workers Party (PSOE) and Popular Party (PP), formerly the Popular Alliance (AP), and Argentina's Radical Civic Union (UCR) and the Peronist Justicialist Party (PJ) are defined by personalist leadership and ideological imprecision.⁹³ There is also a shared history of direct affiliation between parties and interest groups, particularly regarding labour movements. What then distinguishes the two cases? Firstly, the main Spanish party of the Left, historically associated with the General Workers' Union (UGT) evolved into a centrist multi class party during the 1980s. This simultaneously alienated and weakened the affiliated union movement until ties were formally severed in 1989.

⁹² Newton, M. and Donaghy, P. *Institutions of Modern Spain*, Cambridge 1997. p.186.

⁹³ Rock, D. 'Political Movements in Argentina: A Sketch from Past and Present', in: Peralta Ramos, M. and Waisman, C. *From Military Rule to Liberal Democracy in Argentina*, Boulder, 1987, p.12; Heywood, P. *The Government and Politics of Spain*, London 1995 p.190; Keating, M. 'Spain', in: Keating (ed.) *The Politics of Modern Europe: The State and Political Authority in the Major Democracies*, Cheltenham, 1999 p.381

Spanish interest groups, including the large labour confederations are not strong enough to seriously disrupt policymaking, excepting a handful of instances where groups formed alliances to orchestrate a general strike as in 1988.⁹⁴ The Argentine state, meanwhile, was never able to convince its citizenry that it served the national collective interest over that of a particular faction that had captured the executive at any given point. With highly organised interest groups more prominent than political parties, there was greater opportunity to disrupt policy. What, then explains the weakness of the Argentine party system?

At the start of the period examined in this thesis there were three principal forces in Argentine political discourse: the conservative National Autonomous Party (PAN), which reflected the interests of landowning elites, The Radical Civic Union, (UCR) formed in 1889 to represent a disparate selection of interests disenfranchised from the PAN hegemony⁹⁵ and, after 1946, Peronism, which claimed the majority of its support base from the workers. None of these could claim any coherence and existed as a series of ‘incumbent party hegemonies’⁹⁶. When in government they were monopolistic, seizing the opportunity to attack rivals, and were ‘disloyal oppositionists’ who often supported, or even provoked military coups to remove the hated other from office. The power of the conservative PAN waned after the first decade of the twentieth century, never able to overcome increased electoral participation after 1912 and supported a military coup to overthrow the military government of Hipólito Yrigoyen in 1930. After Perón was ousted in 1955, his party was banned and allowed only limited participation from 1962 to 1973 when he was finally allowed to return from exile. The military coup of 1976 was given tacit support by the non Peronist parties but the subsequent junta banned party politics until the return to democracy in 1983. At this point for the first time a semblance of electoral politics emerged with the main parties accepting each other as legitimate contenders for power. However, the incoherence of the megalithic Radical Party prevented effective action against an acute hyperinflationary economic crisis by the president Raúl Alfonsín who had adopted a chameleonic approach to policymaking in an

⁹⁴ Hamann, ‘Spain, Changing Party-Group Relations in a New Democracy’ in: Thomas, C. *Political Parties and Interest Groups*, Boulder 2001 p.185

⁹⁵ Alonso, P. *Entre la revolución y las urnas. Los orígenes de la Unión Cívica Radical y la política argentina en los años 90*, Buenos Aires, 2000

⁹⁶ McGuire, . ‘Political Parties and Democracy in Argentina’, in: Mainwaring, S. and Scully, T, *Building Democratic Institutions*, Stanford 1995 p.204

attempt to keep his party together. When in 1989 Carlos Menem managed to unite the various factions of the Peronist Partido Justicialista, he did so on a traditionalist popular ticket but effected neo-liberal economic reforms that contradicted his early promises.

The conservatives effectively monopolised power in the late nineteenth century and relied on limited suffrage and electoral fraud to maintain their hold on power. The PAN was in fact a federation of smaller, provincial oligarchies and state building in this period thus logically reflected the interests of rural elites and was designed to assure the smooth functioning of the agro-export system. The touted ideology was one of economic liberalism though the purity of that liberalism was sullied if it was deemed to affect the interests of the elites. While ostensibly the landowners earned their income from exports of agricultural produce, the extent to which Argentina subscribed to completely free trade had its limits. The government relied on import and export duties as its most important source of revenue which landowners supported in view of the fact that it would otherwise have had to rely on other fiscal mechanisms such as land and property taxes.⁹⁷ Furthermore, state institutions including the judiciary were often populated with representatives of landowning interests to ensure a friendly voting majority so that instead of a platonic civil service in the service of the national interests, the bureaucracy came to resemble a 'gentlemen's club' with little capacity to act autonomously.⁹⁸

A reforming faction of the PAN broke away in 1889 to form the UCR which aimed to appeal to the growing middle classes but was frustrated by continuing limits to suffrage. After winning support from an army faction they staged a series of unsuccessful coup attempts in 1890, 1893 and 1905, the latter after losing fraudulent elections.⁹⁹ Promises of continued 'intransigence' by party leader Yrigoyen and repeated abstention from elections on the basis that they were rigged eventually forced the conservative party, now led by blue blooded Jockey Club member Roque Sáenz Peña, to pass an electoral reform law in 1912 that made the ballot secret and voting compulsory for every (male) citizen who had completed his military service.

⁹⁷ Díaz Alejandro, C. 'No Less than 100 Years of Argentine Economic History and Some Comparisons', in: Velasco, A. (ed.) *Trade, Development and the World Economy*, Oxford, 1988. p.240; Berensztejn, S and Spector, H, 'Business, Government and Law' in: della Paolera, Gerardo and Taylor, Alan, *A New Economic History of Argentina*, Cambridge, 2003, p.324

⁹⁸ Sikkink, *Ideas and Institutions*, Ithaca 1991, p.178.

⁹⁹ Lewis, P *The Crisis of Argentine Capitalism*, Chapel Hill. 1990 p.18

The UCR won a landslide in the 1916 election and Yrigoyen assumed the presidency. The extent to which the UCR successfully established itself as a mass party at this point is debatable. There were splits caused by internal rivalries and objections to Yrigoyen's personalist leadership and overtures to labour and landowners aimed at incorporating them into a national movement were unsuccessful. Nevertheless, the UCR could claim enough electoral support to prevent the conservatives from regaining the presidency by electoral means, partly because unlike elsewhere in Latin America, Argentina lacked a peasantry to provide landowners with a 'captive' vote.¹⁰⁰ The UCR's hold on power became hegemonic, meanwhile, and Yrigoyen filled the public administration with his own appointees and cronies. State activity also became more nationalist and interventionist with the creation of entities such as Yacimientos Petroliferos Fiscales (YPF), the state oil monopoly. He was overthrown in 1930 by a conservative backed military coup and the Yrigoyenist faction of the UCR was barred from contesting elections the following year which were won by a coalition of 'anti personalist' Radicals, conservatives and Socialists. The interim between Yrigoyen's ousting and the ascendance of Perón to the presidency was marked by cycles of authoritarianism followed by brief restorations of democracy. Meanwhile, a new movement which was to shape Argentine politics into the twenty first century was gathering strength.

The Peronist Party, later renamed the Justicialist Party, was formed out of a union between the Argentine Labour Party and the Radical Reorganising Group and held together by the charisma and personality of Juan Domingo Perón. Beyond that, it struggled to exist as a cohesive group and as an identity was interpreted distinctly by different factions in different parts of the country. To working class inhabitants of Buenos Aires and other urban centres it was perceived primarily as a labour party while outside the cities it was regarded as either a social Christian movement or an ultranationalist Catholic organisation. At times it existed as little more than a personalistic vehicle for provincial caudillos, a divisiveness that survives to this day.¹⁰¹ Perón's leadership style was plebiscitarian, based on direct ties between himself and his followers, and in spite of his creation of a party that bore his name, he shunned conventional party organisation.

¹⁰⁰ McGuire, 'Political Parties and Democracy in Argentina', in: Mainwaring, S. and Scully, T, *Building Democratic Institutions*, Stanford 1995, p.206.

¹⁰¹ Manzetti, L and Snow, P. *Political Forces in Argentina*, London 1993 p.79

In sum, Argentine political parties are weak, in large part because of the contempt with which they are treated by both their opposition and from within their own ranks. During election campaigns they are used as vehicles to promote presidential candidates who sideline them on gaining office. In this respect, as will be described below, the role of Argentine and Spanish parties do not differ greatly. Yet Argentine parties' are less disciplined internally than those in Spain, allowing ideological incoherence to destabilise them. If the presidential candidate decides his party is cumbersome, or if he fails to achieve enough consensus to support his platform, he forms a new splinter, as did Arturo Frondizi in 1958 (see chapter 3).

Spanish political parties since the 1970s have consolidated their strength in spite of an inauspicious start. Under Franco, all political parties were banned with the exception of his own 'National Movement', an agglomeration of rightist groups from the winning side in the Civil War. Therein lies a distinction from the Peronist equivalent, namely that in spite of the 'vertical' corporatism of Perón's government (1947-1955), Argentina's party political system remained in place, at least nominally. In its place the Franco state installed a system of 'organic democracy' whereby citizens were represented in parliament through membership of organisations that represented 'natural' units of society such as the family, the municipality or the syndicate. In comparison, the ideologues claimed, political parties were artificial manifestations of an 'unnatural' system: western style liberal democracy.¹⁰²

The Political Reform Law of 1976 legalised political organisation and 200 national and regional parties were established in anticipation of the first general election for four decades, scheduled for June 1977. This was won by the Centre Democratic Union (UCD) with 38 per cent of the vote but the ensuing years saw its support eroded by the capture of centrist politics by other parties, particularly the PSOE. The UCD, which had never consolidated its identity beyond a fractious coalition of right leaning groups, many identified with the Franco regime, was finally disbanded in 1982. Thus Spain's post Franco political parties are dominated by two forces originating at the left and right of the ideological spectrum that since the 1970s have shifted towards the centre in order to become mass based, as opposed to class based, movements. Because they are multi class, and multi regional, they maintain

¹⁰² Gilmour, D. *The Transformation of Spain: From Franco to the Constitutional Monarchy*, London 1985 p.20

rigid internal discipline and centralised organisation. Figure 0.5 (p.13) in the previous chapter illustrates how the top-down hierarchy of the hegemonic party mirrors the centralised post corporatist structure of the Spanish state. When a party is elected to power, therefore, each tier of the party can amalgamate effectively into its respective level of government. Thus the party leader and the federal executive committee occupy the seat of the executive and the Office of the Presidency while the next tier of the movement takes over the Council of Ministers and the ministries themselves. Further down the structure, the federal components of the party, its regional and community based tributaries, occupy the regional, provincial and municipal structures of Spanish administration.

The architect of Spain's contemporary economy, patron of accession to the European Union and designer of the welfare state is the PSOE, which held power from 1982 to 1996. The PSOE was founded in 1879 by an ideologically dogmatic group of Marxist print workers led by Pablo Iglesias and seven years later established one of Spain's most influential union movements, the General Workers Union (UGT). The party was weakened in the early years by struggles between radical and reformist factions that continued until the Civil War. Franco's victory scattered the party leadership across Europe and Latin America though in 1947 the party based itself in Toulouse from where it aspired to engineer Franco's overthrow. But it was not the exiled Civil War veterans that shaped the PSOE that emerged from the debris of authoritarian rule in the mid 1970s. The party, operating as a series of embattled regional cells claiming their greatest support in urban centres such as Bilbao and Seville, had evolved into a moderate oppositional force that declined to advocate the strikes and mass demonstrations preferred by the more radical older generation. The PSOE instead pursued a strategy of negotiation with more progressive elements of the Franco hierarchy.¹⁰³

This moderate front was abandoned in the run up to the first general elections following the restoration of democracy, in favour of identification with Marxist ideology so the party ran on a more radical ticket under the new leader, Felipe González. This, according to Paul Heywood, represents a pragmatic decision to capture popular support by matching the radicalism of the PSOE's competitor for

¹⁰³ Wozniak, L 'The Dissolution of Party-Union Relations in Spain' *International Journal of Political Economy*, Vol.22 (4), 1992

working class allegiance, the Communist Party (PCE).¹⁰⁴ The strategy appears to have worked and the Socialists claimed 28 per cent of the vote, establishing themselves as the dominant force of the Spanish Left. González quickly moved to drop Marxist ideology and realign the party towards the political centre in order to attract more middle class support.¹⁰⁵ He staked his reputation on a battle with more hard line party members on the issue of dropping Marxism from the manifesto, at one point resigning only to return to the leadership in 1979 with renewed strength. The PSOE won the 1982 elections with enough of the vote to form a majority government and González became prime minister, or “president of the government,” a position he retained until 1996. The party adopted the clientelistic methods of the dictatorship, ensuring loyalty from party members when implementing unpopular policy, particularly market friendly reforms during the 1980s, by populating the public administration with cronies.¹⁰⁶ Thus the PSOE had become a catch all party, appealing to the political middle ground where ideological traditions were abandoned in favour of pragmatic economic management to pursue long-term agendas of economic restructuring. González’s legacy to the PSOE is disciplined central control of a complex organisational structure which pays lip service to internal democracy.

The second leftist party in the post Franco era is the Spanish Communist Party (PCE) which was widely tipped to be on the cusp of dominating political life during the dictatorship’s twilight. The PCE was a weak electoral force during the Second Republic but became a more active and vocal opposition force during Franco’s rule both through guerrilla activity in the 1940s and early 1950s and through workplace activism carried out by its affiliated union movement, the Workers Commissions (CCOO, see below). In 1956 the PCE secretary general Santiago Carrillo shifted party strategy towards less belligerent methods, aiming instead to bring down the regime through general strikes with a long-term goal of achieving socialism through gradual democratic change. The party worked hard, therefore, to infiltrate the corporatist structure of the state with sympathisers through the actions of the CCOO. By the 1970s Carrillo abandoned the last vestiges of his radicalism, conforming to the ideal of a negotiated transition to democracy and pursuing what he referred to as

¹⁰⁴ Heywood, *The Government and Politics of Spain*, Basingstoke 1995 p.195; See also: Newton, M. and Donaghy, P. *Institutions of Modern Spain*, Cambridge 1997 p.189.

¹⁰⁵ Preston, P. *The Triumph of Democracy in Spain*, London, 2001 p.154

¹⁰⁶ Heywood, 1995 p.197; Pérez-Díaz, *The Return of Civil Society: The Emergence of Democratic Spain*, Cambridge MA 1993

'Eurocommunism' which emphasised respect for liberal democracy. The party was run according to principles of 'democratic centralism' whereby all party organisations were subordinated to the party congress which forbade the formation of ideological factions that undermined discipline.¹⁰⁷ Nevertheless the party disintegrated into factions for and against Carrillo over his rejection of Soviet style communism with a third renovating group seeking more representative party democracy.¹⁰⁸ The party had by this stage lost its popular appeal, claiming less than 10 per cent of the vote in 1977 and fared even worse in 1982. In spite of its successes as an opposition force during the dictatorship, the aging leadership of Civil War veterans could not compete with the charisma of Felipe González.

The main rightist political group to run in the 1977 elections was an alliance of parties dominated by an older generation of ex ideologues from the old regime who sought "Francoism after Franco" and as much political continuity as possible across the transition. The leader of this Popular Alliance (AP) was Manuel Fraga Iribarne, a Francoist stalwart and former Minister of Information and Tourism in the early 1960s. Fraga was credited with presiding over Spain's tourist boom, and aimed to remind voters of his association with 'miracle' economic growth under the dictatorship, but had an authoritarian record.¹⁰⁹ After losing to the Socialists in 1977, the AP leadership attempted to temper their association with Francoism by identifying the party with 'liberal conservatism', stressing democratic values. They neglected, however, to abandon emphasis on ideals of authority, public order and Catholic values. The party won a respectable 20 per cent of the vote in 1982 having attracted right leaning supporters of the defunct UCD but failed to build on this in 1986. By the early 1990s, under a new leader, José María Aznar, the now renamed Popular Party (PP) was identifying itself with European Christian Democracy. The PP thrived off public outrage at a series of high profile corruption scandals that weakened the PSOE, winning the 1996 general election. Like its counterparts on the Left, meanwhile, the PP is characterised by highly centralised neo-corporatist internal bureaucracy and Aznar in particular was widely criticised for stacking the party leadership with like minded appointees.¹¹⁰

¹⁰⁷ Partido Comunista de España, PCE en sus documentos 1920-1977, Madrid, 1977. p.161.

¹⁰⁸ Wozniak 'The Dissolution of Party-Union Relations in Spain' *International Journal of Political Economy*, Vol.22 (4), 1992 p.75.

¹⁰⁹ Preston, P. *The Triumph of Democracy in Spain*, London, 2001. p.10

¹¹⁰ Heywood, *The Government and Politics of Spain*, Basingstoke 1995 p.206

The third force in Spanish party politics is the plethora of regional parties. While the main central parties have local offshoots, such as the PSOE's Catalan Socialist Party (PSC), there are a number of entirely regional bodies with no associates in Madrid. The largest of these are the Catalan Conservative Coalition (CiU), a right of centre nationalist force and a similar organisation in the Basque region, the Basque Nationalist Party (PNV).

Spanish parties emulate the centralised, top-down approach to policy and internal management of the Francoist state, which impacts on policymaking when in office. While they display features of the 'movementism' identified as a weakness in Argentina, and much strength in electoral politics is gleaned from the personal appeal of the party leader, there is less opportunity for internal instability and destabilising factionalism. This is perhaps surprising given that Spain is divided by regionalism and regional nationalisms, and the main parties consequently have Catalan and Basque wings. But while this allows the Socialists and the Popular Party to maintain distinct regional identities, they do so within the structure of the central party and maintain an affiliation to the centralised hierarchy.

To summarise, the political systems of Argentina and Spain are both characterised by a strong executive, an institution inherited from the corporatism of previous regimes. As such the executive is constrained by 'vertical' as opposed to 'horizontal' accountability whereby having been elected, there are limited institutional checks on his rule. In consequence, political parties are used as vehicles to secure election so have abandoned class politics in favour of multi class mass appeal and place themselves at the political centre. This makes them ideologically incoherent, even contradictory, yet Argentina has experienced greater fragmentation of policy and political instability. Part of this distinction lies in the more effective cohesion of Spanish parties which are more disciplined in spite of their heterogeneity. Another distinction lies in the strength of Argentine interest groups relative to their Spanish counterparts.

Industry and the Rise of Popular Groups

The economic history of the period in question here is one of Argentine and Spanish industrialisation (see chapter 2). As this process advanced, the power of industry as an economic, and indeed political force, has grown so that by the 1950s it presented a credible challenge to the hegemony of rural interests. Nevertheless,

industry is necessarily an eclectic and heterogeneous group incorporating a variety of vested interests. Groups representing smaller industry, for example, may be in favour of protectionism while heavier industry, or that associated with an export commodity or foreign capital, may prefer more liberal policy. In general, however, Argentine industrial and business interests have presented a more coherent and organised front than their Spanish counterparts. In Argentina, industrialists are generally represented by two bodies: The UIA and the CGE. The former is the older of the two, established in 1887 to coordinate efforts to lobby government for greater protection of infant industries at a time when the prevailing priority was open trade. It was founded by 'agro-industrialists' who sought government aid in setting up refineries and processing plants for their agricultural produce. Indeed, its first chairman Antonio Cambaceres was primarily a landowner who possessed cattle ranches and meat salting plants.¹¹¹ Like the SRA, the UIA has on occasion lent its support to the forced removal of governments its members deem unfavourable to their interests, most notably in the coup of 1976. It is this coincidence of interests with the rural sector that has led to accusations of the UIA not acting as a true representative of industry so much as a promoter of industry as the traditional elite perceives it.¹¹²

The CGE on the other hand, was established by Perón in 1952 to act as a business corporation within his regime after the UIA refused to lend its support. The CGE mostly represents the owners of small and medium sized firms, predominantly from the Argentine interior who produced for domestic consumers. On account of this association with Perón's model of horizontal, consumer oriented industrialisation, the CGE shares many interests with labour that are at odds with the preferences of elites. For example, it has traditionally favoured low agricultural prices as an implicit subsidy of labour costs, while also rejecting the notion of a free market in favour of protection from imports. Attempts by Argentine presidents such as Arturo Frondizi (1958-62) and Juan Carlos Onganía (1966-73) to form alliances with industry in order that they take benign attitudes to policy reform have run into trouble because of this heterogeneity. In spite of such diversity, industrialists have on occasion exercised collective power to affect policy using such tactics as withholding products from

¹¹¹ Lewis, P *The Crisis of Argentine Capitalism* Chapel Hill. 1990 p.81

¹¹² Schvarzer, J. *La industria que supimos conseguir*, Buenos Aires, 1996.

market or increasing prices in order to put inflationary pressure on the economy and pressurise the president.¹¹³

Spanish industrialists were also empowered by policies of expansionary modernisation undertaken during the early part of the period. 'Industrial Corporatism', as in Perón's Argentina, was an important ingredient of economic nationalism.¹¹⁴ As mentioned, employers were compelled to join the state syndicate, the OS, but unlike their employees, never felt the need to organise clandestinely under Franco. Indeed, the higher positions within the state enterprises were held by government cronies, many of whom were appointed as a reward for loyalty to the regime. Sections of private industry, meanwhile, enjoyed close links with the technical elite in the regime and were able to gain favourable treatment and exercise influence in public investment decisions. One analysis concludes that the relationship between business and the Franco regime was more clientelist than corporatist in that networks of representation within the state were structured around personal contact rather than official process.¹¹⁵ It would be erroneous to assume that business was a cohesive and active pillar of support for the regime. Important segments of the sector retained a distance from Franco, particularly those based in the Basque and Catalan industrial heartlands¹¹⁶ and private enterprise throughout the 1950s and 1960s was constantly frustrated by Falangist discrimination in favour of the state sector.¹¹⁷

Private domestic capital in Spain is a heterogeneous group with some sectors wielding more power than others. Arguably the best connected faction is the private banking sector, including the *Cajas de Ahorro*, or savings banks, whose elites have remained close cronies of the government both during the Franco regime and ever since. The most evident, and institutionalised manifestation of a corporatist web of contacts between the private banks themselves and the government is through the system of "shared board members," whereby financial institutions and important firms have shareholdings in each other and thus board representation and voting rights. At the time of Franco's death in 1975, 51 of the 68 largest Spanish had common

¹¹³ Erro, D. *Resolving the Argentine Paradox: Politics and Development*, Boulder 1993 pp.30-31

¹¹⁴ López Novo, J. 'Empresarios y relaciones laborales: una perspectiva histórica', in: Miguélez, F and Prieto, C (eds.) *Las relaciones laborales en España*, Madrid, 1991

¹¹⁵ Gunther, R. *Public Policy in a No Party State*, Berkeley, 1980.

¹¹⁶ Martínez, R 'The Business Sector and Political Change in Spain: Apertura, Reforma and Democratic Consolidation', in: Gunther, R. *Politics, Society and Democracy*, Boulder 1993

¹¹⁷ International Bank for Reconstruction and Development (IBRD) *The Economic Development of Spain*, Washington DC, 1963, pp350-351.

board members.¹¹⁸ In the case of banking, the system gives private financial capital direct access to the State and policymaking because the Banco Exterior de España, Banco Urquijo, Banco HispanoAmericano, Banco de Fomento and Banco Central all boasted board representation within the Spanish Central Bank, the Banco de España. A further direct, corporatist link to government that existed until the mid 1990s was through the financial business association, the Consejo Superior Bancario (Higher Banking Council). This was made up of 20 representatives from the private banking sector, chosen through a voting system that favoured larger institutions. Its purpose was to act as a business lobby but it enjoyed close links with the Finance Ministry from the 1950s and exerted considerable influence on policy.¹¹⁹

Through the system of cross shareholdings and common board members, the banking industry was linked to other organisations from the private sector engaged in various different industrial activities. But banks were not the only sectors of private capital with direct links to government. The electricity sector, for example, had a highly organised lobbying association, UNESA, whose members represented 80 pct of Spanish generating capacity. UNESA's official role was of a purely technical nature, coordinating interconnection between Spanish regions and infrastructure management. In reality it was an aggressive defender of the interests of the electricity industry, promoting higher tariffs against the more populist inclinations of the Franco regime. It also acted, at times, as a policymaking partner, or co-designer, to the government.¹²⁰ But while it was closely associated with the government and had some influence over decisions, it was very much a junior partner in the relationship and conformed to its status as an implementer of policy. It was put in charge of elaborating a National Electricity Plan for 1972-81, for example, which constitutes considerable benefit for the sector of the oligarchic elite engaged in electricity generation but highlights its status as answerable to central government.

A feature of the latter part of the Franco period is the rise of private domestic capital relative to the state sector in terms of its importance in the Spanish economy relative to the state sector. By the time of Franco's death in 1975, of the 100 largest Spanish firms, 46 were private, compared with 23 pct associated with the state either as part of the INI holding company or through government shareholdings. The least

¹¹⁸ Tamames, R. *La oligarquía financiera en España*, Barcelona, 1977 p.147

¹¹⁹ *Ibid.*, pp.183-184

¹²⁰ Lancaster, T. *Policy stability and democratic change: Energy in Spain's transition.*, Pennsylvania, 1989, p.64

powerful sector, in contrast to Argentina, was foreign capital, with just 12 firms in the top 100.

But oligarchic power remained concentrated in certain sectors and never presented a serious challenge to central government authority in policy decisions. After Franco died, a perception that the legalisation of Left leaning unions would present a greater challenge from organised labour provoked a rush by entrepreneurial groups to form a cohesive organisation. The result was the Spanish Confederation of Business Organisations (CEOE) created in June 1977 with 800,000 member firms accounting for 60 per cent of employed workers. This organisation was always fractious, however, with most of its efforts directed at maintaining harmony among its affiliates. In sum, the heterogeneity of Spanish business has not lent itself well to the formation of a powerful lobby. This can, of course, be attributed in large part to apathy and complacency in that governments during and since the transition have pursued a pro business agenda.¹²¹ In general, entrepreneurs have supported the efforts of democratic governments to integrate Spain with Europe, pursue political stability and impose market friendly reforms.

However, the period after democratisation brought profound shifts in the balance of power between different sectors of private domestic capital and the state. The economic and industrial reforms of the 1980s, which saw many former state industries privatised and an increased presence of foreign capital, were also associated with the consolidation of power for certain interests as well as the central government's paternalistic relationship with the private sector. The most powerful sectors of private domestic capital from the early 1980s to this day are telecommunications, energy, oil and gas while the weight of the private banking sector has multiplied. The linkages between these and the central government remain strong and the system of common shareholdings is still in place. Other industrial groups saw their power decline during the last years of the Franco regime, surpassed by the state sector, and later, foreign capital. These were mainly from the manufacturing sector and industries such as steel which had been the industrial power base of industrial oligarchs during the early Franco years and the state managed rush to industrialise. As the power and influence of the new oligarchy waxed, this segment

¹²¹ Etchemendy, S. 'Revamping the Weak, Protecting the Strong and Managing Privatisation. Governing Globalisation in the Spanish Takeoff', *Comparative Political Studies*, Vol.37 (6) Aug. 2004 pp.623-651

of private domestic capital was excluded from favoured crony status in its relations with the government, and from strategies of selective protectionism during the 1980s.

Market Share (in production) of Spanish Private Capital Versus State Core Import Substitution

Industrialization Sectors and Energy, Prereform Period

Sector	1970		1978		1982	
	% Spanish Private Capital	% State	% Spanish Private Capital	% State	% Spanish Private Capital	% State
Industry						
Steel a	37	63	26	74	21	79
Shipbuilding b	40	60	13	87	13	87
Automobiles c	0	46	0	34	0	38
Chemicals d	68	32	68	32	57	43
Coal e	48	52	34	66	32	68
Aluminum f	39	61	43	57	21	79
Energy						
Oil g	55	45	53	47	55	45
Electricity h	67	33	83	17	67	33

a. Integrated subsector (raw steel in tons).

b. In registered gross tons.

c. Number of vehicles (commercial and industrial).

d. Fertilizers and potassium.

e. In tons.

f. In tons.

g. Refined oil in tons.

h. Electricity generation in gigawatt hours.

Figure 1.1 *Source:* taken from Etchemendy, S. 'Revamping the Weak, Protecting the Strong and Managing Privatisation. Governing Globalisation in the Spanish Takeoff', *Comparative Political Studies*, Vol.37 (6) Aug. 2004

Figure 1.1 illustrates the diminishing influence of domestic private capital in various industries that had been subject to protectionism in the early Franco period, during the period leading up to the era of Spanish privatisations of old state industries in the 1980s. The cases of steel and shipbuilding, one time power bases of the Spanish industrial class and centrepieces of the original drive to industrialise in the 1940s, highlight how private business lost ground to the state over the period in terms of their hold over the trade. In the case of the car industry, domestic private capital has no presence in a sector shared between foreign capital and the state. This contrasts with the cases of oil and electricity, where the market share in terms of production accounted for by domestic private capital retained its position relative to the state. In

short, the industrial bourgeoisie associated with manufacturing was weak compared with the state in Spain, as argued by Etchemendy, who suggests this explains the government's willingness to privatise them in a way that saw them fall into the hands of foreign capital during the 1980s, in spite of a traditional Spanish preference for national champions.

A selective method of privatisation illustrates this difference. The steel and car industries were sold directly to foreign bidders, relegating them to the status of subsidiaries to foreign corporations. Privatisation of industries where the national bourgeoisie was stronger, was carried out through public offerings of shares, whereby the government retained a stake, exercised disproportionate voting rights through the use of 'golden shares' and enjoyed considerable control in the board room. The senior management of Endesa, Repsol, and Telefonica, continued to be politically appointed for some time after privatisation (see chapter 5).

This in turn benefited the private banking corporations and larger savings banks, who acted as coordinators for the public offerings, giving them options to take stakes of their own. The corporate boardrooms of Spanish energy, telecoms and oil groups are therefore staffed with state and bank appointees and the relationship with the government, still managed largely through the banks, remains close. Crony capitalism's principal instrument is still characterised by a system of linkages through shared board members.¹²²

Argentine private domestic capital has also experienced a shift characterised by concentration of ownership but a factor that distinguishes it from Spain is its relative decline in importance compared with foreign capital. The dominant group during the Argentine *belle époque* of growth fuelled by agro-exports was logically the landed elite in an economy characterised by concentrated ownership of land. Foreign, mainly British, capital was focused on finance and industries associated with agro exports, such as the railways or refrigeration plants. But when the model reached its zenith, a new kind of Argentine oligopoly emerged so that by the 1930s, national private capital was manifesting itself in the form of conglomerates with interests in both agriculture and the ascendant industrial sector. Perhaps the best known of these, the Bunge y Born company, diversified into industry through the early twentieth century, particularly areas associated with agricultural commodities, where its

¹²² Tamames, 1977 p.143

traditional assets lay such as flour and textiles. It did not venture into areas dominated by foreign capital, however, such as ports, maritime transport or finance, even though it was predominantly an export focused business, thus avoiding conflict.¹²³

Perón enhanced the power of the state so that by the 1960s there were three centres of power in Argentina, namely the government, foreign capital and the local oligarchy, which maintained the root of its wealth in agriculture. The developmental era from the late 1950s, enhanced the presence of foreign corporations setting up manufacturing operations which had the effect of stifling the element of private domestic capital associated with small to medium sized enterprises. Local manufacturers did not have the technology or efficiency to compete in the Argentine market with the newcomers. This led to further concentration of ownership in the hands of Argentine oligarchs, with local capital becoming increasingly absorbed into larger organisations.

Distribution of Argentine firms by % of total production against size measured in number of employees 1963-1973.

No. of employees:	0-10	11-50	51-100	101-300	301+
<hr/>					
No. of firms					
1963 %	87.8	9.6	1.3	0.9	0.4
1973 %	85.7	11.0	1.6	1.2	1.2
Proportion of Industrial Production					
1963 %	13.46	17.30	10.47	18.70	40.07
1973 %	8.91	14.65	10.03	20.66	45.75

Figure 1.2: Source: Azpiazu, D. Basualdo, E. Khavisse, *El nuevo poder economico en la Argentina de los años 80*, Buenos Aires 1986, p.62

Figure 1.2 shows a process of concentration of production within national private capital in favour of oligarchic interests to the detriment of smaller firms. In

¹²³ Azpiazu, D. Basualdo, E. Khavisse, M. *El nuevo poder económico en la Argentina de los años 80*, Buenos Aires, 1986, pp.19-23

1963, firms that employed more than 100 people, 1.3 pct of the total, accounted for 58.77 pct of industrial production. In 1973, this group accounted for 2.8 per cent of the total and 66.4 pct of industrial production. The share of activity associated with smaller firms declined, meanwhile.

The 1976-83 period of military rule and neo-liberal economic policy continued this process of preserving the power of the oligarchic sector but it was the 1990s that brought the most significant shift in the balance, this time in favour of foreign capital. This had always been an important player in the Argentine economy in spite of sustained efforts to sideline it under Perón, but it was granted unprecedented influence at the expense of local capital, including the oligarchs during the 1990s (see chapter 5).

Share of total revenues by type of firm in percent (Argentina).

Ownership	1991-95 %	1995-97 %
State	10.5	2.7
Local independent	12.1	11.6
National Conglomerate	21.8	19.9
Foreign multinational	12.2	17.7
Local subsidiary of - foreign firm	14.8	18.1
Local/foreign - joint ventures	28.6	30.0

Figure 1.3: Source: Basualdo, E. *Concentración y Centralización del capital en la Argentina durante la década de los noventa*, Buenos Aires, 2000, p.89.

The table in figure 1.3 highlights the growing influence of foreign over local capital during the 1990s as privatised enterprises are bought up by foreign corporations. The share of total revenues declines for both the oligarchic sector as well as smaller, medium sized enterprises while it increases for sectors associated with international capital. As such, the Menem government of the 1990s empowered a

vested interest, namely foreign capital, which emerged from the period with considerable bargaining power.

Labour

Labour movements in Argentina and Spain make interesting comparators on account of their common ancestry and by extension their shared ideological origins. They are also arguably the most conspicuous, if not the most prominent interest groups in each country. Mass immigration in the late nineteenth and early twentieth centuries, much of which originated in Spain, bestowed a modern, metropolitan, wage earning working class on Argentina. The new arrivals also brought with them ideas and experience of syndicalist industrial unionism which challenged employers' control over the workplace and the period 1910 to 1921 witnessed an upsurge of labour radicalism and strike action.¹²⁴ Indeed, in the primary export oriented economy, organised labour that could seize control of the country's main port or railways holds significant bargaining power due to its ability to choke revenues from exports and port duties. This elicited heavy handed reactions from the state and strikes were put down with some violence during the early decades of the twentieth century. Similar conflicts raged in Spain making it, alongside Italy, an exception to the prevailing European trend towards moderation by labour leaders.¹²⁵ Thus both nations endured their respective '*Semana Tragica*' (Tragic Week) in Barcelona (1909) and Buenos Aires (1919) where urban industrial insurrections were put down by the authorities with significant loss of life. Both labour movements examined here, therefore, have a common history of militancy and conflict with authority. They are also most commonly identified with syndical confederations rather than particular unions, which in both cases have, albeit briefly, enjoyed direct access to policymakers and each country's characteristically strong executive.

In Argentina, organised labour formed the mobilisational backbone of the Peronist government after 1947 while the largest Socialist union in Spain, was closely

¹²⁴ Armstrong, W. 'The Social Origins of Industrial Growth': Canada, Argentina and Australia 1870-1930, in, Platt, DCM and DiTella, G (eds.) *Argentina, Australia and Canada: Studies in Comparative Development 1870-1965*, London 1985; Adelman, J. 'State and Labour in Argentina: The Port Workers of Buenos Aires 1910-1921' *Journal of Latin American Studies*, Vol.25 (1); Solberg, C *Immigration and Nationalism: Argentina and Chile 1890-1914*, Austin, 1970.

¹²⁵ Malefakis, E 'A Comparative Analysis of Workers' Movements in Spain And Italy' in: Gunther, R. *Politics, Society and Democracy. The Case of Spain*. Boulder, 1993. pp59-60.

tied with the Spanish Socialist Party leader Francisco Largo Caballero, the effective second in command of the pre Civil War Republic. Neither movement has ever regained this level of influence in spite of closely held aspirations to do so. This is surprising in the sense that the main union confederations in each case were affiliated to political parties which enjoyed mass support. Yet this exposes a fundamental difference between the two. The main Argentine labour confederation continued to operate openly while its associated Peronist party was proscribed between 1955 and 1973 and retained significant negotiating power despite government interventions and temporary abolition. The established Spanish associations, meanwhile, spent almost four decades underground, exerting influence through infiltration and exploitation of the 'vertical' syndical infrastructure of Franco's corporatist state. Following democratisation, their power waned, eclipsed by the rise of mainstream political parties.¹²⁶ Indeed, as oppositional forces under the dictatorship, they had acted as the tools of oppositional parties rather than forces unto themselves. In sum, Argentine workers were more effectively represented in negotiations with the executive branch of government by unions while the associated political party was marginalised while in Spain, the exact opposite occurred. While, as will be described below, the Francoist state strengthened and gave coherence to labour as an oppositional force, that momentum was incorporated into leftist political parties after the return to democracy which in turn de-radicalised. Argentine organised labour historically retained greater bargaining power and ability to scupper economic policy reforms sponsored by the executive.

The Argentine union movement emerged in the last quarter of the nineteenth century following the arrival of European immigrants who brought with them ideologies of socialism, Marxist syndicalism and anarchism.¹²⁷ These factions competed with each other for hegemony within the labour movement but in part due to the declining proportion of European born members among their ranks, were eclipsed by the Peronist movement in the 1940s. Nevertheless, labour mobilisation developed in response to pressures generated by growing competition in the labour market and bargaining successes by certain groups emboldened others. The coherence

¹²⁶ Heywood, P. *The Government and Politics of Spain*, London 1995, pp.250-254

¹²⁷ Solberg, C. 'Immigration and Urban Social Problems in Argentina and Chile 1890-1914', *Hispanic American Historical Review*, Vol.49 (2) May 1969; pp.226-227; Munck, R. 'Cycles of Class Struggle and the Making of the Working Class in Argentina, 1890-1920,' *Journal of Latin American Studies*, Vol.19 (1), May 1987. p.22

of organised labour at the turn of the twentieth century became such a potent force that employers were forced to institute a parallel process of collective organisation in response.¹²⁸ Furthermore, in the wake of rising unrest, the oligarchic government took up the issue of social reform and established in 1907 the National Department of Labour, (DNT) to act as a state mediator between employers and unions to foment national peace.¹²⁹ The union movement itself, initially fragmented along ideological lines according to affiliations to anarcho-syndicalism or socialism, underwent a period of consolidation during the early decades of the twentieth century. The General Workers Union (CGT), formed in the 1930s and came under the control of Perón when he was a labour minister. Meanwhile, the Partido Laborista, formed by CGT members, became an important component of the Peronist Party. In short, by adopting the labour cause, Perón acquired a ready made constituency which he nurtured as a crucial pillar of his 'syndicalist state'. By 1951 all independent labour union leaders were purged and the CGT was transformed into a supervisory body that could intervene in any member organisation, a power it used to ensure political support for its patron.¹³⁰ It was this link with Peronism that made the CGT a target for subsequent regimes who sought alternatively to suppress, infiltrate or court it as a force to be reckoned with in Argentine civil society. This met with limited success, however. The military regime which toppled Perón, for example, set about the destruction of Peronism's institutions but in apparent acknowledgment of the dangers of antagonising organised labour, limited its actions against the CGT to 'interventions' in unions' leadership selection. Basic Peronist labour legislation regarding the right to organise and strike remained untouched while the majority of the CGT's member organisations remained avowedly loyal to the Peronist cause.¹³¹ When the Peronist party was banned, it ironically strengthened the labour movement because the absence of legal political representation meant the unions were the only avenues of political action open to Peronist labour. To political leaders such as Frondizi in 1958 and Arturo Illia in 1963 who successfully courted labour support through often secret deals, it provided the margin of victory. Both these agreements were made under the premise that the Peronist party would be granted legal status, which both governments

¹²⁸ Korzeniewicz, R. 'Labor Unrest in Argentina' *Latin American Research Review*, Vol.24(3), 1989, pp.71-98.

¹²⁹ Adelman, J. 'State and Labour in Argentina: The Portworkers of Buenos Aires 1910-21, *Journal of Latin American Studies*, Vol.25(1) Feb.1993. p.75.

¹³⁰ Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill 1991, p.162.

¹³¹ Anzoategui, V and Martire, E. *Manual de historia de las instituciones Argentinas*, p.775

failed to fulfil and consequently found themselves subject to labour agitation in opposition to their economic policies.

Labour action continued to prove a headache to governments between the 1960s and 1970s with the CGT adopting tactics designed to bring economic life to a standstill such as general strikes and plant seizures. Some regimes, such as that of General Onganía in the late 1960s acted to curb union power and according to Davide Erro, labour power declined significantly because of sustained attack by governments between 1966 and 1992. In particular, the 1976 to 1983 military junta intervened in unions and severely restricted their power in addition to banning the CGE. This accumulation of attacks, Erro argues, has combined with the loss of bargaining power caused by constant economic crisis to chip away at the interest group edifice. In modern day Argentina, therefore, bodies such as the CGE, the CGT the SRA and the UIA are at their weakest and least able to destabilise governments.¹³² Nevertheless, leaders such as Alfonsín and Menem in the 1980s remained true to the tradition of negotiating directly with interest groups in order to win their support while electioneering. Failure to fulfil promises then led to strikes and direct action. Menem's government, in spite of his Peronist credentials, imposed sweeping neo-liberal reforms and went into direct conflict with the unions. While he is credited with curbing the power of the unions, it remains to be seen whether labour's relative weakness is a consequence of high unemployment rather than the resolution of inadequacies in the party system.

Spain's oldest labour union confederations are the Socialist General Workers Union (UGT), established in 1888 and the anarcho-syndicalist National Workers' Confederation (CNT), an unaffiliated group committed to revolutionary change. Both groups were forced underground after the Civil War because of their association with the Second Republic of the 1930s while the UGT was the more successful of the two at surviving four decades of proscription. Ironically, however, the corporate structure of the Franco regime inadvertently strengthened labour as an oppositional force within the state. The Falange attempt to reorganise society along vertical lines thereby obliterating institutional recognition of class differences, meant that forms of organisation based on social class differences, such as unions, were particularly frowned upon. Thus labour was represented in the state as a component of the OS as

¹³² Erro, D. 'Resolving the Argentine Paradox: Politics and Development 1966-1992,' Boulder 1993

were employers and factory bosses. The idea was that the natural function of individuals within an economy was to produce goods for consumption at a national level, so labour's demands should be filtered through an organisation that ensures maximum productivity. 'Horizontal' organisations typically articulate demands that are not conducive to this end, such as higher wages, and are thus harmful to the production process and by extension, national development.¹³³

Nevertheless, within the OS, the remains of the UGT survived as the organiser of clandestine workplace committees, though the risks involved in participation meant such action remained small scale throughout the dictatorship.¹³⁴ More prolific within the confines of the OS were the Workers' Commissions (CCOO), created as company wide bargaining units after the Franco regime legalised collective bargaining in 1958 through the creation of workplace committees. There were instances of opposition activists making use of the official OS structure to help mobilise collective worker action in the early dictatorship, transforming localised strikes into general strikes.¹³⁵ But it was the evolution of the CCOO after the late 1950s that surpassed this early penetration of the regime's vertical union as the principal outlet for labour opposition. The CCOO portrayed itself outwardly as a non-partisan entity, representing the interests of all workers with no particular ideological affiliation, thus conforming to the regime's disapproval of traditional unionism. But while members included Falangists, Christian Democrats and representatives of Catholic organisations, members of the banned Communist Party rapidly made their presence felt in the leadership.¹³⁶ Ultimately, the CCOO became affiliated to the Communist Party just as the UGT was intrinsically linked during and immediately after the dictatorship to the PSOE. As Communists gained control of the CCOO, it began to adopt a strategy of infiltrating the networks of official labour representation within the OS. The UGT opposed this on the basis that it implied recognition of the regime's structure of labour representation though many of its sympathisers, if not members, stood for election to factory committees, mirroring the CCOO tactic. Figure 1.4 (p.11) in the previous chapter illustrates this unofficial channel of representation for opposition forces within the structure of a state created by their Civil War conquerors. Whether or not it

¹³³ Gunther, R. *Public Policy in a No-Party State*, Berkeley, 1980, p.27

¹³⁴ Wozniak, L. 'The Dissolution of Party-Union Relations in Spain' *International Journal of Political Economy*, Vol.22 (4), 1992. p.77

¹³⁵ Fishman, R. *Working Class Organization and the Return to Democracy in Spain*, Ithaca, 1990 p.96

¹³⁶ Hamann, K. 'Spain, Changing Party-Group Relations in a New Democracy' in: Thomas, C. *Political Parties and Interest Groups*, Boulder 2001

was sanctioned by party or association leaders, activists pursued their agenda through the official syndicate so corporatist representation extended further than envisaged by the Falangist architects of the OS.

After the return to democracy, the two main union organisations consolidated their ties to their respective leftist political parties and competed for working class loyalty. But while the UGT, through boycotting all involvement in corporatist syndicates, had weakened itself during the dictatorship, it was able to re-establish itself as a significant labour movement in the late 1970s. Thus it started to openly compete with, and eventually surpassed the CCOO in a battle for working class loyalty through gains in factory council elections. The Spanish labour movement was at its most powerful immediately after the transition, in terms of membership, bargaining power and militancy. In 1976, 150 million working hours were lost in disputes while the UGT and CCOO could claim their membership lists represented 58 per cent of salaried workers.¹³⁷ Both organisations were compliant regarding their respected political party affiliates' signing of the Moncloa accords, in spite of the predicted drop in real wages. The bonds with the political parties broke down during the 1980s, however, and the relationship became acrimonious. When the PSOE backtracked on its electoral pledges to prioritise labour interests and instead instituted pro market industrial restructuring, criticism from the UGT mounted. In 1988, the UGT and CCOO jointly called a general strike and the following year, the UGT refused to endorse the PSOE election campaign. In 1990, the PSOE amended its statutes and abolished the requirement that party members join the UGT, formally ending a historic link.

Similarly, the Communist Party and the CCOO are also estranged, if less hostile towards one another. As the PCE declined as an electoral force in the 1980s and was absorbed into the United Left (IU), a coalition of small left leaning parties, the CCOO remained autonomous, though broadly cooperative. As representatives of workers' societal demands, unions have been eclipsed by the PSOE and what bargaining power they retained following disassociation with their patron parties, was undermined by high unemployment.

¹³⁷ Heywood, 1995, pp.250-254

Conclusions.

A centralist tradition, in large part inherited from the Castilian common ancestor means government in both Argentina and Spain is dominated by an executive with extensive decision making power guaranteed by the Constitution.¹³⁸ The difference between the two polities, however, lies in the extent to which organs of state between the executive and the populace act as effective intermediaries. If a country has a historical tradition of social conflict, as do both the relevant cases, it is all the more crucial to have an effective system of representation between the executive and the populace. Spain under the dictatorship at the start of the period, represented a rigidly disciplined state which presented a coherent front while economic interests were all presented with organisations of state to represent them. This reflected the fact that the corporatism of the Franco regime successfully diluted the social conflict that had destabilised society in the 1930s. All factions of society were incorporated into the State hierarchy even though their priorities were destined to conflict. Non coalition members such as the UGT were proscribed because of their adherence to 'decadent' ideologies of the type driven out by Franco's Civil War victory. They were forced therefore, to pursue a strategy of opposition by infiltration of the official syndicate, the OS which was conceived to nullify class based action on behalf of specific economic interests within a system of centrally planned capitalism. In the elaboration of new economic policies, therefore, labour's voice was at least nominally represented through this mechanism which also provided a voice for more clandestine elements. As such, forces in favour of labour friendly policies enjoyed an effective lobbying mechanism before the arbitrating dictator against the suggestions of economically liberal technocrats. Within this controlled arena, policymaking proceeded as an orderly war of attrition between factions who adhered to the rules of the game. In practice, therefore, all sides were granted concessions in the formulation of new economic policies while enforcement of discipline limited attempts to destabilise the system.

The democratic governments which inherited the Spanish state in 1976, in spite of a new Constitution in 1978, retained important elements of the Francoist order. In 1982 a highly disciplined and hierarchical Socialist Party which had abandoned its

¹³⁸ Veliz, C, *The Centralist Tradition of Latin America*, Princeton, 1979

exclusively working class identity as part of a campaign for mass appeal, superimposed itself on the top-down pyramid shaped State. The strength and coherence of state and party in Spain diffuses the power of interest associations to influence policy and as stand alone entities they are too fractious and weak to exercise real economic power to challenge government. There are, as highlighted, oligarchic elements in Spanish society who wield significant power and influence. However, their power was attained with the implicit approval of the government to which they are subordinated. As Franco was recognised as an ultimate authority by an eclectic alliance of interests, oligarchic elites do not present a serious challenge to the government's authority.

The Peronist state was similarly conceived with a vertical system of representation for labour and capital though it was not so successfully implemented. Firstly, elite factions of capital and the landowning class were not successfully incorporated or co-opted into the state, acting as an opposition force. Secondly, after creating new corporatist entities such as the CGE, or empowering existing ones such as the CGT, Perón was overthrown and his party outlawed. The legacy of this is that Argentine political economy is historically dominated by the presence of powerful and highly organised socio economic factions with opposing economic policy priorities. Different successive political regimes were forced to form alliances with particular factions and devote particular attention to them as mobilisers of political and economic support rather than political parties. This alienates the interests excluded from the alliance which can use their economic power to pressurise the government or precipitate an inflationary crisis, through the retention of produce or, in the case of labour, through strike action.

Chapter 2

**A Comparative History of Economic Policy in
Argentina and Spain, 1950-2000.**

(Industrialisation and the Demise of Populism)

This chapter seeks to outline a comparative history of economic policy for Argentina and Spain since the mid twentieth century with a focus on how greater institutional strength in the latter translated into the pure public good of political stability. The political life of both cases at the start of the period was shaped by social conflict, which in the case of Spain was characterised by violent confrontation throughout the nineteenth century.¹³⁹ But in spite of this inauspicious foundation, Spain was the more successful at resolving conflicts between hierarchically organised interest groups such as labour, business and other elites including the landowning class through corporatist social organisation.¹⁴⁰ The interpretation proposed here is that the evolution of Spanish economic policy since the autarkic early years of the Franco dictatorship was slow but consistent and underpinned by institutional continuity. The more far reaching ideas proposed by technocrats were restrained by sceptics with an equal voice before the arbitrating head of state. The result is a particularly Spanish form of capitalism, or ‘corporate capitalism’ as Enrique Fuentes-Quintana¹⁴¹ calls it, a paradoxical combination of orthodoxy applied to a society which still regards the state as providential. In other words, liberalisation of the once autarkic developmental economy proceeded gradually during the period under scrutiny here, and remains incomplete. In Argentina, meanwhile, factions were able to disrupt rather than merely influence policy, so tough reforms elaborated by technocrats were dismantled by subsequent governments with new interest group loyalties.

There follows an analysis of the historiography of both cases which informs the subsequent scene setting description of the intellectual and political currents that shaped autarkic nationalist industrialisation in each country during the 1940s. The final part of the chapter offers a brief historical summary of shifting economic policy over the period.

¹³⁹ Prieto, C. ‘A Spanish Spring?’ *New Left Review*, Vol.31 Jan-Feb.2005 pp.45-46

¹⁴⁰ Biggart, N and Guillén, M ‘Developing Difference: Social Organisation and the Rise of the Auto Industries of South Korea, Taiwan, Spain and Argentina’, *American Sociological Review*, Vol.64 (5), Oct 1999, p.738; Linz, J. ‘A Century of Politics and Interests in Spain’ in: Berger, S. *Organising Interests in Western Europe*, Cambridge, 1981.

¹⁴¹ Fuentes-Quintana, E. *El Modelo de Economía Abierta y el Modelo Castizo en el Desarrollo Económico de la España de los Años 90* (Zaragoza 1995)

The economic histories of Spain and Argentina during the second half of the twentieth century are characterised by the legacy of simultaneous quests for modernisation through forced industrialisation in isolation. Argentina and Spain were both 'late' industrialisers in the sense that while recent work highlights the presence of industry in each during the nineteenth century, as a sector it was traditionally comparable with agriculture in terms of the proportion of national income it represented until early in the twentieth century. Figures 2.1 and 2.2 show that the non-agricultural sectors of the economy increased in importance significantly during the period examined in this thesis. Though there were shifts in the favoured model, industrialisation continued apace throughout the period.

From a comparable starting point in the late 1940s to early 1950s, with rapid industrialisation informed by populist and nationalist ideas, both economies followed similar trajectories, evolving into centrally planned developmental models with a greater role assigned to foreign capital, towards reintegration into the world economy after the 1970s.

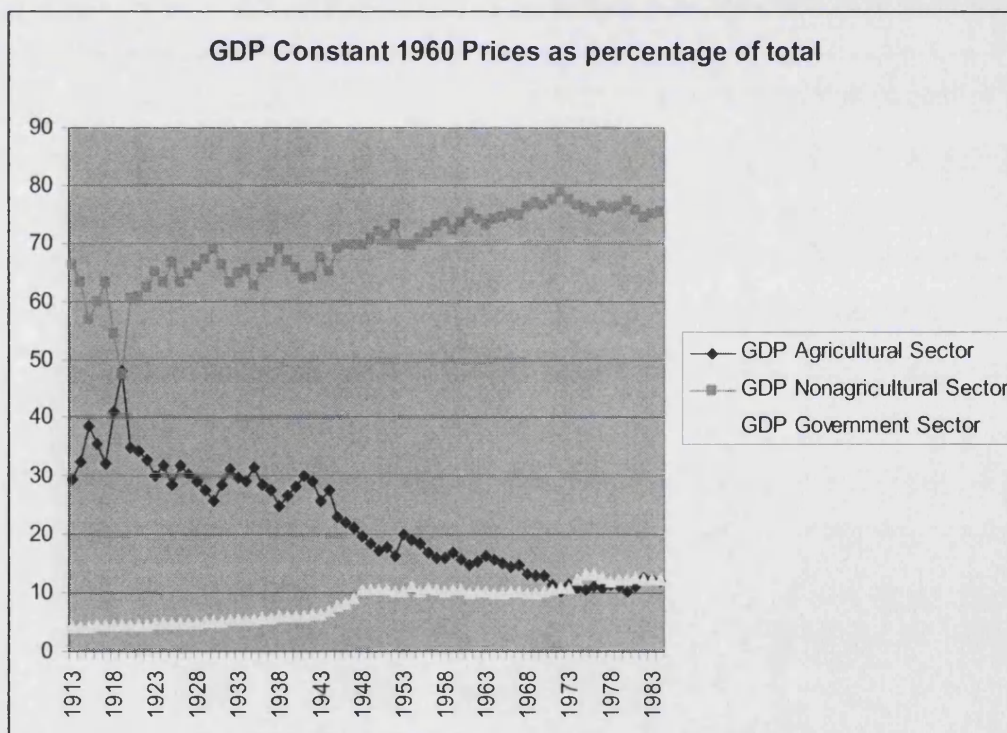


Figure 2.1 Argentina GDP by Sector, Source: Della Paolera, G and Taylor, A (eds.) *A New Economic History of Argentina*, Cambridge, 2003. Statistical Appendix.

Spain GDP by Sector as % of Total

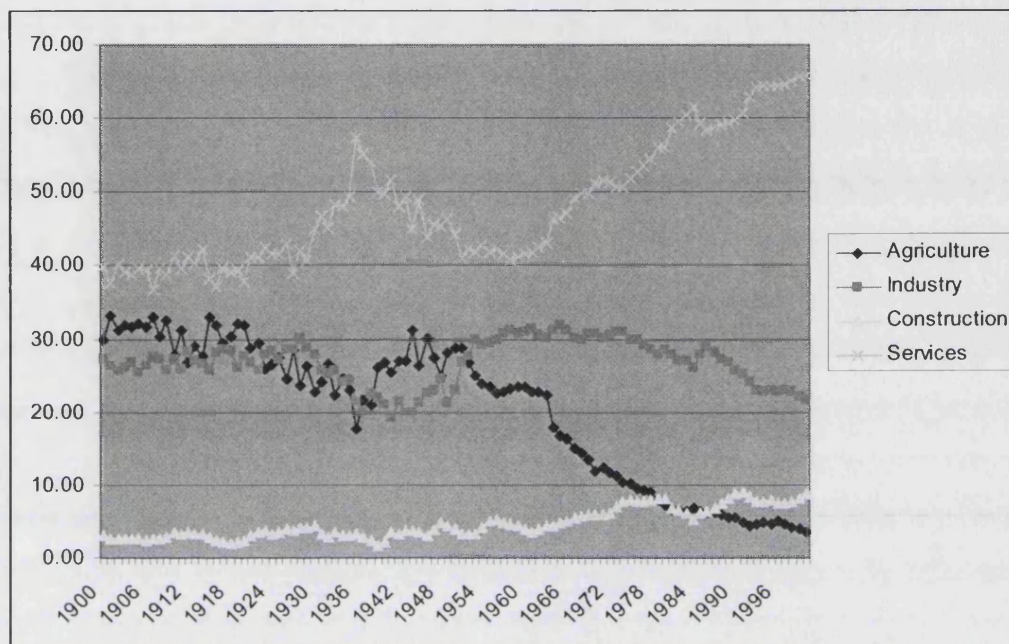


Figure 2.2: Source: Prados de la Escosura, L. *El progreso económico de España 1850-2000*, Bilbao, 2003. Statistical Appendix.

Of course, more recently state involvement has fallen out of favour and neither economy can now be categorised as state-led. So have Argentina and Spain become mausoleums of Gerschenkronian ideas? It may have seemed so at the peak of the so-called “Washington Consensus” on the triumph of free market economics after the late 1980s. Neo-liberal reforms carried out in Spain after 1982 and in Argentina after 1991 by personalist executives, apparently at odds with the founding ideologies of their respective parties, appeared to represent concerted abandonment of the old model.¹⁴² An alternative explanation, to which this thesis conforms, stresses the

¹⁴² Pastor, M and Wise, C. ‘State Policy, Distribution and Neo-Liberal Reform in Latin America’, *Journal of Latin American Studies*, Vol.29, (2), May 1997;

continuity of cronyism and dirigiste policymaking for both cases in spite of market oriented economic redesigns in the late twentieth century.¹⁴³

But it is the interpretation of the overall experience since the mid twentieth century which has caused an ideologically charged division in the historiography over the nature of both economies' experience of industrialisation since it became a self-conscious process. Policy since the first third of the twentieth century is defined in both cases by the legacy of perceptions of economic backwardness by intellectuals and governments. This view depended on an assumption that Argentina and Spain lacked an industrial base of any significance at the start of the period examined here, which was used to justify action by the state to jump start industrialisation. The opposite, neo-classical camp claims that adherents to this view have 'hijacked' history with these claims and in fact industry was in rude health before the state intervened. Thus perceptions of economic history reflect the polarisation of society.

In the case of the historiography on Argentina, for example, one side claims the transition from agrarian exporter to industrialised economy did not start until around 1930.¹⁴⁴ Others of a more liberal persuasion have argued that industry emerged during the late 19th Century *Belle Époque*, and its development was stunted by later state meddling when industrialisation became a more self-conscious process at the heart of paternalistic economic policy.¹⁴⁵ Adherents to the latter camp do acknowledge, however, the 1930s as a watershed in Argentina's industrialisation, as much on account of international conditions and necessities as any internally driven shift in priorities.¹⁴⁶

- 'Stabilisation and its Discontents: Argentina's Economic Restructuring in the 1990s, *World Development*, Vol.27, (3), March 1999;

Gore, C. 'The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries', *World Development*, Vol.28.(5), May 2000; Pérez, S. 'From Labour to Finance: Understanding the Failure of Socialist Economic Policies in Spain', *Comparative Political Studies* Vol.32. (6). September 1999; Bermeo, N. 'Sacrifice, Sequence and Strength in Successful Dual Transitions: Lessons from Spain', *Journal of Politics*, Vol.56. (3), August 1994; Pérez, S. 'Systemic Explanations, Divergent Outcome: The Politics of Financial Liberalisation in France and Spain', *International Studies Quarterly*, Vol.42, 1998.

¹⁴³ Fuentes-Quintana, E. *El Modelo de Economía Abierta y el Modelo Castizo en el Desarrollo Económico de la España de los Años 90*, Zaragoza, 1995; Tortella, G. *The Development of Modern Spain: An Economic History of the Nineteenth and Twentieth Centuries*, Cambridge MA, 2000.

¹⁴⁴ See Bernardo Kosacoff and Daniel Azpiazu, *La Industria Argentina: Desarrollo y Cambios Estructurales*, Buenos Aires 1989,

¹⁴⁵ See Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill 1990; Barbero M.I and Rocchi, 'Industry' in della Paolera G. and Taylor, A (eds.), *A New Economic History of Argentina*, Cambridge 2003

¹⁴⁶ See Diaz Alejandro, C. *Stages in the Industrialisation of Argentina*, in: Diaz Alejandro, 'Essays on the Economic History of the Argentine Republic', London, 1970, p.209

The impact of Spain's authoritarian development model after the 1940s means the historiography of Spanish economic development is also marked by partisan disagreement about when, and indeed how, industry started to develop. The post Franco era has seen a re-examination of Spanish industrial history conceived as an antithesis to the 'hijacking' of history by the dictatorship whose aspirations were autarkic, holding centrally managed industrialisation as a priority and thus took an overly gloomy view of the years preceding the 1936-1939 Civil War. This school also cautions against defining the period from the late 1950s as a golden age which set the pace for continued economic growth to the present, on the basis that it merely continued the trajectory established in the decades before the Civil War.¹⁴⁷

The desire to understand their respective long-term economic performance records is made all the more acute by awareness of protracted decline from regional, and even, in the case of Spain, global hegemony. For Argentina, the performance peak was the more recent, ending with the close of the 'long' nineteenth century after 1914. For Spain, the zenith of economic and political power was the seventeenth century though serious intellectual focus on the country's decline only came in response to the loss of Cuba, Puerto Rico and the Philippines in 1898. Beginning with Argentina, national income had equalled and begun to surpass that of western Europe by 1913, immediately before a dramatic and prolonged reversal of fortune. Argentina's GDP fell to 90 per cent of Western Europe's by 1950, 68 per cent in 1973 and 43 per cent in 1992.¹⁴⁸ This stagnation coincided with the onset of global Depression in the 1930s which neo-orthodox economic historians such as Carlos Díaz Alejandro blame for misguided policies of inward looking developmentalism throughout the remainder of the twentieth century.¹⁴⁹ The alternative view is that late nineteenth century growth was dependent on the historically unique conditions of the day whereby growth in (agricultural) productivity and exports depended on expansion of Argentina's frontier of cultivation across the Pampas. When all available land was claimed, exploited and consolidated from the Atlantic coast to the Chilean border,

¹⁴⁷ See: Prados de la Escosura, L. *El Progreso Económico de España 1850–2000*, Madrid 2003; or Jordi Nadal, Albert Carreras, Carles Sudrià, 'Introducción', in Nadal, Carreras, Sudrià, (eds.) *La economía española en el siglo XX*, Barcelona, 1987

¹⁴⁸ della Paolera, G and Taylor, A. 'Introduction' in: della Paolera and Taylor, *A New Economic History of Argentina*, Cambridge, 2003. p.4

¹⁴⁹ Diaz Alejandro, C 'Essays on the Economic History of the Argentine Republic, London, 1970; See also Taylor, A. 'On the Costs of Inward-Looking Development: Price Distortions, Growth and Divergence in Latin America', *Journal of Economic History*, Vol.58. (1) 1998 pp3-4.

Argentina's commodity export based growth rate became unsustainable. The first promoter of this view was one Alejandro Bunge, who through his *Revista de Economía Argentina* (established in 1918), started to question the euphoria associated with Argentina's rapid expansion of the day. The argument went that Argentina was overly dependent on a narrow selection of agricultural exports and the economy was consequently headed for a period of stagnation. The primary export model had served Argentina well thus far but it had depended on continued expansion of the agricultural frontier, robust flows of foreign investment directed mainly towards railway construction and growing international demand for Argentine produce. Bunge warned that agricultural expansion had reached its limit as had the sector's capacity to absorb labour and attract immigration. Foreign markets were closing as protectionism became the policy norm and foreign investment flows were starting to slow. Argentina needed to become less externally dependent, therefore, and develop a self-sustaining domestic market that would allow the economy to withstand exogenous shocks. Unless steps were taken to diversify and intensify agriculture and promote industry, Argentina would sink into a cycle of economic stagnation and long-term decline.¹⁵⁰

The international crisis of the 1930s, which created an environment hostile to primary exporters, eventually vindicated Bunge and gave believers in industrialisation the upper hand. In other words, the end to the feasibility of the primary export model which had hitherto nurtured a fast growing economy encouraged the search for an alternative. That alternative was industrialisation and an institutional base was established to oversee the development of a manufacturing sector. But early literature on the subject, such as the classic *Evolución Industrial Argentina* by Adolfo Dorfman published in 1942 suggested that industry, while a necessity, was essentially subordinate to agriculture in the Argentine economy.¹⁵¹ Such faith in Argentina's physical attributes over un-Argentine industrial entrepreneurship is to blame for subsequent stagnation, according to a school that emerged in the 1960s. One time minister and developmentalist ideologue Aldo Ferrer described a 'non-integrated industrial economy', shaped by misguided social forces that relegated manufacturing to secondary importance behind agriculture.¹⁵² Others cited the post-World War I

¹⁵⁰ Bunge, A. *Una Nueva Argentina*, Buenos Aires, 1940, pp.17-20

¹⁵¹ Dorfman, A. *Evolución Industrial Argentina*, Buenos Aires 1942.

¹⁵² Ferrer, A. *La Economía Argentina: las etapas de su desarrollo y problemas actuales*, Mexico, 1963

period as a missed opportunity to pursue industrialisation as recommended by Bunge because of an erroneous faith that the disruption of 1914-1918 was a short-term phenomenon.¹⁵³

A liberal backlash against this emerged in the 1970s with Carlos Díaz Alejandro leading the charge with a critique of the import substitution that had guided policy since the 1940s. Protectionism had become self-perpetuating in the sense that by the 1950s, two decades of 'sheltered industrialisation' had created its own set of vested interests resistant to any reversion to a more liberal, unrestricted regime. Although by 1970 the state's role in the economy was pervasive and the resources at its disposal were vast, policy and ideological direction were haphazard and chaotic, the argument goes. Thus the business of reconciling diverse economic pressures converging on the public sector meant policymakers were not able to take an overall look at industrialisation.

"Political instability contributed to the lack of an integrated policy. As a result, the vast influence that the public sector exercises on industry through its many policy instruments and direct purchases is often capricious, inconsistent and sometimes the prey of private interests that manipulate it for their own gain", writes Carlos Díaz Alejandro.¹⁵⁴

In short, a state apparatus with tentacles stretching into most areas of economic activity resulted in an industrial sector that was fundamentally inefficient. Argentine manufacturing had become chronically uncompetitive and was only capable of catering to the domestic market. Mario Brodersohn, a contemporary of Díaz Alejandro's suggested that Argentina's best option was to redefine industrial strategy, putting greater emphasis on exporting manufactures, thus increasing the dimension of the market.¹⁵⁵

Díaz Alejandro argued more recently that a tendency to restrict the efficient running of economic forces in Argentina goes back further than widely thought. The much maligned policy of protectionism, for example, was already a feature of policy in the late 19th Century 'golden age'. Even if one accepts the argument that

¹⁵³ Di Tella, G. and Zymelman, M. *Las etapas del desarrollo económico argentino*, Buenos Aires 1967.

¹⁵⁴ See Carlos Díaz Alejandro, 'Stages in the Industrialisation of Argentina', in: Díaz Alejandro, *Essays on the Economic History of the Argentine Republic*, London, 1970

¹⁵⁵ See Mario Brodersohn, 'Introducción,' in: Brodersohn (ed.) *Estrategias de Industrialización para la Argentina*, Buenos Aires, 1970

landowners with fortunes made through agricultural exports were, as is widely assumed, the dominant influence on policy at the time, “their enthusiasm for completely free trade and flexible currency arrangements had certain practical limits”.¹⁵⁶ The government needed to raise revenue and the landowning class, dependent as they were on export revenues, would have preferred this to be achieved through import duties rather than from land and property taxes.

The Díaz Alejandro focus on vested interests and distributional conflict born of misguided political meddling in the economy has inspired an extensive literature.¹⁵⁷ Within this a neo-orthodox view refers to ‘elephantitis of the state’ starting in the 1930s, extending through the Peronist 1940s and beyond, which may have stunted development because a lumbering bureaucracy is prone to factionalism and incoherence.¹⁵⁸

The impulse for autarky, protectionism and state intervention in the Spanish economy predates that in Argentina though it is frequently associated with the policies of the early Franco dictatorship. If Argentina’s comparative advantage as an agricultural producer bolsters the neo-classical, non interventionist line of argument, Spain’s physical inadequacies traditionally inspire the opposite view. Spain, with its arid climate, rugged terrain and high altitudes does not have the physical attributes that make economic development easy. This made protectionism a necessity both to reduce competitive pressures on an embattled agricultural sector, and nurture industrialisation. The loss of Spain’s last significant colonies in 1898 meant there was little doubt regarding the nation’s status as a minor power. The fact that this represented the culmination of a protracted decline from global superpower status lay at the heart of a ‘regenerationist’ movement seeking to improve the country’s status in the twentieth century. An intellectual impulse to explain Spain’s contemporary state of agrarian backwardness burgeoned, which influenced an anti-liberal movement emphasising the poverty of the country’s soil, the retardation of industry and

¹⁵⁶ Carlos Diaz Alejandro, ‘No less than 100 years of Argentine economic history’, in: Andrés Velasco (ed.) *Trade, Development and the World Economy*, Oxford, 1988, p.255., p.240.

¹⁵⁷ Paul Lewis, *The Crisis of Argentine Capitalism*, Chapel Hill, 1990; Mallon, R and Sourouille, J. *Economic Policymaking in a Conflict Society: The Argentine Case*, London, 1975; Wynia, G. *Argentina in the postwar era : politics and economic policy making in a divided society*, Albuquerque, 1978; Cortés Conde, R. *La economía argentina en el largo plazo*, Buenos Aires 1997; O’Donnell, G. ‘State and Alliances in Argentina’ in Bates, R *Toward a Political Economy of Development: a rational choice perspective*, Berkeley, 1988; Sikkink, K. *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, 1991; Gerchunoff, P and Llach, L. *El ciclo de la ilusión y el desencanto : un siglo de políticas económicas argentinas*, Buenos Aires, 1998

¹⁵⁸ Lewis, 1990. p.96

insufficient exploitation of the resource base. Figures such as Lucas Mallada, Macías Picavea and Joaquin Costa identified industry as the answer and inspired the policies of the authoritarian regime of Primo de Rivera in the 1920s.¹⁵⁹

The ideologues of the 1940s adopted the idea of state action to overcome Spanish disadvantage with industrial self sufficiency¹⁶⁰ and added a nationalist element when they elaborated the blueprint for an autarkic industrialisation model after the Civil War. Some of the writing that informed the autarkic ideal was distinctly moralistic, blaming Spain's downfall from global imperial power on foreign liberal decadence.¹⁶¹ Other theorists, particularly those in government were more pragmatic. Antonio Robert, for example, was director general of industry in Franco's regime during and immediately after the Civil War. His work owed much to the writings of the Romanian corporatist theorist Mihael Monoilescu, identifying Spain as agrarian and prescribing state-led industrialisation as the solution. The explanation for that state of agrarian backwardness, meanwhile, was nationalistic in tone portraying it as the result of foreign machinations.¹⁶²

Robert's *Industrialización Necesaria*, for example, blames Spain's downfall from imperial superpower to impoverished backwater squarely on malign foreign interference and proposes centrally directed industrialisation as the best means for Spain to recover its dignity. The American empire had acted as a drain on Spain's resources, absorbing the best of its manpower, investment and entrepreneurship. Central government in Madrid had not merely tolerated this but actively encouraged this depopulation of the peninsula as a part of official policy to promote growth in the colonies as a form of 'regional development'. Unfortunately, the Napoleonic invasion of Spain in 1808 cut the country off from its colonies long enough to destroy the political and economic ties built up over centuries. Spain was thus left high and dry having selflessly donated its best industrialists and agriculturalists to the colonies. If that was not destructive enough, the French interference also allowed 'liberal ideas' to

¹⁵⁹ See: Mallada, L. *Los males de la Patria y la futura revolución Española*, Madrid 1890, or: Picavea, M. *El problema nacional*, Madrid 1899 or: Costa, J. *Oligarquía*, Madrid, 1902. Pardo, L. *La conquista del Ebro*, Madrid 1931 recounts public works initiatives of the Primo de Rivera dictatorship informed by the Regenerationist movement.

¹⁶⁰ See: Fuentes-Iruozqui, M. *Evolución presente y futuro del comercio exterior de España*, Madrid, 1942 or Suanzes, A. *La industrialización: obra evidente y preeminente del régimen de Franco*, Madrid 1952.

¹⁶¹ See for example: París, H. *El nuevo orden económico*, Madrid, 1942

¹⁶² Love, J. *Crafting the Third World: Theorising Underdevelopment in Rumania and Brazil*, Stanford, 1996, p.90

corrupt the Hispanic system so that the Spanish state gave away its best mining concessions to foreign speculators.¹⁶³ This was all, Robert believed, part of an international conspiracy by the British and the USA among others, to exploit Spain's decapitation and ensure it could never regain its former greatness. Indeed, Spain's so-called allies in the peninsula war against the French had taken care to destroy Spain's fledgling infrastructure in order to prevent it becoming an industrial competitor after the war.¹⁶⁴ The result of all this was the agrarianisation of Spain's economy and the forced extension of cultivation into ever more unproductive marginal land – hence the perpetual poverty and political unrest.

So, to overcome this maliciously inflicted poverty, Spain needed to industrialise as quickly as possible. New industry would increase the country's self sufficiency and eliminate the trade deficit. Meanwhile, new factories would absorb surplus labour from the countryside, a problem associated with the country's underdevelopment, simultaneously promoting the mechanisation of agriculture thus increasing its productivity but decreasing the number of workers necessary to achieve it. Salaries would rise and with it the purchasing power of the population, increasing further the momentum of industry. All this required a "subordination of economic development to the requirements of (central) policy".¹⁶⁵

The idea of necessary protectionism to counteract Spain's physical disadvantages in a hostile world market was also inherited by classic works of Spanish history. Jaime Vicens Vives, whose work, published in 1955, is an educational staple in Spain, stresses the role of geography and climate in condemning the country to backwardness. On the other hand, he points out that Spain's location at a crossroads of trading routes between Europe, the Americas and North Africa is potentially an advantage.¹⁶⁶ Similarly Ramon Tamames' *Estructura económica de España*, first published in 1960 and now in its 19th edition, attributes a historical tradition of interventionist government to the need to overcome the limitations of rugged terrain.¹⁶⁷

A further backbone of this classical school is work by German economist Jürgen Donges, a disciple of structuralist theories elaborated in Latin America by

¹⁶³ Robert, A. *Un problema nacional: la industrialización necesaria*, Madrid 1943, pp.35-37

¹⁶⁴ *Ibid.* p.38

¹⁶⁵ *Ibid.* p.126

¹⁶⁶ Vicens Vives, J. *Una historia económica de España*, Barcelona 1955, p.678

¹⁶⁷ Tamames, R. *Estructura Económica de España*, Madrid 1960

Raúl Prebisch. Protectionism, Donges argued, acted as a catalyst for Spain's industrialisation by improving the domestic terms of trade for the manufacturing sector, thus attracting capital and investment from less efficient sectors of the economy. The viability of orthodox economic ideas for countries yet to complete their progression towards industrialisation, he claims, is called into question by the interventionist experience of Spain.¹⁶⁸

But there was a parallel tradition that argued against the benefits of protectionism, on the basis that it had served to retard the Spanish economy by ensuring the least optimal allocation of resources. This view was first articulated by Román Perpiñá-Grau, a Catalan economist who drew on the German school of central place theories for his 'structural' interpretation of Spanish backwardness.¹⁶⁹ Spain, he believed, is best understood as a country divided into two zones; interior and periphery, comprising roughly concentric rings. The interior languished in poverty on account of the inadequacies of infrastructure, agricultural yields and market potential. The periphery fared marginally better except for the fact that terms of trade with a third space, the outside world, are to its disadvantage. Capital imports, such as cotton for the textile industry, and petroleum, were indispensable and constant while exports such as citrus fruit were vulnerable to terms of trade shocks – a combination that put pressure on the balance of payments. Protection of the interior maintained the status quo of rural backwardness with high illiteracy, small settlements and low productivity while simultaneously stifling greater interchange with the periphery. The reason behind this seemingly irrational protectionism of an inefficient sector, Perpiñá-Grau believed, was an obsession with national production. The irony was, however, that the resulting backwardness and lack of technological progress and expertise made industry disproportionately dependent on foreign capital and know how. The solution lay in restructuring the economy to find a space for Spain as an *industrial* exporter in the international division of labour.

This critique of the protectionist tradition appealed to and informed the work of an orthodox school of economists that emerged in the 1950s. The leading light of this generation of intellectuals was Enrique Fuentes-Quintana, a self professed admirer of Perpiñá-Grau, career civil servant and Economy Minister during the 1970s.

¹⁶⁸ Donges, J, *La industrialización en España: Políticas, Logros, Perspectivas*, Barcelona 1976

¹⁶⁹ Perpiñá Grau, R. *De estructura económica y economía hispana*, Madrid, 1952 (first published in German, 1935)

This group was also the first generation of Spanish economists to learn their discipline in Spain where its association with foreign 'liberal' ideas kept it off university curricula until the early 1950s.¹⁷⁰ It was this current of thought that informed the ideas of technocratic reformers after the late 1950s who gained control of crucial economy oriented ministries and launched a protracted campaign to open the Spanish economy (see chapter 3).¹⁷¹

This school in turn influenced more recent work which adopts the quantitative methods of the 'new' economic history to reassess perceptions of Spain's backwardness during the nineteenth and twentieth centuries.¹⁷² The principal departure from previous analysis is to reject the assumption of a slow nineteenth century which justified state intervention in order to administer centrally planned industrialisation. Albert Carreras, for example, states that if Spanish industrialisation depended on protection then there must have been some kind of Rostowian take-off or Gerschenkronian spurt immediately after one of the new tariff laws were implemented in 1891, 1906 or 1922. Using a cliometric approach and an index of industrial production, Carreras shows that this was not the case. In fact, the periods of history in which protectionism was highest were the least productive in terms of industrial output. The result is a sharp critique of the autarkic tendencies of the dictatorship, justified as it was on a false notion that Spanish industry performed better in isolation.¹⁷³ Taking the critique further, José Luís García-Delgado blames the autarkic period for causing Spain's growth to diverge yet further from that of western Europe. The 1940s represented a 'night' of Spanish industrialisation, namely stagnation following the killing off of sustained growth that had started in the 1870s and continued until 1929.¹⁷⁴

The most recent contribution to this tradition is Leandro Prados de la Escosura with a vast data set of economic indicators starting at 1850, which attempts to compensate for the idiosyncratic nature of Spanish accounting methods throughout

¹⁷⁰ See: Fuentes Quintana, E. 'Perspectivas de la Economía Española 1940-53, *Revista de Economía Política*, Vol.IV Num. 1-2, Agosto a Septiembre 1952

¹⁷¹ Fuentes-Quintana, E. 'La economía española desde el plan de estabilización de 1959: El papel del sector exterior', in Martínez-Vara, T. (ed.) *Mercado y desarrollo económico en la España contemporánea*, Madrid, 1986

¹⁷² See for example: Aceña P-M y Prados de la Escosura, L (eds.), *La nueva historia económica en España*, Madrid, 1985

¹⁷³ Carreras, A. 'La Industria: Atrazo y Modernización', in: Nadal, Carreras, Sudrià, (eds.) *La economía española en el siglo XX*, Barcelona, 1987

¹⁷⁴ García Delgado, J-L 'Estancamiento industrial e intervencionismo económico durante el primer franquismo' in: Fontana, J. (ed.), *España Bajo el Franquismo*, Barcelona, 1986

history. The study purports to debunk the assumption that the nineteenth century was a period of failure while the twentieth one of success, industrialisation and take-off. One cannot explain recent growth as a consequence of the 'golden age' approximately between 1950 and 1974, so often used to vindicate the economic record of the dictatorship. Prados points to earlier origins of the growth trajectory, particularly between 1850 and 1883 and again during the 1920s.¹⁷⁵

Meanwhile, Spain's best known adherent to the new institutional economics, Gabriel Tortella maintains the argument that Spain was economically retarded in the nineteenth century on account of a 'Euro Latin pattern of development'. The institutions at fault have yet to be dismantled, Tortella argues, and until they are, Spain will remain a laggard compared with its European neighbours. This analysis emphasises Spain as institutionally distinct from Europe, which explains its relatively low national income.¹⁷⁶

To summarise the debates common to the two cases, opinions are split over the extent of economic backwardness before steps were taken by government to implement centrally planned modernisation. There is also dispute over whether protectionism was beneficial or detrimental to long-run performance, with the revival of a neo-orthodox view that it retarded development during and after the mid twentieth century. Spanish commentators such as Fuentes-Quintana and the institutionalist Tortella believe that the persistence of state interventionism means Spain will remain a laggard in Europe. This thesis conforms with this view, as it categorises Spain as comparable to Argentina because of a shared tradition of 'crony capitalism'. But within this category of institutional imperfection, Spain boasts the stronger and more persistent growth performance. So 'convergence' of the kind described by Solow, Olson and growth theorists, whereby Argentina and Spain catch up in terms of productivity with more advanced economies, remains elusive. But Spain during the period under scrutiny here, caught up with and overtook Argentina both in terms of productivity levels and national income. This can be accounted for by a less volatile and more consistent rate of growth as figure 2.3 shows. Argentine economic growth was not always slower than that seen in Spain, but it was more

¹⁷⁵ Prados de la Escosura, *El progreso económico de España*, Madrid, 2003.

¹⁷⁶ Tortella, G. *The Development of Modern Spain: An Economic History of the Nineteenth and Twentieth Centuries*, Cambridge MA, 2000.

prone to dramatic reversal immediately after a period of expansion while Spanish rates maintained momentum between less diverse extremes.

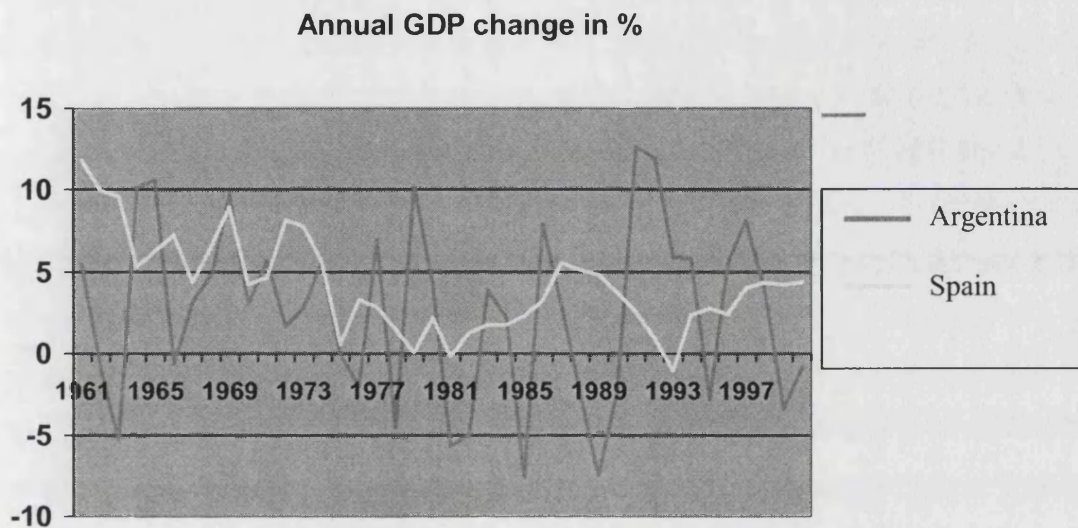


Figure 2.3. Source: World Bank, World Development Indicators (WDI) April 2005 , ESDS International, (MIMAS), University of Manchester

At the root of this divergence is the Spanish success at taming factional dispute and interest group conflict in such a way that it never threatened institutional and political stability. The structure of the state placed limitations on its component factions in their ability to shape policy. If, for example, a group of technocrats wished to impose tough economic reforms, conservative elements were able to exert a restricting influence though an outright veto was not possible. Policy thus proceeded at a slow pace but in a consistent direction and enjoyed a relatively high degree of perceived legitimacy because of the solidity of representative institutions within the state. In Argentina, policy reflected the priorities and loyalties of a particular administration perceived as (or suspected of being) allied to a specific economic interest to the detriment of others. Following the departure of the government in periodic economic and political crises, the new regime would shape new allegiances and policy would reflect this.

The relative fragmentation of Argentine policy compared with its Spanish equivalent is demonstrated by the institutional arrangements made by each

government to oversee industrial development. A state holding company comprising German and Italian companies expropriated during World War II, the National Directorate of State Industries (DINIE) enjoyed some continuity beyond changes in central government but was abolished in 1958. In that same year a permanent planning department was set up within the Office of the Presidency, with responsibility to define national economic objectives but exercised little real control over a disparate and fractious state sector. A more successful institution, the National Development Council (CONADE) was established in 1962 which exerted centralised control over the bureaucracy and financing of development, including state enterprises and the relevant ministries, but political instability meant a high turnover of staff and frequent changes in policy direction. In the early 1970s CONADE was disbanded and replaced by a National Economic Planning Institute (INPE) to operate alongside a new holding company, the Corporation for National Enterprises (CEN). The latter organisation did not survive the neo-liberal reforms of the 1976 military government while INPE had its powers severely curtailed by a regime suspicious of its association with the previous political order.¹⁷⁷

Furthermore, state agencies, though officially non partisan departments of the civil service, were in practice directly controlled by the presidency and thus populated with presidential appointees. The short lifespan of each presidency meant a high turnover of directors of state enterprises, development agencies and credit institutions. It also meant agencies' remits changed frequently according to the priorities of who occupied the executive. A case in point is the National Development Bank which suffered the modification of its charter several times reflecting the changing political climate until when in 1993, debilitated by the exhaustion of its capital, it was abolished by Menem.¹⁷⁸ It was established in 1944 as the Industrial Credit Bank to provide medium and long-term credit to industries seeking to import capital goods. It was also intended to allocate a proportion of its credit towards regional development, promoting the growth of industry in the provinces. Under Perón it was obliged to grant the majority of its loans to small operations and consumer goods and services industries according to his doctrine of horizontal industrialisation, consequently neglecting to nurture heavy industry. It also operated as a financier of IAPI's

¹⁷⁷ International Bank for Reconstruction and Development, *Economic Memorandum: Argentina*, March 2 1984, pp.69-73.

¹⁷⁸ Decreto N° 1027/93

programme of forced purchase of agricultural produce directly from farmers for sale at a profit to overseas buyers as a source of fiscal revenues. Loans by the bank to IAPI by 1955 represented 36 per cent of the total while loans to public sector organisations as instructed by presidential decree made up half its exposure.¹⁷⁹ This represented an early departure from its original role to provide credit directly to small industries in favour of supporting traditional sectors of the economy. In 1957 the bank's charter was modified so that it was decoupled from the Central Bank and forced to rely on foreign sources. In 1961 it was forced by the Frondizi administration to purchase shares in large industrial corporations previously held by the Instituto Movilizador de Inversiones Mobiliarias, a state holding company as well as shares in SEGBA, a Buenos Aires power company. It was now being used as a tool by government to rescue ailing and politically sensitive enterprises rather than a provider of loans to promote domestic industry. In 1971 it acquired its new name, the National Development Bank and continued to finance industrial development according to the priorities of the government which now assigned domestic savings deposits as its main source of finance. Under the neo-liberal military regime of 1976 to 1983 it was sidelined and starved of funds and compensated by selling a significant proportion of the share holdings it had been obliged to acquire since the 1960s.

Continuous political instability affected the ability of institutions to function effectively while the associated political meddling undermined the functioning of organisations such as the National Development Bank. It followed the swings of official policy even when it meant a departure from its charter, increasing loans to small operations under one president, restricting them in favour of heavy industry under the next. Its boardroom was populated with political appointees and thus suffered a high turnover of staff reflecting Argentina's inherent political instability. During the period 1944 to 1980, for example, directors at the Bank stayed an average 18 months.¹⁸⁰

Contrast this experience with Spain where a state holding company was established, the National Institute of Industry (INI), as an umbrella organisation of which state enterprises were component parts. It was a principal tool and overseer of state development policy to achieve economic modernisation from a similar if not

¹⁷⁹ Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1990 p.159-160; Schvarzer, J. *The National Development Bank and the Technological Development of Argentine Industry*, Buenos Aires, 1981

¹⁸⁰ Schvarzer 1981. p.39

deeper level of industrial retardation as that in Argentina. As policies evolved over time, so did the role played by the INI and amendments were made to its founding articles. But this reflected belated adjustment to the evolution of Spain's economy rather than political meddling and the leadership has always retained a degree of autonomy from government. It developed from being a supervisor of autarkic industrialisation in the 1940s to administrator of centrally planned development programmes in the 1960s. During the 1970s and 1980s it oversaw the restructuring of the post-Franco economy including the privatisation and de-monopolisation associated with the González government.¹⁸¹ Nevertheless, it is a bastion of institutional continuity and retained its status as a stronghold of dirigiste policy. It survives to the present, under a new name as a holding company for state interests, including, ironically the assets of state enterprises which bought privatised Argentine firms during the 1990s.

Comparative Economic History

The following narrative illustrates that from a common starting point in terms of the development model employed during the 1940s, subsequent reforms and adjustments were more ordered and less subject to social conflict in the Spanish case. It starts with a description of the autarkic model in each country during the 1940s and the ideas behind its conception followed by short accounts of each country's subsequent experience.

Argentine and Spanish intellectuals had begun to compare their economies unfavourably with those of western Europe and north America by the early twentieth century focussing on a need to industrialise. In the case of Argentina this idea was founded on a sense of impending fall from grace due to the exhaustion of a commodity export-led model which had served the economy well at least since the 1870s.¹⁸² In Spain, intellectual currents were influenced by awareness of protracted decline from hegemonic status after the seventeenth century. This was attributed to geographic disadvantage related to an arid and unproductive landscape by some,¹⁸³

¹⁸¹ Aceña, P-M and Comín, *INI, 50 años de industrialización en España*, Madrid, 1991.

¹⁸² Bunge, A. *Una Nueva Argentina*, Buenos Aires, 1940

¹⁸³ Perpiñá-Grau, R. *De estructura económica y economía hispana*, Madrid, 1952 (first published in German, 1935)

and the malicious conspiracies of foreign powers by others.¹⁸⁴ The common solution, however, was industrialisation overseen by the state, and protectionist policies of import substitution.

The principal similarity between the economic policies pursued under Perón and Franco is the influence of nationalist syndicalist ideology. Both regimes were manifested through a single party, though defined as a movement by the protagonists with stated ideals of cross class collaboration in a national project of development. This depended on the authoritarian implementation of civil obedience justified as being in the national interest. There is evidence of links between the two¹⁸⁵ but it appears that it was the common inspiration of Mussolini's Italy that accounts for the commonalities.¹⁸⁶ This link was explicit in the Spanish case, with the *Instituto Nacional de Industria* (INI), the state holding company, openly acknowledged as an imitation of Italy's *Istituto per la Ricostruzione Industriale* (IRI) and Nazi Germany's Goering Organisation.¹⁸⁷ In Argentina, Perón never publicly acknowledged the link though historians treat it as an open secret, and base this assumption on similarities between his legislative initiatives and the policies of Mussolini.¹⁸⁸ As Labour Minister to the military regime that preceded his presidency, for example, Perón laid the foundations for a corporatist state that incorporated organised labour with a Law of Professional Associations which brought the unions under his control. This 1945 legislation was almost an exact copy of Mussolini's labour code.¹⁸⁹

Each regime applied policy and rallied support through corporatist states which incorporated interests such as labour and business through compulsory membership of official associations. There were also similarities in the development minded economic model applied in each case though the theory behind the policy was more clearly articulated in the Spanish case. For both countries, economic policy was state-led and autarkic with industrialisation held up as a priority alongside a strategic

¹⁸⁴ Robert, A. *Un problema nacional: la industrialización necesaria*, Madrid 1943

¹⁸⁵ Rein, R. *The Franco-Perón Alliance, Relations Between Spain and Argentina 1946-55*, Pittsburgh, 1993

¹⁸⁶ Lewis, P. 'Was Perón a Fascist? An Inquiry into the Nature of Fascism.' *Journal of Politics*, Vol.42(1) Feb. 1980.; Benavent, J, *Perón, La Dictadura Populista*, Barcelona 2006

¹⁸⁷ Presidencia del Instituto Nacional de Industria, *Notas en relación con la creación y desenvolvimiento del Instituto Nacional de Industria*, (Founding Articles) Madrid, 1941 pp.24-25

¹⁸⁸ Benavent, J. *Perón 1946-1955, Luz y Sombras*, Barcelona 2006, pp.27-28

¹⁸⁹ Lewis, P. 'Was Perón a Fascist? An Inquiry into the Nature of Fascism.' *Journal of Politics*, Vol.42(1) Feb. 1980 p.247.

focus on national self sufficiency which favoured national over international capital. This was as much a feature of the times as a shared ideological root. The world of the 1940s was consumed by international conflict, which increased the impetus for self reliance, while Keynesian expansionism was the strategy of choice for many governments. Yet the peculiarities of each case's economic focus reflect the dynamic of support within the respective regimes. The most influential factions of Perón's support base were the military and the labour movement. But because of this division of support, Perón was faced with a choice between a project of 'strategic' heavy industrialisation for national defence favoured by the former, and light manufacturing of consumer goods, to the advantage of the latter.¹⁹⁰ Ultimately, the president took the second option which set out to boost employment and capture a greater proportion of national wealth for popular sectors. Meanwhile, much stress was put on horizontal industrialisation, a drive to produce consumer goods domestically for consumers whose purchasing power had increased.

In Spain, though the syndicalist movement of the Falange was a leading architect of policy, the military faction of Franco's coalition was granted a greater hearing in the formulation of economic policy in the early post Civil War government. Juan Antonio Suanzes, founder of the INI, for example, was a childhood friend of Franco and like the dictator a career officer. His background as a military engineer shaped his beliefs and inspired him to seek a path between the socialist statism the dictatorship identified as the corruption it had vanquished in the Civil War, and "arbitrary" capitalist liberalism which had opened Spain up to foreign economic domination.¹⁹¹ He also inherited an absolute faith in industrialisation as a means to renegotiate Spain's terms of trade and held up increased national productivity as an urgent priority to achieve self sufficiency.

Thus, Spain's natural resources were to be exploited at all cost. This needed to be undertaken by the state if the private sector balked at the costs involved. Under Suanzes' charge the INI's operations were characterised by the primacy of technical over economic expertise. The focus of the industrialisation effort was on 'strategic' sectors such as oil refining, steel, transportation, mining and so on as a consequence of the aspiration to achieve self sufficiency.

¹⁹⁰ Torre, J-C 'Argentina Since 1946', in Bethell, L. (ed.) *Argentina Since Independence*, Cambridge, 1993, p.249.

¹⁹¹ Suanzes, J *Ocho discursos*, Madrid 1963. p.144

Because of intense industrial re-equipment drives within an autarkic system, they soon fell victim to disequilibria to the balance of payments on account of capital starvation. The need to import capital goods and populist labour policies with an emphasis on high consumer purchasing power meant deliberately inflated currency valuations which made traditional commodity exports uncompetitive. Macroeconomic imbalances resulted in changes of strategy and, eventually, replacement of governments. However, the distinction here is the fact that this was manifested as no more than a cabinet reshuffle in Spain, whereas in Argentina, Perón was forcibly removed from office by a disillusioned military. So the new Spanish government, though stacked with reforming technocrats, was still operating within the rigid constructs of Franco's centralised state. It comprised a part of the same mechanism to which organised labour, business and an array of other conservative economic and social interests also belonged. So reforming technocrats and ministers, were subjected to an equal subordination before the arbitrator-dictator as the Falange, who still controlled labour policy, and Suanzes who remained head of the INI. There was no constitutional crisis, therefore.

The distinct degrees to which the military were able to exert an influence on industrial priorities has a point of reference in Gerschenkron's observations on Russia's industrialisation after the 1890s. The centrality of the Russian military to the state, which was the primary agent propelling economic progress, shaped the experience of industrialisation. In order to exact effectively the required sacrifices from the populace, Russia's government subjected a reluctant population to severe oppression. Because of the magnitude of these exactions, a period of rapid development was very likely to give way to prolonged stagnation because the effort had exceeded the limits of physical endurance. The result was economic progress by "fits and starts".¹⁹² The comparison of Argentina and Spain appears to contradict this. Argentine economic growth was characterised after the 1940s as a series of fits and starts yet Spanish industrialisation, initially at least, reflected military priorities. On the other hand, the military inspired autarkic model did suffer a crisis in the late 1950s and was subsequently modified though this was a consequence of capital starvation rather than exhaustion of the labour force. Perhaps it was a blessing, therefore, that the military became less of a force in Spanish policymaking and was challenged

¹⁹² Gerschenkron 1962, p.17

within the state by civilian technocrats. If it had remained in place, the Spanish economy could have resembled more closely the belligerent totalitarian model Gerschenkron observed in Russia.

In Argentina following Perón's removal in 1955, the corporatist state was effectively decapitated, leaving its dispossessed components, such as the official labour confederation, the CGT, and the employers association, the CGE, as stand alone pressure groups. The military government 'intervened' in both but the CGT in particular proved very quickly after its patron's overthrow, that it remained a formidable pressure group. The junta invited Raúl Prebisch, secretary general of CEPAL to assess the Argentine economy and formulate a prescription for rapid and long-term recovery. The Prebisch Plan, published in January 1956, sought to promote monetary stability in order to boost national savings and attract foreign investment. This balance was perceived as crucial to promote productivity as well as establishment of new operations because it increased purchasing power for continued industrial re-equipment.¹⁹³ Essentially, the currency was to be devalued in order to promote agricultural exports, thus mitigating the deficit in the balance of payments. This, Prebisch acknowledged, would increase living costs for wage earning Argentines so employers were urged to increase salaries. To prevent this having an inflationary effect, the wage increases were to be taken out of company profits. The plan argued this was not such a burden because higher productivity resulting from the new stability meant these profits would be regained in the long term.¹⁹⁴

Opposition came from all quarters. While Prebisch indicated the cost of living would rise by a mere 10 per cent, the CGT, which had been 'intervened' by the military government, was demanding a 40 to 50 per cent wage increase. At the other end of the social spectrum, business leaders were claiming that no company or industrial sector boasted profits high enough to absorb a wage increase of 10 per cent.¹⁹⁵ The unpopularity of the plan was used as a rallying cry for the political opposition which had begun preparations for a return to democracy. Arturo Frondizi, leader of his own splinter of the UCR, the 'Intransigent' Radical Party (UCRI), was particularly vocal in his rejection of Prebisch's prescriptions. After Frondizi became president in 1958, however, the 'developmentalism' underpinned by monetary

¹⁹³ Prebisch, R. *Moneda Sana o Inflación Incontenible: Plan de Restablecimiento Económico*, Secretaría de Prensa de la Presidencia de la Nación, Buenos Aires, January 1956, p.35

¹⁹⁴ Prebisch 1956. p.36

¹⁹⁵ Review of the River Plate: *Wages and Industry's Profits*, Jan 10 1956. p.5

discipline bore a strong resemblance to Prebisch's ideas. The Plan promoted 'vertical' industrialisation, including promotion of a steel industry and greater energy self sufficiency, particularly through improved exploitation of oil reserves. This lends support to the view that Argentine politics is defined by a battle for allegiances rather than pragmatic solutions to common problems measured according to their merit. Indeed, both Prebisch and Frondizi were evidently aware of this. Prebisch beseeched Argentines to temper their class allegiances in favour of the nation's wellbeing. He called on "all social groups to demonstrate solidarity with an effort that was of great importance to the country."¹⁹⁶ Frondizi, meanwhile, attempted to achieve a three way 'national movement' formed of an alliance between the state, industry and labour, each of which would act as a pillar of his centrally planned developmentalist vision (see chapter 3).

The government that commissioned the Prebisch plan was a transient affair and the spectre of civil disobedience meant its leaders were reticent about implementation of such features as wage freezes to check inflation. The military was keen to maintain order before a planned return to democratic rule and these political concerns made the economic restructuring Prebisch envisaged an impossibility. Frondizi came to power after securing the working class vote by persuading the exiled Perón to lend support. Once in power he attempted to solicit further support from industrialists for an ambitious programme of intense industrialisation which emphasised domestic heavy industry, particularly oil, energy, steel and chemicals.¹⁹⁷ The intention was to improve the balance of payments by increasing industrial self sufficiency and pursuit of a Hirschmanian, unbalanced, development model. The most controversial aspect of the plan was Frondizi's overtures to foreign capital, which led to accusations from all sectors of society that he had undermined national security by allowing too much access to strategic sectors.

Frondizi claimed these ideas as his own and did not acknowledge any link with similar intellectual currents emanating from CEPAL. The reason for this lies in the fact that the best known economist at CEPAL was Raúl Prebisch, the organisation's secretary general, who had elaborated its effective manifesto with his

¹⁹⁶ Prebisch 1956. p.38

¹⁹⁷ See: Petrocolla, *A Unbalanced Development, 1958-62*, In: Guido Di Tella and Rudiger Dornbusch (eds.) *The Political Economy of Argentina 1946-83*, Oxford, 1989. p.110, Or: Mallon and Sourrouille, 1975, p.20,

structuralist theory of development.¹⁹⁸ Frondizi was thus attempting to distance himself from Prebisch while pursuing policies apparently influenced by his work. This is interpreted as astute political manoeuvring by Kathryn Sikkink.¹⁹⁹ Prebisch, on account of the 1956 economic plan was associated with the anti-Perón military government. As leader of the opposition, it was in Frondizi's interests during his election campaign to employ anti-Prebisch rhetoric.²⁰⁰

Society post-Perón, however, was irreconcilably divided and the contradictions inherent in Frondizi's fragile web of allegiances with disparate interest group associations finally collapsed amid disillusionment and open rebellion. Many in the military and among Peronist labour, opposed Frondizi's courtship of foreign capital, particularly regarding involvement in strategic assets such as the oil industry. In order to appease his Peronist supporters, meanwhile, the president also made steps towards legalisation of the Peronist party and allowed it to place candidates in the 1962 congressional elections. This was too much for the military and Frondizi was deposed in a coup towards the end of 1962. After a brief military interlude, Arturo Illia was elected president, also through aggressive courtship of labour interests, and pursued a more nationalist ticket. He cancelled contracts signed by Frondizi with foreign firms to exploit oil reserves and focused efforts on increased production in order to achieve self sufficiency and equilibrium to the balance of payments. To his critics from the SRA, and in the military, Illia had returned to the corporatism of the first Perón government. Labour was co-opted with wage increases while a state agency, the *Dirección Nacional de Abastecimiento* (National Supply Office) controlled prices with spot checks on companies' inventories in order to keep inflation down in an environment of rising demand.²⁰¹ A National Grain Board which bought up wheat and sold it at a profit abroad was to many evidence that Illia intended to resuscitate IAPI and usurp control of the export sector.

In spite of efforts to keep prices under close supervision, the agricultural sector was able to wield its power by cutting back production in reaction to export taxes and unfavourable exchange rates. This not only strained Argentina's reserves, but also drove up inflation, frustrating Illia's efforts to keep prices under tight control.

¹⁹⁸ See Prebisch, R. *The Economic Development of Latin America and its Principal Problems*, New York, 1950

¹⁹⁹ Sikkink, K. 'Prebisch's Influence in Argentina,' *Latin American Research Review*, Vol.23, No.2, 1988, p.95

²⁰⁰ *Ibid.*

²⁰¹ Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill 1990. p.280

Illia was ultimately removed by the military in 1966 amid macroeconomic chaos and stagnating production. What came next was portrayed by its protagonists as the 'Argentine Revolution', with the military junta that controlled government searching for a resumption of economic development and restoration of institutional normality.²⁰² After an initial attempt to continue populist pro-labour policies, the soldier president general Juan Carlos Onganía appointed Adalberto Krieger Vasena as his economics minister. Policy then took a turn for the orthodox with greater emphasis on macroeconomic stability achieved through the reduction of demand and fiscal discipline. Government expenditure was slashed while utility rates and taxes were hiked in order to boost government revenues. When Krieger Vasena introduced a wage freeze in 1968, the purchasing power of Argentine popular classes went into reverse and organised labour adopted its preferred strategy of direct confrontation and civil disobedience. Acute unrest in the industrial city of Córdoba in May 1969 did irreparable damage to the government's credibility and Krieger Vasena was promptly replaced.

Nevertheless, the military government which lasted until 1973 was characterised by social conflict and intensive lobbying by economic interest groups for concessions. The military itself was divided into factions sympathetic to one or other of the economic interests which resulted in three internal coups during the period. Ironically, a faction of the military targeted as potential support by the labour movement and certain factions representing local capital, was ideologically opposed to the liberal slant of Krieger Vasena's economic policy. These were members of a powerful elitist club of conservative Catholics, the Atheneum of the Republic, who were outspoken admirers of Franco's anti-liberal policies in Spain.²⁰³ Yet the Francoism they held in such high regard was of the type which was modified in the late 1950s. So perhaps, political discourse under the authoritarian *Revolución Argentina* resembled that of Spain. Different interests in society were represented within the inner circle of (the military) leadership so that policy could potentially have evolved through tightly regulated negotiation as it did in Spain. Unfortunately, the system was not bound together by recognition of the head of state's authority or of the legitimacy of state institutions. If a faction of the military did not approve of the policies, they would strive to replace the president with an officer more sympathetic.

²⁰² Gerchunoff, P and Llach, J *El ciclo de la ilusión y el desencanto*, Buenos Aires, 1998, p.302

²⁰³ Lewis, P. 1990. p.283

So despite the fact that coups were internal, within the regime rather than episodes of nationwide political crisis, institutional continuity was not assured. It is also significant to note that the Spanish military was but one faction within the Franco corporatist state.

Recent work on the economic record of this period of Argentine history suggests that opposition to policies intensified in spite of strong growth rate. Agricultural lobbies such as the SRA, for example, lamented export taxes which ranged between 9.5 and 25 per cent which they claimed were detrimental to exports.²⁰⁴ However, Gerchunoff and Llach show that agricultural production increased by more than 5 per cent per annum between 1960 and 1974, a phenomenon they attribute to the adoption of new technology by farmers. This in turn was reflected in greater export volumes and contributed to an overall trade surplus between 1963 and 1973. Overall economic growth rates, meanwhile, outstripped those experienced in Europe and the United States during a period widely categorised as a golden age of expansion brought to an end by oil shocks after 1973.²⁰⁵

This suggests, therefore, that in Argentina's conflict society, there is a problem of perception regarding economic performance. Impressive headline figures are insufficient because of a lack of state credibility and the fact that national rents including export revenues, are the prize sought after by economic factions. Appreciation of immediate performance does not mitigate insecurity about the future so that economic interests will continue attempts to capture as much as possible of the policymaking process and indeed national rents.

A central issue for the labour lobby that fomented the rise in political violence throughout the 1960s and early 1970s was continued proscription of Peronism. Elections in 1973 returned the Peronist party to power for the first time since 1955 and Perón himself returned from exile to serve as president for the last year of his life. His third wife succeeded him when he died in 1974 until she was herself removed from office by the military in 1976. This second Peronist era, while less autarkic than the first, was unashamedly populist and resuscitated many of the corporatist alliances of the early 1950s. At its heart was a 'social pact' between the government, the CGE and the CGT, though political and economic pragmatism prevented the total exclusion of more liberal factions from the industrial and agricultural sectors. Nevertheless, the

²⁰⁴ Lewis, P. 1990. p.296

²⁰⁵ Gerchunoff, P and Llach, 1998, pp.309-316

pact resulted in a price freeze alongside increased wages, which squeezed profit margins and alienated local capital. The alliance, therefore, was untenable. Economic instability and political violence prompted the military to seize control yet again in 1976. Given the sense of degeneration, the junta led by general Jorge Videla put great emphasis on structural change which translated on the first concerted attack on the Gerschenkronian model of centrally planned industrial development. Though Krieger Vasena was ostensibly a liberal who sought to reduce the burden of the state sector, in particular inefficient state enterprises, his military superiors in the Onganía government had restricted the degree of austerity he was able to impose.

Videla appointed José Alfredo Martínez de Hoz, a steel magnate closely linked with the UIA as the new economics minister. As described in chapter 4, Martínez de Hoz attacked the closed economy model that had existed since the 1930s. The priorities were liberalisation of the economy and a reduction of the role of the state based on the minister's full confidence in the capability of market forces to allocate resources more efficiently than the state, which had hitherto adopted the role.²⁰⁶ In the eyes of the military, the political violence that beset the country was a result of ideological, political and economic distortions originating in the first Perón presidency. The military was now prepared to break with its own traditions of holding the state (of which it was a component part) as guardian of national destiny and sponsor of industrial growth, in part because of the extremity of Argentina's social and economic breakdown. Groups advocating exclusion of Peronism from the political process and champions of liberal economic ideas therefore found a sympathetic audience in the armed forces. Yet like Krieger Vasena before him, Martínez de Hoz's ability to impose monetary austerity was restricted by his military superiors in government who considered themselves to be fighting a civil war. A primary concern, therefore, was the potential radicalisation of labour so the economics minister was instructed to minimise any rise in unemployment. Furthermore, while Martínez de Hoz wished to cut government expenditure, the military budget was not to be touched.

Ultimately, these restrictions in addition to overtures made to labour prevented effective action against macroeconomic instability. Economic crisis and military

²⁰⁶ Kosacoff, B. 'The Development of Argentine Industry' in: Kosacoff (ed.) *Corporate Strategies under Structural Adjustment in Argentina*, Oxford 2000; Canitrot, A. 'La disciplina como objeto de la política económica.' *Desarrollo Económico*, No. 76, Jan.-March 1980

humiliation in the Falklands War resulted in a return to democracy in 1983 with elections won by the Radical candidate Raúl Alfonsín.²⁰⁷ The new government inherited an economy in deep crisis following virtual default on foreign debt in 1982 and annual hyperinflation at more than 340 per cent. Though exports had grown under military rule, industry had declined which led to accusations that Martínez de Hoz had behaved according to class loyalty, favouring the traditional agro-exporting elites at the expense of industry.²⁰⁸ Alfonsín came to power with broad-based support having won votes from all the UCR's rival parties.²⁰⁹ He initially pursued populist policies aimed at increasing demand in order to boost the domestic industrial sector. When this failed to bring about a significant improvement the government tried a new 'heterodox' approach to tackle inflation. This improvised mixture of orthodox and structuralist policy involved tighter monetary policy, including a new currency fixed to the dollar, alongside wage and price freezes to tackle the 'indexation' of the economy.²¹⁰ Yet again, economic lobby groups undermined the effectiveness of economic policy with demands for concessions. Agricultural producers were antagonised by the price freeze as well as taxes on exports while demands for wage increases by organised labour grew ever louder. The government's ultimate response was to ease the wage freeze and allow prices to rise but this loosening of controls resulted in runaway inflation once more.

Elections in 1989 were won by the Peronist candidate Carlos Menem who initially conformed to the party's populist tradition and pledged another heterodox attack on hyperinflation. But the failure of Menem's initial policies led him to abandon his populist credentials and appoint a new economics minister, Domingo Cavallo in June 1991 who launched the 'Convertibility Plan' which used a currency board to calibrate the monetary base to the level of foreign currency assets. Menem simultaneously curtailed public spending and revamped the tax system to increase government revenues. The result was buoyant economic recovery and a return to

²⁰⁷ See Pion-Berlin, D. 'The Fall of Military Rule in Argentina, *Journal of Inter-American Studies and World Affairs*, Vol.27 (2).

²⁰⁸ Kosacoff and Azpiazu, D. *La Industria Argentina: Desarrollo y Cambios Estructurales*, Buenos Aires, 1989; Schvarzer, J. *La Industria que Supimos Conseguir*, Buenos Aires, 1996

²⁰⁹ Erro, D. 'Resolving the Argentine Paradox: Politics and Development 1966-1992,' Boulder, 1993. p.133.

²¹⁰ Manzetti, L and Dell'Aquila, 'Economic Stabilisation in Argentina: The Austral Plan' *Journal of Latin American Studies*, Vol.20 (1); Smith, W. 'Heterodox Shocks and the Political Economy of Democratic Transition in Argentina and Brazil, in: Canak, W (ed.) *Lost Promises, Debt, Austerity and Development in Latin America*, Boulder 1989.

single digit inflation. Meanwhile the successful democratic transition of power from the defeated Radical Party president Alfonsín to the Peronist candidate was the first such constitutionally sound process to take place since the 1920s.

But the victory against inflation came at a cost and is aptly described by Pastor and Wise as 'hyperinflation replaced with hyper-unemployment.'²¹¹ Policy insensitivity in sacking hundreds of thousands of government workers to reduce the state's wage bill contributed to the social discontent that accompanied the eventual collapse of the model. Furthermore, wholesale privatisation of formerly sacrosanct 'national' assets such as the oil industry, the utility companies and transport networks and their acquisition by foreign, often Spanish, multinationals was particularly galling to traditional nationalists from Menem's own party.

Nevertheless, the reforms are regarded by some as a paradigm shift in Argentine political economy, representing a belated and permanent abandonment of the inward looking model adopted at least since the 1930s. This assumption rests on the idea that Martínez de Hoz's policies, for all their liberal credentials, failed to make a significant dent on overall policy because of a failure to address interest group power to resist.²¹² On the other hand, the neo-liberal policies of the 1990s may represent little more than an upturn in the fortunes of the traditional elites to the detriment of popular classes, in particular organised labour.²¹³ By extension they were a resumption of the liberalising effort initiated by Martínez de Hoz and deepened a process of concentration of wealth and ownership that began in 1976.²¹⁴

Given the extent of the sell-off of the state sector, and the virtual impossibility of a Perón style expropriation and re-nationalisation, it appears that in terms of an end to state-led economic policy, the 1990s do represent a new paradigm. Following such a retreat of the state from the economy, both in its capacity as entrepreneur, investor and employer, there is arguably less scope for economic interests to capture or colonise agencies and further their own interests. Nevertheless, though labour as a coherent force was severely weakened by the end of full employment in the 1990s,

²¹¹ Pastor, M and Wise, C. 'Stabilisation and its Discontents: Argentina's Economic Restructuring in the 1990s,' *World Development*, Vol.27, No.3, March 1999, p.478

²¹² See for example, Acuña, C. 'Politics and Economics in the Argentina of the Nineties (Or Why the future is no longer what it used to be) in: Smith, W. Acuña and Gamarra, E. (eds.) *Democracy, Markets and Structural Reform in Latin America*. Miami, 1996.

²¹³ Azpiazu, D. Gutman, G and Vispo, A *La desregulación de los mercados: Paradigmas e inequidades de las políticas del neoliberalismo*, Buenos Aires 1999

²¹⁴ Basualdo, E. *Concentración y centralización del capital en la Argentina durante la década de los noventa*. Buenos Aires 2000

this does not represent a permanent shift. Other interests were empowered and in particular, the era saw a rise in the influence of foreign capital as a group to be appeased by the government. Though the division of power and ability to capture national rents among Argentine economic interests has changed, the dynamic of negotiation between government and non-state interests has not.

Spain

Autarkic policy in Spain had exhausted itself by the end of the 1940s. The industrial growth that had occurred since the end of the Civil War was limited by its isolation. Tariff barriers, an impoverished domestic market with little purchasing power and ideological aversion to importing the capital goods necessary for modernisation of what were essentially smokestack industries, all served as an economic tourniquet. Fiscal policy had been subordinated to the government's programme of industrial expansion and an 'accommodating' monetary policy whereby budget deficits were financed unconditionally by the Bank of Spain. The result was a rapidly expanding money supply so that the 1950s were characterised by rising inflation. Meanwhile, fixed multiple exchange rates that had formed the fabric of Francoist protectionism could not prevent a build-up of current account imbalances and by 1959, the regime was faced with a severe financial crisis and rapidly declining foreign exchange reserves. High inflation meant an increase in wage demands despite the ban on collective action and the period saw much heavy handed repression of civil disobedience.

So for the post-war recovery to continue, concessions needed to be made to the outside world. In the words of Carr "A moment had arrived in which the desire for industrialisation (had to be) reconciled with the conditions industrialisation demanded".²¹⁵ Put simply, it had become clear that foreign finance and capital goods were needed to continue Spain's march to modernity. From the point of view of the ideologues within the regime, economic liberalisation was risky. While the increased affluence it promised might mitigate social discontent and prolong the life of the regime, a consequence of more broad based development might be empowerment of an industrial proletariat. Such a shift would hasten the demise of agrarian dominance. Landowning elites, who unlike in Argentina had a vested interest in protectionism,

²¹⁵ Carr, R. *Modern Spain* p.156

would be eclipsed in wealth and power by the other faction in Franco's regime, the financial and industrial oligarchs whose interests were perhaps more internationally oriented. This is the point at which the power of the Falangists waned in the regime, usurped by more pragmatic and economically orthodox technocrats, some of whom were members of Opus Dei, a secretive Catholic lay group which adhered to an ideology of economic liberalism and strict moral standards.

The most conspicuous milestones in the economic opening of Franco's Spain were its accession to the IMF in 1958 and the World Bank in 1959 although a mild opening had begun at the start of the decade with a series of bilateral agreements with the United States. The US was by this stage concentrating on the Cold War as a foreign policy priority and had started to nurture Spain as an ally and NATO member, providing aid in return for US bases on Spanish soil. Here lies more substance for the argument that Spanish reform was exogenously driven. Indeed, the economic crisis of the late 1950s was ultimately tackled with a stabilisation plan agreed with the IMF in 1959, which it had only joined one year earlier (see chapter 3).

The 1959 Stabilisation Plan was designed to curb excess demand and inflation through devaluation of the hitherto overvalued peseta alongside a raft of inducements to capital inflows which it was hoped would solve the balance of payments deficit. Limits were placed on the swollen public sector's expenditures, curbing a fiscal deficit, while constraints were imposed on money and credit expansion. With fiscal and monetary discipline came an opening of the economy, trade barriers were lifted and foreign investment courted. It was a thoroughly orthodox programme, highly successful in reducing annual inflation from 10 per cent in 1958 to 3 per cent in 1960. Foreign exchange reserves rose sharply enough to render the offer of IMF loans unnecessary and while the initial impact was recessionary (GNP growth was -0.5 per cent in 1960), growth rates reached 7 per cent in 1962.²¹⁶ Economic opening was not absolute, however, and the outward looking policies were implemented under close government supervision. Prados and Sanz describe the 1960s as an era in which liberalisation was restricted by the pressure of interest groups resulting in a mixture of market and dirigiste economics.²¹⁷ The Opus Dei period of government saw the implementation of various development 'plans', essentially a continuation of previous

²¹⁶ Spittaller, E. and Galy, 'Spain: Landmarks in Economic Development 1939-92' IMF Working Paper 78, 1992pp.4-9

²¹⁷ Prados de la Escosura, L. and Sanz, J. 'Growth and Macroeconomic Performance in Spain. 1939-93', in Crafts, N. and Toniolo, G. (eds.) *Economic Growth in Europe Since 1945*, Cambridge, 1996

designs for growth based on centrally conceived national economic policy prescription. The plans created a system whereby firms negotiated with the government, promising to reach a defined production target in return for a variety of financial and fiscal aid over terms of four to eight years.

Much literature identifies the Opus Dei period as a turning point in Spain's fortunes whereby Spain passed through an "invisible barrier which separates an underdeveloped nation from one capable of sustained economic growth."²¹⁸ Liberalisation increased access to capital goods from abroad, increasing productivity, while a devalued peseta boosted exports. With industrialisation came rapid urbanisation and the decade was characterised by an abandonment of the countryside as labour migrated to the cities. Furthermore, in excess of a million Spaniards emigrated to northern Europe and their remittances added to the foreign exchange being accumulated by the rapidly developing tourist industry and strengthened the balance of payments. Enrique Fuentes Quintana highlights the 1959 Stabilisation Plan as the turning point in Spain's development²¹⁹

But though the Stabilisation Plan and industrial policies of the Opus Dei technocrats are held up by many as paradigm shift in Spain's late 20th Century fortunes, the miracle was not without its limitations. While the regime congratulated itself, feeling vindicated by the progress made, the aforementioned development plans are now widely perceived to have retarded rather than catalysed growth. The cheap credit directed at firms by the state was unevenly distributed by both region and industrial sector, exacerbating asymmetries. Robert Harrison argues that they represented an 'arbitrary' scheme handsomely rewarding heavy industry favoured by the technocrats such as the steel and shipbuilding industries, while neglecting other crucial sectors such as food processing.²²⁰ The Hirschmanian aim to foster regional development was disrupted because schemes to establish new industries favoured areas that already had a modern infrastructure of roads, railways and schools and backwards peripheral regions were overlooked. Here there is a clear parallel with Hirschman's view that growth is unbalanced so the state should favour specific sectors.

²¹⁸ Anderson, C. *The Political Economy of Modern Spain: Policy Making in an Authoritarian System*, London, 1970. p.233

²¹⁹ Fuentes-Quintana, E. 'Tres Decenios de la Economía Española en Perspectiva', in García-Delgado, J.L. *España Economía*, (Madrid 1988) p.2

²²⁰ Harrison, R. *The Spanish Economy in the Twentieth Century*, London 1985 p.152

Commentators less than enthusiastic about the Franco regime's record regarding the Stabilisation Plan and the following economic miracle are not in short supply. Paul Preston, whose extensive work on Spain is pervaded with a distaste for the regime, argues that the development of the 1960s was almost accidental, as the over cautious intervention of Spanish planners could easily have stifled progress. The development that did occur was mostly a consequence of the effect of repressive labour legislation in the 1940s ensuring a cheap workforce cowed into submission, a criticism also aimed at Latin American industrialisation presided over by 'bureaucratic authoritarian regimes'. The other important factors in the miracle were receipts from emigrants, tourist spending and foreign direct investment attracted by an anti communist, anti union regime.²²¹ These latter exogenous factors would suggest that in spite of the propaganda, Spain's success in the years following the Stabilisation Plan of 1959 was not attributable to enlightened policy.

On the other hand, a focus on the tourist industry was a component part of the Opus Dei faction's developmental aspirations and was consciously nurtured by the state with the aid of foreign investment as a means to attract hard currency. Furthermore, state-led investment in the tourist industry focused on Spain's periphery - the underdeveloped Mediterranean coast, Andalusia and the Balearic and Canary islands, far from the industries of Barcelona, Bilbao and Madrid. Given that Spain's main selling point to the north Europeans of the time was a benign climate, it could even be taken as a state-led, developmentalist exploitation of a natural resource. The charge that the effects of misguided policy were mitigated by emigrant remittances and therefore inadvertent is also vulnerable to scrutiny, given that the regime actively encouraged emigration as an escape valve for an excess supply of labour, thus reducing pressure on the labour market and the risk of civil unrest. It may, however, be attributing too much foresight to the technocratic planners of Franco's government to suggest that it was a conscious attempt to ensure a stream of foreign currency into the economy.

Industrialisation itself did provide a powerful engine for the Spanish economy in its own right throughout the 1960s. Following the liberalisation of 1959, Spanish industry started to benefit from high levels of technology transfer and imports of raw materials, semi-manufactured and capital goods comprised over three quarters of total

²²¹ Preston, P, *The Triumph of Democrac in Spain*, London, 2001, pp.6-7

purchases from abroad by 1970. Moreover, between 1961 and 1970, exports of industrial equipment made in Spain increased threefold to US\$229 million compared with US\$17 million at the start of the decade.²²² Meanwhile, the government introduced a variety of incentives to Spanish entrepreneurs to encourage exports, including tax credits, rebates of export duties and the insurance of export risk. This latter feature fits well with Hirschman's idea, that the state can shoulder the risk associated with entrepreneurship in a backwards economy in order to stimulate a growth spurt.

The new economy created a new Spain, the most conspicuous feature of which was a massive transfer of financial and human resources away from their traditional base in agriculture. With this restructuring came new prosperity that introduced new pressures on the regime, apparently unforeseen given that the Opus Dei vision had perceived rapid growth as a means to dissipate social tension. To borrow the language of Merigó's analysis, the growth of the 1960s was 'self destructive' as far as the regime was concerned because it made the population less inclined to accept the authoritarian regime.²²³ In short, the aspirations of the masses were higher. This view is backed up by Preston who believes economic liberalisation, prosperity and its consequences led to stresses and contradictions within the regime and rendered its ideologies and authoritarian leanings obsolete. "Economic growth in the 1960s was something of a political time bomb," he writes.²²⁴ The technocrats had assumed economic liberalisation would create sufficient affluence to deflect opposition but in implementing such successful policies, the regime acquiesced in the creation of a mass industrial proletariat and a swollen middle class whose loyalty was dependent on continued prosperity. It is evidently difficult to maintain an 'antiquated' political structure in the context of rising prosperity and modernisation. Carr believes that a 'new' middle class emerged, distinct in its values and priorities to the 'old' middle class of the previous generation, with its eye across the Pyrenees and less inclined to tolerate an absence of political pluralism and a paternal state. The conflict, therefore, was between generations. "Parents lose authority in industrial societies," Carr writes.²²⁵ In spite of the aspirations of the new society, and the shifting dynamic of economic power from landed elite to industrial bourgeoisie associated with

²²² Harrison, R. *The Spanish Economy*, p.160

²²³ Merigó, E. 'Spain', in Boltho, A. (ed.) *The European Economy: Growth and Crisis*, Oxford, 1982

²²⁴ Preston, P, *The Triumph of Democracy*, p.11

²²⁵ Carr, R. *Modern Spain, 1875-1980*, Oxford, 1980, p.162

industrialisation, there was no crisis of state credibility and the regime retained control until Franco's death. Indeed, though new groups were created and empowered, the arena for negotiation within the state between conflicting interests remained solid and there was never a serious challenge to state authority.

The boom years closed with the first oil shock of 1973 to which Spain was especially vulnerable because development policy had focussed on heavy industry, raising the energy intensity of output. This meant a deterioration in Spain's terms of trade resulting from rising energy import prices. Essentially, the oil shock exposed shortcomings in the country's development path that had hitherto been masked by the rapid growth of the economy. In spite of the 'orthodox' nature of the 1959 Stabilisation Plan and protracted liberalisation, the economy remained intertwined with the state. The enterprise sector, comprising small and medium sized firms with weak financial and technological structures, was still protected from foreign competition by price controls and import barriers. Meanwhile, the rigidity of the labour market and wage indexation meant that lay-offs and wage adjustment were near impossible.

In short, the economy was not manoeuvrable in the face of a shock and political rigidities meant the government was slow to act. Franco's death in 1975 and the subsequent transition to democracy following elections in 1977 might have permitted a change in direction and more concerted action. However, there was a very real threat that conservative elements in the armed forces would step in and put an abrupt end to democratisation so reform had to be implemented with utmost caution making concessions to all interest groups to prevent any civil disorder that would vindicate Francoist predictions of chaos without the heavy disciplining hand of authoritarianism.

Hence there was a recognition by both Leftist and Rightist members of the new political establishment that demands needed to be tempered in order that a return to economic stability might be achieved that would vindicate the viability of Spain's new pluralism. The response was the so-called Moncloa Pacts, a mix of wage restraint and fiscal reform which incorporated heavier wealth and income taxes, while inflation was tackled with tighter monetary policy. Meanwhile the peseta was devalued by 20 per cent in order to boost exports. It was the wage policy that illustrated the concessionary mood of the negotiators. In implementing a 22 per cent wage ceiling, slightly lower than the rate of inflation, the government promised in

return a reduction of inflation to 15 per cent by the end of 1978, which it was to achieve with tighter monetary policy. Ostensibly this settlement embodies the negotiated nature of Spain's political and economic transition and is often cited as an emphasis on agreement, consent and compromise that permitted the substitution of one regime for another.²²⁶

However, it does not represent a negotiation between the government and interest groups or associations over economic policy. The administration of prime minister Suarez had refused to consult the newly legalised trade unions on wage policy but the unions in the event agreed to recommend wage restraint to their members as a means of containing unemployment (see chapter 4).

The accords are not without their detractors. To critics, the Moncloa Pacts made the most concessions to the old elites. At heart, the reform was a "social pact based on austerity in the interest of capitalist recovery".²²⁷ The agreements thus favoured the capitalist class and the 'bourgeois government'. While the result was an elimination of the balance of payments deficit, the reduction of inflation to 16 per cent and long overdue fiscal reform, the agreements brought few benefits to the working classes who had been denied meaningful representation at the negotiating table and were subject to the wage restraints.

Nevertheless, the reforms enshrined an institutional and legal continuity from one regime to the next and there was no radical departure from the economic policies pursued by the old regime. Bodies such as the INI, albeit under a different name, remain instruments of government industrial policy to this day. The continuity of legal institutions and a high degree of formal respect for the legality of Franco's system acted as a framework for reform, ensuring that it was carried out through pact and negotiation albeit within the inner sanctum of the political elite.

The Socialist government of Felipe González, elected to power in 1982, retained a fastidious regard for institutional and legal continuity in the name of stability and order.²²⁸ Though credited with a neo-liberal structural adjustment of the

²²⁶ Maravall, J.M. and Santamaria, J. 'Political Change in Spain and the Prospects for Democracy' in O'Donnell, G, Schmitter and Whitehead, L. *Transitions From Authoritarian Rule: Southern Europe*, London, 1986 p.73

²²⁷ Aguilar, S. Barteló, A. Muniesa, B. Regio, A. Vidal-Villa, J.M. 'Notes on the Economy and Popular Movements in the Transition', in Abel, C and Torrents, N. *Spain: Conditional Democracy*, (London 1984) p.128

²²⁸ Petras, J. 'Spanish Socialism: The Politics of Neo-Liberalism' in : Kurth, W. and Petras (eds.) *Mediterranean Paradoxes*, Oxford 1993 pp.97-98

Spanish economy, the depth of the reforms is questionable. On gaining power, the new government inherited a political crisis, engendered by the collapse of the centrist UCD party which had held power since Franco's death. Furthermore, the previous year a disgruntled conservative Civil Guard officer had staged an abortive coup attempt. The sense of political instability had in turn created an economic crisis as foreign capital had taken fright resulting in a current account deficit and low foreign currency reserves. González appointed a new Finance Minister, Miguel Boyer, a former central bank economist known for his economically orthodox views. Thus the response to macroeconomic instability was ostensibly monetarist. Restrictive monetary and fiscal policies were implemented to regain budgetary equilibrium while a devalued currency boosted exports and replenished currency reserves. Labour market liberalisation was offset by sweeteners offered to union leaders to continue with existing incomes policy though it became possible to employ people on part time or temporary contracts.²²⁹ At the same time, however, González was moving to distance his party from the unions (see chapter 5)

Structural adjustment was a centrepiece of the new government's attempt to qualify for membership of the European Economic Community. A much touted programme to privatise Spain's state enterprises was presented as an important step towards de-monopolisation and market liberalisation. Nevertheless, liberalisation was limited and closely managed.²³⁰ Most privatisations of state enterprises were often partial, the monopolies remained in place and the chief executives of the reshaped stock market listed firms are political appointees to this day. Spaniards still look to the state to play an overarching role in economic and social life. The economy at the turn of the millennium remained shaped by a dirigisme that had not entirely vanished and in spite of an impressive economic record in terms of GDP growth as much as rising living standards, Spain is still a crony capitalist economy. In short Spain presents us with a model of a mixed system of economic orthodoxy that coexists within the confines of a centralist and protectionist tradition.²³¹ Spain is not a post corporatist system, neither is it neo-corporatist. The 'social concertations' that characterised

²²⁹ De La Dehesa, G. 'Spain' in Williamson, J. (ed.) *The Political Economy of Economic Policy Reform*, (Washington 1994)

²³⁰ Etchemendy, S, 'Revamping the Weak, Protecting the Strong and Managing Privatisation': Governing Globalisation in the Spanish Takeoff', *Comparative Political Studies* Vol.37(6) August 2004

²³¹ See: Fuentes-Quintana, E. *El Modelo de Economía Abierta y el Modelo Castizo en el Desarrollo Económico de la España de los Años 90*, Zaragoza, 1995

responses to macroeconomic instability in the 1970s represented the continuity of the old structures albeit through involvement of previously outlawed political parties. The shocks that did occur were in the early period tempered by the strength of old expansionist ideologies that perceived high inflation as an unfortunate side effect of an overwhelmingly positive process, namely economic growth. Following the demise of the dictatorship, adjustment packages were only applied after painstaking negotiation between political groups which claimed to represent economic interests, the fear being that political unrest resulting from IMF style austerity would stir the military into rescinding the new democracy. Thus a deeply ingrained corporatism has not vanished from the Spanish political economy. The threat of violence kept change at a minimum until the 1980s but this alone does not account for its survival.

On the other hand Argentine political economy is best understood as a power struggle perceived by the protagonists – perpetually conflicting social groups – as a zero sum game where gain by one is necessarily at the expense of the other. To borrow the terminology of R. Mallon and Juan Sourouille (himself a one-time economics minister) Argentina is a ‘conflict society’ and an inability by policymakers to recognise that when formulating policy is at the foundation of its industrial ‘semi-stagnation’.²³²

²³² Mallon, R. and Sourouille, J. *Economic Policymaking in a Conflict Society: The Argentine Case*, London 1975, p.4

Chapter 3:
The Crisis of Autarkic Exhaustion 1957-1960.

This chapter applies the analytical approach elaborated in the early sections of the thesis to a comparison of almost simultaneous economic reform programmes in Argentina and Spain in the late 1950s. Both sets of reforms incorporated IMF backed macroeconomic stabilisations centred on fiscal restraint and monetary tightening intended to address imbalances associated with the exhaustion of autarkic experiments in forced industrialisation in the 1940s and 1950s. Both packages were components of broader reforms of each country's development model associated with liberalisation of the economy and encouraging foreign investment. In each case implementation was imperfect, where orthodox reforms were tempered to appease factional pressures after intensive lobbying by interests. In spite of these parallels, the longer term legacy of the programmes differed considerably. The Spanish reforms are commonly identified as the catalyst for an economic miracle lasting until the mid 1970s that added credibility to the government and prolonged the Franco dictatorship. In Argentina, however, the reforms failed to overcome resistance within the state and civil society and their architect, president Arturo Frondizi, was removed from office by the military in a context of widespread disenchantment with his economic record.

This section builds on the argument outlined in earlier chapters that the structure of the Spanish dictatorship, where different departments of government, while influenced by competing factions and interest groups, were subordinated to the binding and all powerful dictator. Each faction represented directly or indirectly the interests of principal economic groups and policymaking was characterised by a negotiation between these groups *within* the state and arbitrated by the dictator. In Argentina, on the other hand, civil society was similarly divided but organised into strong associational groups which were highly organised and wielded considerable bargaining power. This forced the executive to make bilateral pacts with as many conflicting groups as possible to achieve his objectives until the web of consensus collapsed and the government was deposed. The comparison examined in this chapter therefore, illustrates how the former scenario permits greater political stability and institutional continuity which in themselves are public goods beneficial to economic growth. The latter is less ordered so an outwardly similar economic situation conceals profound disorder and less rigid hierarchies in place.

The chapter, because it examines policies centred on simultaneous IMF backed stabilisations also has implications for the debate surrounding conditionality and ownership of loans and rescue packages bestowed by multilateral institutions. A consensus has emerged in the literature surrounding the debate that 'ownership,' whereby the recipient government controls the policy surrounding the plan, is a prerequisite for success.¹ The implications of this study are that 'ownership' was in evidence in each case as neither, as is argued in this section, fully subscribed to

¹ IMF Policy Development and Review Department, *Strengthening Country Ownership of Fund-Supported Programmes*, Washington DC, Dec 5 2001, p.6

the type of conditions required by the IMF in the long term. Unorthodox elements in government and civil society blocked full reform as the IMF would have designed it. Recent work from the World Bank that examines the Spanish episode addressed in this chapter suggests the Fund identified the reformers and decided to back them up, aware that they were a faction within an unorthodox government.² The argument here suggests the Fund may have approached the Argentine reformers in the same way but erroneously identified the president as someone capable of implementing meaningful reform. President Frondizi courted the IMF, with the help of his genuinely orthodox economy minister Alvaro Alsogaray, but was in truth seeking little more than high profile endorsement of his economic and financial capabilities in order to increase his bargaining power when negotiating a bilateral alliance with foreign capital.

Why was this moment in history chosen as an appropriate case study in particular? From an institutional and ideological point of view, Spain and Argentina shared much in common and faced similar challenges during the period under scrutiny here. The economic models of the early Franco dictatorship before 1957 and the Perón presidency were both inspired by nationalism and a quest for national autonomy from foreign capital. They also prioritised a push for modernisation through import substitution, state patronage of a nascent industrial sector and increased purchasing power for an urban wage earning proletariat. This section assesses each country's experience of adjusting the development model following exhaustion of their respective autarkic experiment. The reforms imposed in the late 1950s to address fiscal imbalances and monetary instability centred on similar ideas of continued, centrally planned industrial development complemented by hitherto shunned foreign capital. This in itself presented a challenge to government because it would provoke opposition from both nationalist elements in the military and certain sectors of business concerned about increased foreign competition. Furthermore, each case involved an orthodox stabilisation, in part to convince foreign capital of sound economic credentials but also to improve the balance of payments. Because this translates into falls in output, and declines in real wages for workers, resistance from popular sectors would challenge political stability.

Each case represents a counterfactual to the other, regarding different levels of state capability addressing comparable problems with closely related antecedents but with divergent long-term consequences. The two sections in this chapter comprise narrative accounts of each country's experience during the late 1950s comparing the theoretically conceived plans of technocratic planners with the realities of the reforms. The principal aim is to illustrate how policy reform was a result of bargaining between actors whereby negotiation in Argentina took place between the government and economic interest groups whereas in Spain these interests were

² Calvo González, O. 'Ownership and Conditionality in IMF Sponsored Programs' 2006, Unpublished World Bank Paper.

represented by factions *within* the state. The chapter is divided into two parts corresponding with the case studies, which in turn begin with an overview of the reformers' intentions followed by accounts of the successes and failures of the respective economic policies. A concluding section summarises the issues raised in the comparison.

Argentina:

Arturo Frondizi, the democratically elected president who served from 1958 to 1962, attempted a fundamental transformation of the Argentine economy with a state-led drive towards industrial self sufficiency that harnessed foreign capital as a subordinate partner. But his plan for industrial 'deepening' was likely from the start to be at odds with the wishes of much of society. From the point of view of the landowning class, it represented a continuation of the redistribution of income away from rural interests, the owners of cattle and land, to urban sectors prioritised as a constituency of support by Perón. To nationalist elements in the military and among the popular classes who had embraced the rhetoric of their deposed icon Perón during the late 1940s, the involvement of foreign capital was a threat to economic sovereignty. Furthermore, to attract the necessary foreign investment would require some fiscal and monetary discipline in order to lend the regime economic credibility which would impact the living standards of the salaried classes.

Nevertheless, Frondizi aspired to construct a new national capitalism to supersede the zero sum game of Argentine discourse. To achieve this he attempted to build alliances between classes and interest groups as an alternative to the situation where these groups strove against one another to capture policy and shape it towards their interests. However, given the conflicting interests of powerful social groups with whom the regime wished to form pacts, the president adopted a chameleonic approach of short-term and inconsistent pledges to buy temporary support rather than persuading groups that his plan had their long-term interests at heart. A characteristic of Frondizi's tenure, therefore, is that his developmentalist model was not spelt out to Argentines beforehand so it was never endorsed by any particular sector of society and much less society as a whole. Thus alliances were built on vague assurances and false promises, many of which were rescinded later. In respect of some of the model's principal features, Frondizi remained coy until the moment of implementation and policy often contradicted previous statements of belief.

Commentators have described these apparent changes in direction variously as "astute" political manoeuvring³ and a genuine change of mind or "ideological transformation".⁴ These swings, particularly an apparent contradiction between nationalist rhetoric and later courting of

³ Mallon and Sourrouille, *Economic Policymaking in a Conflict Society: The Argentine Case*, London 1975 p.19

⁴ Sikkink, K. *Ideas and Institutions*, Ithaca, 1991, p.74

foreign capital are often cited as pivotal to Frondizi's eventual discrediting and downfall.⁵ To Celia Szusterman, the period represents a failure of institution building on account of inability to dismantle inherited 'prejudice and demagoguery.' The clandestine implementation of policy, whereby profound shifts in priority were implemented without warning, meant the regime could be accused of 'ruthlessness' in its approach, and disappointment quickly turned to bitterness and anger.⁶ This represents a portrayal of the era as missed opportunity, whereby the government failed to diffuse Peronism as a political force and keep the military in their barracks. Another school in the literature dismisses the regime as doomed from the outset. The military government may have stepped down but the threat that they might dismantle the new democracy remained. Thus Frondizi was constrained not just by the social conflicts of Argentine society, but was also under the shadow of the military watching for excessive concessions to Peronism or even Communism.⁷ A related interpretation focuses on the poor economics of developmentalism with its 'elephantitis of the state', inefficient, protected industry and inflationary public spending.⁸ Developmentalism was thus a long-term approach to policy that was brought down by its own shortcomings.⁹ Inevitably, critics, both contemporary to the events and since, accused the regime of paving the way for foreign domination of the economy via the entry of transnational corporations, a powerful insult in Argentine political debate¹⁰ The view expressed here is that appeasement of different groups and semi clandestine changes in policy direction reflected an attempt to implement a new economic model by brokering a pact between the State and two forces at play in the Argentine political economy: industry and labour. A third and more controversial pact was also formed with foreign capital but the measures required to seal this jeopardised the other two alliances. This section continues with a brief outline of the structure of Frondizi's attempt at a social alliance followed by a narrative account of the main incidents of policy reform during the period.

The 'National Movement.

Frondizi was intent on steering a path rejected by all existing political groups and formed his own splinter of the Radical Party so that he should remain unconstrained by the dogma of the traditional branch while campaigning for election in 1958.¹¹ On assuming power he discarded even this bespoke party to free his hand in negotiating pacts with interest groups and avoid political

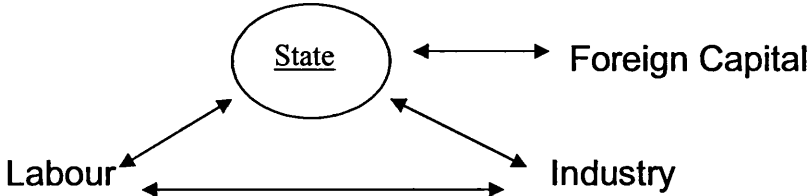
⁵ Schvarzer, *La industria que supimos conseguir*, 1996 pp. 224-5
⁶ Szusterman, C. *Frondizi and the Politics of Developmentalism in Argentina 1955-62*, London 1993
⁷ See Gerchunoff and Llach, *El Ciclo de la Ilusión y el Desencanto*, Buenos Aires, 1998 p.245
⁸ Lewis, P *The Crisis of Argentine Capitalism*, Chapel Hill, 1990 p.258
⁹ See: Petrecolla, A *Unbalanced Development 1958 – 62* in Di Tella and Dornbusch (eds.) *The Political Economy of Argentina 1946-83*, Oxford 1989 p.108
¹⁰ See Katz and Kosacoff, *El Proceso de Industrialización en la Argentina: Evolución, Retroceso y Prospectiva*, Buenos Aires, 1989;
¹¹ Sikkink, 1991 p.85,

challenges to his authority. The entire party system was sidelined and any measures Frondizi thought might encounter parliamentary opposition were put into effect by decree. No part of his economic reforms, however controversial were sent through Congress and the cabinet convened only twice during his first year in office.¹² The alliance building began while electioneering in 1958, which included a high risk and secret pact with the exiled Perón to secure the labour vote in return for legalisation of the Peronist movement and other concessions. Rhetorically, Frondizi put great emphasis on a 'national movement' calling on Argentines to tolerate short-term sacrifice in order to guarantee longer term national greatness and autonomy. What he envisioned was a three-way effort shared between the State, labour and industrialists, each assigned a particular role in the equation. The State was to act as the chief planner of development and enforcer of stability. Industrialists were to stimulate productivity by adhering to the dictates of the central plan and supervising the modernisation of plants. Labour represented the most basic contributor to increased productivity and were to be nurtured as a group through augmentation of skills levels. The three way alliance would lie at the heart of the national project to increase productivity and ensure the modernisation of the Argentine economy.¹³ Frondizi was more coy about a fourth partner, foreign capital, which was to be courted as a source of investment and expertise for the industrial expansion he had in mind. There were powerful factions within his proposed national alliance opposed to the concept. To attract foreign capital would require action not in the interests of labour, namely a degree of monetary discipline, which would translate into falling real wages, to persuade investors of Argentina's sound economic credentials and financial responsibility. Some sections of business, meanwhile, had a vested interest in the continuation of discriminatory policies regarding foreign entry to the Argentine market because of concerns about having to compete with superior foreign manufactures. In addition, a politicised and vehemently anti-Perón military which had just relinquished power and retained deep suspicions about any overtures to labour groups needed to be placated. There was a potential for military objections to the involvement of foreign capital in certain 'strategic' sectors of the economy such as the oil or steel industries.

¹² The Economist, April 25 1959, p.349. *Frondizi Seeks New Friends*.

¹³ Frondizi, *Algunos Aspectos del Pensamiento Económico Radical*, in: Frondizi et al 'UCR Intransigente, Definiciones Radicales, 2nd edition, Buenos Aires 1958, p.130

Figure 3.1: Frondizi’s attempted three-way alliance between the state and two factions of civil society and the fourth deal with foreign capital.



Initially, Frondizi appeared to master the intricacies of managing such a precarious web of treaties. Decisions in the early months of his presidency reflected payment of political debts incurred while canvassing support but also evidenced limitations on the government’s sense of obligation to particular interests. The purchase of a British aircraft carrier was widely understood to be repayment to the navy for its allegiance, for example.¹⁴ In reality, the alliances were bilateral, between central government and each agent but in appeasing one, Frondizi necessarily antagonised the other and failed to reconcile interests. Measures were taken and rhetoric adjusted to placate forces in order to buy more time for the new model to be embedded and produce tangible results. This vindication, it was hoped, would reinforce the alliance and in turn consolidate the new model. Ultimately, however, the alliance failed and Frondizi fell foul of the social sensitivities of all three forces as well as the groups excluded from the alliance; the landowning class and the military. Frondizi came to power on a democratic mandate and inherited a society that was irredeemably divided so any attempt at social concertation was likely to be stillborn.¹⁵ One year after Frondizi took office The Economist appraised his success in building consensus in managing conflicting demands by concluding that: “every man is out for himself and most are against the president”.¹⁶ What this meant was failure to implement a well coordinated attack on all factors at work in economic instability. This indicates a lack of discipline identified as key to success of an industrialisation policy by Amsden¹⁷ In the model, summarised in the introduction to this thesis, it falls on the ‘disciplinarian’ state to impose the conditionality of high performance standards on subsidy allocation. If much is expected of subsidised industry by the state, then society ultimately

¹⁴ The Economist, September 20 1958, p.950, *President Frondizi’s Tightrope*
¹⁵ Personal interview with Aldo Ferrer, Minister of Economy and Finance for Buenos Aires Province 1958-1960, 19th April 2005, “*The country was irredeemably divided in the 1950s... too divided to form pacts successfully.*”
¹⁶ The Economist, July 4, 1959 p.19, *President Under Pressure*
¹⁷ Amsden, A ‘A Theory of Government Intervention in Late Industrialisation’ in Putterman, L and Rueschemeyer, D (eds.) *State and Market in Development: Synergy or Rivalry*, Boulder, 1992

expects more of the state because the performance of bureaucrats involved in choosing which firms to subsidise can be judged. This discipline was absent in Argentina as shown by the lack of policy coordination, all the more crucial because of the fractious nature of Argentine society and its associated interest group pressures. It also meant a lack of coordination in implementation of the developmentalist ideal. Policy was fragmented with no single organization charged with administration of plans. Different sectors of the economy were promoted by specific Secretariats with little coordination between them. For example, trade policy was split between a Secretariat of Foreign Trade and an Advisory Committee on Imports. The remit of each overlapped with an assigned role of the Central Bank which considered the effect of trade on the balance of payments. Financial matters meanwhile were the shared domain of the Central Bank and the *Banco Industrial*, both concerned with distribution of industrial credit while the Ministry of Finance was charged with overseeing the budget implications of tax privileges for industrial promotion and of levels of tariffs and surcharges on imports, in turn conflicting with the Advisory Committee on Imports. A permanent planning department was set up within the Office of the Presidency, with responsibility to define national economic objectives but exercised little real control over a disparate and fractious state sector.¹⁸ Policy implementation divided between a myriad of committees, secretariats and ministries reflects the weakness of state institutions and the realities of a system defined by direct negotiation between executive and interest groups.

Broadly speaking, the period can be divided into three distinct phases reflecting the shifting priorities of Frondizi's alliance building. The first of these is the period leading up to his election and was characterised by overtures to labour and clandestine courting of Perón himself in order to secure the workers' vote. Following Frondizi's election in early 1958, and the appointment of his ideological mentor Rogelio Frigerio as a special adviser and *de facto* economics minister, the regime stayed true to its developmentalist ideals and pursued rapid 'vertical' industrialisation. The government initially sought to repay the Peronists for their electoral support, with concessions such as a generous initial wage policy and an end to government interference in the leadership decisions of Peronist unions. But while fiscal policy was in this early phase expansionist, by now it was clear that the favoured faction was business. Spending was financed through lines of credit from both the Central Bank and the Industrial Credit Bank, which pleased the business community. Such fiscal indiscipline resulted in serious budgetary deficits and rising inflation, which required a stabilisation plan in early 1959 designed with the approval of the IMF which Argentina had joined three years previously. This plan marked the start of the third phase in which policy was nominally more

¹⁸ International Bank for Reconstruction and Development (World Bank), Development (World Bank) Internal Memorandum, *Current Economic Position and Prospects of Argentina, Annex IV: 'Industry'*, May 5 1965, p.15 and Altimir, O. Santamaria, H. and Sourouille, J. 'Los instrumentos de promoción industrial en la posguerra', *Desarrollo Económico*, 1966-7 No.s 21-24.

subordinated to economic discipline than political ideology. It also saw the exit of Frigerio and appointment of the more economically orthodox Alvaro Alsogaray as economics minister in June, an outspoken critic of the developmentalist ideal. The apparent switch within a single administration from industrial expansionism to economic liberalism, neither of which had the explicit approval from the public, resulted in alienation of both labour and some sections of business. Wage earning labour saw their purchasing power and living standards decline as a result of the IMF inspired austerity while business sectors were antagonised by the sudden scarcity of credit. Frondizi struggled to maintain his pacts and appease popular sectors by restricting as far as possible the recommended contractions, much to the exasperation of his 'liberal' economics minister Alsogaray. But discord was by now widespread and pervaded society. The president had failed on an important pledge from the secret alliance with Perón to legalise the *Justicialista* party and the pact had broken down. Increasing labour unrest over pay in an inflationary environment left the administration increasingly beleaguered. When Frondizi finally allowed the Peronists to run in elections in 1962, this antagonised forces already balking at the apparently relentless penetration of foreign capital into the national 'heritage'. Finally, Frondizi was removed from office by the military who had arguably never permitted him full political autonomy after relinquishing power in 1958.¹⁹

How to interpret the apparent division of the government into distinct and contradictory phases? The shift from expansionism to fiscal discipline is frequently interpreted as a characteristic cycle that reflects Argentina's social polarisation between groups and alliances which hold conflicting economic priorities. Thus a period of expansion and rising consumption, that satisfies popular sectors, provokes a balance of payments squeeze. The response is devaluation of the currency and consequent rises in the price of food, favouring agro-exporting elites, but penalising wage earning consumers. In other words different phases of the cycle reflect and interact with shifting fortunes in each group's struggle for power.²⁰ Other interpretations suggest the Stabilisation Plan and associated IMF standby loan allowed deceleration of the inflationary cycle thus permitting renewal of the previous expansive process. This time, however, the developmentalist experiment has greater international credibility and attracts a massive influx of foreign capital with a less regulated economy than in early 1950s.²¹ In other words, foreign investment was a foundation of the vision so the Stabilisation Plan was used as a convenient reassurance to foreign capital. This chapter adopts an approach broadly in line with this latter argument. The Stabilisation Plan was a means to harness credibility and foment the alliance with foreign capital. Likewise the appointment

¹⁹ See Potash, R. *The Army and Politics in Argentina 1945-1962*, Stanford, 1980, p.272

²⁰ See O'Donnell, G. 'State and Alliances in Argentina 1956-76', *Journal of Development Studies*, Vol.15:1 (1978).

²¹ See: Katz & Kosacoff, *El Proceso de Industrializacion en la Argentina: Evolucion, Retroceso y Prespectiva*, Buenos Aires 1989; And: Sikkink, 1991.

of Alsogaray, a pro business economics minister was calculated to appease potential foreign investors but also bourgeois groups and the military within Argentina.²² The Plan, while deflationary and the root of many social tensions was ultimately not implemented in the manner in which the IMF would have liked however. Frondizi was simultaneously attempting to consolidate his relationship with labour, another component in his alliance to build a new capitalism. The main premise presented here is that from a purely ideological perspective, Frondizi could boast some success in that by the time of his overthrow, Argentina could claim the diversified industrial base he had set out to achieve. However, the pact Frondizi had pursued failed and he was deposed when the military concluded he had conceded too much to the Peronists. Frondizi had failed to work out a viable relationship with the armed forces that would overcome the mutual suspicion that was a legacy from Argentina's immediate past.²³ He had attempted to pursue an alternative to the authoritarianism of previous regimes in building a modern capitalism, through co-opting otherwise conflicting groups. His government lacked the institutional strength and credibility to carry this out and was built on inherently weak accords with widely disparate interest groups.

Particularly explosive in the Argentine political discourse at the time of Frondizi's electioneering was the question of the country's economic relationship with the rest of the world in terms of both capital and trade. Regarding the former, economic nationalism remained a potent force in Argentine discourse, with elements of both labour and the business class ideologically in favour of excluding foreign ownership from Argentina's economy. On the subject of foreign investment, Frondizi was clear during his electioneering of the need to distinguish between capital that complemented Argentina's resources and that which was extractive and exploitative. In an interview with *Qué*, magazine, Frondizi stated that while Argentina's abundance of natural resources meant it was capable of self sufficiency, this would mean slower economic expansion than if external capital was brought in to add impetus to the development process. But the relationship with that capital needed to be redefined. Traditional foreign investment comprised that which countries at the 'centre' were in the habit of bestowing on their colonies or other underdeveloped nations as a means to "incorporate them effectively as dominions". On the other hand, foreign capital was potentially a new source of wealth to create jobs and boost living standards. A boost, in other words, to a nationally integrated process.²⁴ This would suggest, that a full 18 months before his election, Frondizi was explicit about his desire to include foreign capital in his policies should he be elected.

Much of Frondizi's discourse at this time was defined by opposition to the military government that had deposed Perón in 1955. The regime had set out to dismantle the Peronist

²² The Economist, January 9 1960, p119 *Argentina's Year of Austerity*.

²³ Potash, 1980, p.272.

²⁴ *Qué Sucedió en Siete Dias*, no. 112, 8 January 1957, p.17, 'Dice Arturo Frondizi'

legacy and reshape the economy. The man invited to diagnose and treat the problem was none other than Raúl Prebisch, secretary general of CEPAL. The prescriptive Plan, published in January 1956, focused on “healthy money” or monetary stability in order to boost national savings and attract foreign investment.²⁵ The aim was also to enable Argentine industries to purchase capital goods and equipment from abroad in order to upgrade their operations. In particular, Prebisch recommended that Argentina established a large steel industry by way of import substitution as well as a metallurgical manufacturing sector and an automobile industry. Prebisch also identified petroleum imports as an important source of balance of payments disequilibria. This was unnecessary because Argentina was capable of using its own underexploited reserves to achieve energy self sufficiency. The recommended policy, therefore, was to promote exploration and export of oil by the state in partnership if necessary, with ‘contracted services,’ namely foreign oil companies.²⁶

There are palpable similarities with Frondizi’s vision for the role of foreign capital and indeed, his iconic expansion of Argentina’s oil industry was undertaken in partnership with several foreign firms as will be discussed below. Yet before he came to office, Frondizi devoted much energy to rhetorical attacks on Prebisch and the military government which he served. Frondizi vociferously criticised Prebisch’s economic plans and the military government’s record in an interview with *Qué* magazine in early 1957, stating that: “The government should stop introducing reforms that are going to be resisted by the people and which in many cases only reflect the interests of small groups with doubtful national affiliation.”²⁷

So while Frondizi’s own ideals were reasonably close to those of the CEPAL secretary general, identification with the opposition to the military government meant that for the time being at least, he wanted to be seen to oppose existing policies. The Prebisch Plan had also sought a compromise solution to steer a course between conflicting demands of various interest groups. So instead of imposing austerity on the populace in the quest for monetary stability, Prebisch had suggested that a devalued currency aimed at boosting agricultural exports and building up currency reserves, need not impact on living standards. While a devalued currency increased living costs for wage earning Argentines, Prebisch recommended that employers increase salaries. To mitigate the inflationary repercussions of what was potentially a new wage-price spiral, Prebisch suggested the wage increases should be taken out of company profits. Not such a terrible burden, the Plan argued, because higher productivity resulting from the new stability meant these profits would be regained in the long term.²⁸

²⁵ Prebisch, R. *Moneda Sana o Inflación Incontenible: Plan de Restablecimiento Económico*, Secretaría de Prensa de la Presidencia de la Nación, Buenos Aires, January 1956, p.35

²⁶ Prebisch, 1956. p.41

²⁷ *Qué*, 8 January 1957, ‘Dice Arturo Frondizi’.

²⁸ Prebisch, 1956, p.36.

This argument elicited opposition from all quarters. While Prebisch indicated the cost of living would rise by a mere 10 per cent, the CGT, with its background firmly rooted in the original Peronism, demanded a 40 to 50 per cent wage increase. At the other end of the social spectrum, business leaders were claiming that no company or industrial sector boasted profits high enough to absorb a wage increase of 10 per cent, nor were they capable of expanding productivity enough to do so.²⁹ For the Frondizi camp, a devalued currency favouring agricultural exports implied a contradiction of the industrial vision and thus made an easy target.³⁰ Given the opposition, the Plan was never implemented. The military authorities were keen to maintain order before a planned return to democratic rule and these political concerns made the economic restructuring Prebisch envisaged impossible.

By the time of Frondizi's election, he had made promises to various sectors of society. To business elites he gave assurances that while his plans involved a degree of statism, he would take great care not to "create unnecessary obstacles to private enterprise." On the other hand, his rhetoric centred on a national modernisation whereby economic arguments about the greater efficiency of the private sector should not be used to challenge the State's 'sovereignty' over certain sectors, specifically the energy sector.³¹ Meanwhile, Frondizi was also aware of the importance of the Peronist movement in spite of the fact that its political party was outlawed and Perón himself remained in exile. His astute pact with Perón, brokered by Frigelio between 1956 and 1958, gaining the former leader's tacit support, captured the Peronist vote.³² This was a dangerous tactic given that the return to democracy was permitted by the military on condition that Perón and his party be excluded from the political process and the alliance was necessarily highly secret.³³ To achieve such an agreement meanwhile, promises were made to Perón, namely a commitment to legalise the movement and to put an end to government intervention in the unions, a process referred to by Frondizi as 're-democratisation' of the trade union movement.

The Developmentalist Phase: May to December 1958.

How did the pledges compare with the action? Argentines did not have to wait long for a more explicit description of what the new government had in mind. In Frondizi's inaugural address to Congress on 1 May 1958, he set out his goals for the presidency. There was an ideological attack on continued reliance on agricultural exports. Trading cereals, meat and fruit, the prices of which were in long term decline, was a drain on the economy. Therefore a new orientation in Argentina's

²⁹ Review of the River Plate: 10 January 1956. *Wages and Industry's Profits*

³⁰ See Sikkink, K. 'Prebisch's Influence in Argentina', *Latin American Research Review*, Vol.23, No.2, 1988.

³¹ *Qué*, 8 January 1957, 'Dice Arturo Frondizi'

³² *The Economist* July 4 1959 p.19 *President Under Pressure*. See also: Ramon Prieto, *Correspondencia Perón - Frigerio*, Analisis Critica, Buenos Aires 1975. pp.11-12

³³ Potash 1980, p.274

trading relations would be put into place. In the short term, imports would be limited to bare essentials. Historically, Frondizi stated, Argentina had suffered more from excesses of imports rather than a lack of foreign goods.

“A great part of our basic resources and our industrial potential has not been exploited because of our excessive dependence on imported manufactures. By reducing that dependence, economic activity in the interior of the country will increase thanks to the emergence of new sources of production and employments that will provide very solid foundations for our national development,” he claimed. Monetary and fiscal policy was to be subordinated to the priority of industrial expansion: “encouraging those who create wealth, discouraging speculators and the idle who participate without contributing.”

The president also pledged to boost national savings and fortify capital markets so that they should become an important source of funding for the expansion of national business. But while the larger part of ‘national capitalisation’ should come from domestic savings, the inadequacy of this source for what Frondizi had in mind was undeniable. Thus, foreign capital was to be brought into the scheme to act as an ‘accelerator’. He was not explicit at this stage, however, about his plans to involve foreign firms in exploitation of oil reserves.

A further pivot to the new model was self sufficiency in energy, based on the exploitation of oil and coal reserves as well as investment in hydroelectric power. It was heavy industry, Frondizi envisioned, whereby Argentina produced its own fuel, power, steel and chemicals, and ideally capital goods. In short, this Hirschmanian developmentalism was an inward looking model where the external connection was reduced as far as possible to support domestic production and strengthen the balance sheet by putting an end to imports of steel and fuel. Policies of import substitution would also shield local manufacturing from international competition. Autarky, therefore, in all except the source of investment and an apparent continuation of discrimination against the primary export sector. On the other hand Frondizi did pledge to create a more stable environment for private enterprise by stating that while basic industries at the heart of his development strategy would be administered by the state, there would be none of the nationalisations which marked the first Perón administration. Thus he proclaimed that: “We believe that the serious economic problems that confront the country, will not be solved by transferring activities away from the private sector to the public sector. We believe therefore, that the practice of confiscation under varying pretexts that has helped create an environment of uncertainty and insecurity needs to disappear from Argentine political life”.³⁴

³⁴ Frondizi, A. *Mensaje Inaugural Leído ante la Asamblea Legislativa, 1 de Mayo 1958*, reproduced in: Frondizi, ‘Mensajes Presidenciales 1958-62, tomo 1: 1 de Mayo al 29 de Diciembre de 1958, Centro de Estudios Nacionales, Buenos Aires

The Peronist voters who had brought Frondizi to power were rewarded with a commitment to reverse legislation enacted by the previous regime that had banned the public display of Peronist symbols.³⁵ It also rescinded 'interventions' in unions, or returned to the organisations the right to elect their own leadership. It is likely that these measures fulfilled much of Frondizi's side of the bargain struck with Peron. Indeed the former president wrote to Frondizi shortly afterwards expressing his approval of the speech.³⁶ A further concession to labour support came 12 days later with the announcement of an 'emergency' 60 per cent increase on wages which had been frozen since February 1956.³⁷

"It is not fair to request workers make the greatest possible effort in aiding national development if the causes of daily distress which discourage constructive efforts are not overcome," Frondizi declared in a radio address.³⁸ In response to this measure, Perón wrote once more to the new head of state expressing approval but warning that hard times lay ahead and Frondizi would not be able to proceed indefinitely without angering the popular classes, stating that: "We cannot be too enthusiastic about the immediate future in the sense that a most unfortunate task is about to fall upon you: to restrict. The economic future of the nation depends greatly on the way in which you carry this out as well as the political fortunes of the party which you represent. One's (political) erosion is always proportionate to the sacrifices you impose."³⁹

So in spite of the apparent Peronist tendencies of the early labour and wage policies of the Frondizi administration, few were under any illusion that sacrifices did not lie ahead. Thus the generous wage increases and the concessions made to the unions at Frondizi's inauguration may have been calculated buffers to a later tranche of policy that the administration knew would have serious repercussions on the living standards of the popular classes. In other words, an attempt to soften union opposition prior to tough measures as an alternative to a more authoritarian strategy implemented by the previous military government which had made a point of suppressing Peronist institutions.

Labour and business did not have to wait long for further signs of the direction in which Frondizi and Frigerio wished to take the economy. Policy was unequivocally intended to engineer a profound change in the Argentine economy. The aim was to bring Argentine industry up to date, technologically and in terms of methods employed. And the best way to achieve this was to concentrate attention on select capital intensive and import substituting sectors. The necessary investment would come from abroad if necessary and the market would have a fundamental role to play but the economy would be guided by a state which would

³⁵ See Decreto 4161/56 enacted by the military government which banned Peronist symbols including the party hymn.

³⁶ Prieto, 1975, *Correspondencia Perón – Frigerio*,

³⁷ Economist Intelligence Unit, July 1958, *Economic Review of Argentina*.

³⁸ Frondizi, *Aumento de Emergencia*, Radio Address 13 May 1958, reproduced in 'Mensajes Presidenciales'

³⁹ Quoted in Prieto, 1975, *Correspondencia Perón – Frigerio*

maintain a controlling stake in these industries through such concerns as YPF (oil) and SOMISA (steel).

Having unveiled an ideological centrality placed on attracting foreign capital alongside continued import substitution, the vision was institutionalised through a raft of new legislation which empowered the executive to impose new policies regarding free imports of capital goods not produced locally, particularly if needed by the petrochemicals, steel and other priority industries.⁴⁰ This involved the exemption from customs duties for the relevant machinery imports, the application or increase of duties on products that potentially compete with national alternatives, the suspension or limitation of imports of raw materials that are available within Argentina's borders and preferential exchange treatment for industrial exports⁴¹ So in terms of liberalisation of the economy, import substitution was further entrenched. However, the legislation to deregulate the entry of foreign capital went further than anyone could have anticipated. Whereas Frondizi and Frigerio had emphatically supported the harnessing and subordination of foreign investment to act as a junior partner of the state, the new legislation put foreign capital on an equal footing with domestic investment and placed no restriction on international companies sending remittances out of Argentina in spite of some incentives for firms to reinvest profits. A concession, therefore, to foreign capital as a de facto interest group whose acquiescence was needed.

The Battle for Energy

The best known of Frondizi's policy contradictions is the signing of oil contracts with foreign firms as part of the grander quest for energy self sufficiency, the so-called 'battle for oil' central to Frondizi's vision. This, he argued, represented the subordination of foreign capital to the Argentine state in pursuit of modernisation and economic autonomy. However, it was a step apparently at odds with a deeply embedded belief in a national oil monopoly which excluded foreign investment for reasons of national security and sovereignty held by powerful agents in society, in particular the military.

The Perón administration had defined itself in the 1940s as the crusader against exploitation of Argentina's bounty by foreign, especially British, companies. When this attempt at autarky exhausted itself by the early 1950s Perón sought to ingratiate himself once more with foreign investors and sought partnerships to extract more oil to satisfy the growing demands of the Argentine market. An exploration and drilling contract signed with US firm Standard Oil was seized upon by the political opposition, led by then leader of the traditionally nationalistic Radical Party, Arturo Frondizi, as conceding too much. Frondizi later articulated the argument for excluding

⁴⁰ Leyes Nacionales 14,780 y 14,781, 1958

⁴¹ Ley 14,781, 1958

foreign capital from Argentina's oil industry in his book "Petroleum and Policy"⁴² which defended the concept of a national oil monopoly. Thus president Frondizi's signing of contracts with foreign oil companies in 1959 represented a flagrant about face from highly publicised previous stances.

As president, Frondizi stated that his ambition to achieve self sufficiency in petroleum was intended to "eliminate a grave threat to Argentina's sovereignty" and allow the country to "attain the stature of the great nations of our time".⁴³ But in spite of the nationalism in the language, the plan for oil attributed an important role to foreign, private contractors, albeit operating under the supervision of YPF. In a radio address delivered on 24 July 1958, Frondizi announced to the nation that he had signed 10 petroleum concessions with foreign companies, five of which concerned oilfields already exploited by YPF.⁴⁴ Crucially, while Frondizi had made clear his intention to allow a subordinated role for foreign capital in the Argentine economy ever since the election campaign, he had never revealed a plan to involve foreign firms in the oil industry. Thus these 10 new concessions came entirely as a surprise, which led to accusations of arrogance and even despotism from his political opponents. One Radical Party deputy, Dr Mauricio Yadarola, a former ambassador to the United States, stated that the manner in which the plan was announced, without debate in Congress contravened the practices of democratic government.⁴⁵

Frondizi said that given the acute disequilibrium in the balance of payments, an end to expensive oil imports which made up some 65 per cent of Argentina's consumption, was crucial. The immediate priority was to mitigate the financial impact of these imports until such time as they were no longer necessary. So the first element of the plan, perhaps to demonstrate an internationally aggressive leadership, was to renegotiate import prices with foreign suppliers such as British Petroleum and the Soviet Union. Secondly, YPF was to be reorganised "along the lines of a modern industrial enterprise", and rid of its cryptic bureaucracy in a drive for greater productivity.⁴⁶ Aware that the involvement of foreign firms would inflame his opponents and the Peronist element of his electoral support in particular, Frondizi was at pains to insist that foreign involvement was crucial to ensure the success of Argentina's drive towards self sufficiency. The goal was "to extract the greatest possible volume of oil in the shortest possible time," he said.⁴⁷ In order to achieve this, YPF would use its own resources as far as possible but it would also accept the involvement of private capital: "...insofar as official resources may prove inadequate, but without granting concessions or in any way renouncing the State's control over this extant wealth. This cooperation

⁴² See Frondizi, A. *Petróleo y Política: Contribución al Estudio de la Historia Económica Argentina y de las Relaciones entre el Imperialismo y de la Vida Política Nacional*, Buenos Aires, 1956

⁴³ Poder Ejecutivo Nacional, Secretaría de Estado de Energía y Combustibles, *El Petróleo en el Congreso*, Buenos Aires, 1959

⁴⁴ Frondizi, ARadio Message 24 July 1958, Reproduced in *River Plate Review*, July 1958, p21.

⁴⁵ La Nación, 26 July 1958 *El Petróleo a Través de Varias Opiniones*

⁴⁶ Frondizi, ARadio Message, p.21

⁴⁷ *Ibid*, p.21

will therefore take place through YPF and exclusively on the basis of payments in pesos and in foreign currencies. No payments in oil will be made nor will the country's control over the areas under exploitation be affected."⁴⁸

It is important to note that while the foreign companies' involvement attracted the most commentary at the time for its polemic nature, the plan was essentially a state-led initiative. Frondizi pledged that the presidency would place all available resources at the disposal of the industry in order to speed up completion of all infrastructural works. The plan was at pains to reiterate national jurisdiction over all of the country's oil reserves and consolidated YPF's monopoly in the sense that the foreign contracts emphasised the private firms' subordination to the state enterprise. It also contained a pledge to encourage domestic manufacture of oilfield equipment. Contemporary commentators were not unaware of the short leash permitted to foreign contractors by Frondizi. According to *The Economist*, the new policy revealed Frondizi had "found a new way of eating one's oil cake and keeping it."⁴⁹ Effective control over these very narrow short-term contracts remained in the hands of YPF while the foreign contractors were forced to shoulder all the risk. One agreement with Royal Dutch Shell, for example, for exploration, development and production stated that exploration expenses would not be repaid to the oil company until oil was produced. Payment would then be made in oil.⁵⁰ On the other hand, the involvement of foreign companies in any capacity was a profound break with an Argentine tradition of nationalistic oil policy.⁵¹ Frondizi's speech was the first the Argentine people had heard of his visions for the oil industry and much nationalistic vitriol was poured on the plan.

The plan as elaborated by Frondizi's government was not unlike that suggested by Prebisch in 1956 as part of the rescue package commissioned by the military government. Prebisch had also identified oil imports as a significant contributor to the balance of payments deficit and blamed insufficient exploitation of Argentina's oil reserves. The recommended policy was to abandon traditional aversion to private concessions and embark on a programme of accelerated exploration and export by the state, possibly in partnership with contractors. This resemblance to his own policy and the fact that while in opposition Frondizi had expressed disapproval of Prebisch's suggestions illustrates an awareness that political credit was to be gained by expressing outrage at foreign involvement. Frondizi must also have known, therefore, that the same criticism would be aimed at his policies implying that he was pinning his hopes on vindication through rapid progress.

To some extent, Frondizi was vindicated as following implementation of the plan, the oil industry enjoyed unprecedented growth. Combined production of oil both by YPF and the foreign

⁴⁸ *Ibid*, p.21

⁴⁹ *The Economist*, September 20 1958, p.950 *President Frondizi's Tightrope*

⁵⁰ *The Economist* December 13 1958 p.1020 *Oil in Argentina*

⁵¹ See *Review of the River Plate*, July 31 1958, Editorial, p.2

firms working under direct contract increased from 4.96 million cubic metres in 1958 to 6.45 million the following year, an increase of 30 per cent.⁵² By 1962, the year of Frondizi's downfall, production had almost tripled to 15.6 million cubic metres.⁵³ But in spite of the evident success of the plan in taking Argentina closer to oil self sufficiency, public and interest group approval was not forthcoming. As a direct result of the petroleum policy, Frondizi lost valuable support from the political left and from nationalist groups within his own party, averse to what they perceived as concessions to foreign interests. There is evidence that Perón was irked by the plan and sent instructions from exile in the Dominican Republic to his union representatives that they mobilize against the measures. Frondizi had preempted this, however, and enacted emergency laws granting the police greater powers of arrest without warrant. Thus the main union agitators were jailed and plans to mobilize Peronist unions against the oil policy were thwarted.⁵⁴ Similar sentiments of indignation about allowing foreign access to the oil industry, meanwhile, also existed within the military.⁵⁵ So while strictly speaking Frondizi's plan for the oil industry might have been a success and the 'battle for oil' won, politically it sewed disillusionment because of the apparent contradiction of prior promises and strengthened the perception of a government indifferent to public opinion.

Another policy to provoke controversy and disillusionment among elements of society was the government's plan to restructure a bankrupt electricity provider for the Buenos Aires metropolitan region. CADE (*Compania Argentina de Electricidad*), indebted, inefficient and a target of city dwellers' frustrations at being repeatedly plunged into darkness by an ineffective power grid, was converted into a mixed enterprise eligible for foreign loans on 8 September 1958. Under the terms of the new resolution, the state's holding in the company's capital was to increase gradually over the following decade until the entire capital was in the government's hands. The firm was heavily indebted to the Industrial Bank because of the refusal by successive governments to allow increases in electricity rates, a policy staple under Perón and his military successors. Under the new plan these debts were to be written off and the state was to invest heavily in the construction of new power stations.⁵⁶

Again, the popular classes and Peronist elements were irked by the merely 'partial nationalisation' in spite of the government's pledge to eventually become the sole owner, because of a pre-election promise to Perón and his supporters to implement outright nationalisation of the electricity services and cancel all private sector concessions. Indeed, the mayor of Buenos Aires, accompanied by a team of councillors attempted to seize the offices of CADE "in the name of the

⁵² Bank of London and South America Quarterly Review, Vol.1, No.1, July 1960

⁵³ Sikkink, 1991, p.104`

⁵⁴ The Economist November 22 1958, p.682, *Pressure Groups at Work*.

⁵⁵ *Ibid*, p.95

⁵⁶ Gregorio Meira, Minister of Fuels and Energy, *La Solución del Caso CADE*, Radio Address 8 September 1958

municipality” shortly after the resolution was announced but were thwarted by company staff.⁵⁷ This ‘popular mobilisation’, characteristic of Argentine public life illustrates the weakness of the Frondizi regime’s popular support base.

By the end of the first year of Frondizi’s term of office, he was actively engaged with all the main factions of Argentine society. Those that had supported them had received their rewards but the president had pressed ahead with an economic agenda which would test these contracts of appeasement. The most complicated relationship at this stage was with labour. The *Libertadora* military regime which deposed Perón in 1955 had diluted union power by insisting that the CGT, which it regarded as a Peronist instrument of totalitarianism, lose its status as the only legitimate labour confederation. Frondizi, on the other hand, vocally supported the idea of a powerful CGT. So in addition to reinstating the right of unions to elect their own leaders, in July 1958 a bill was introduced to reinstate CGT hegemony. But the mere fact that Frondizi was in the habit of introducing policy by presidential decree rather than through the awkward and vulnerable process of Congressional debate, suggests that this nominally pro union action was more cosmetic than sincere.⁵⁸ After Peronist support in the elections was rewarded with the emergency wage increases, democratisation of the unions and measures to empower once more the CGT, the government’s actions became overtly less friendly to labour as Frondizi switched his attention to other corporatist entities throughout 1958. A strike by oil workers in Mendoza to protest the foreign oil contracts was used as a pretext to declare a national ‘State of Siege’ which lent the authorities extraordinary powers of arrest. Though the strike barely lasted two weeks, and a later attempt by Peronist unions to organise a general strike was thwarted, the decree was not lifted and used to great effect in confronting later labour militancy in response to the austerity of Frondizi’s later administration. To some extent, this tough line against organised labour may have been a preparation for future battles, particularly if Frondizi was aware that greater fiscal and monetary discipline lay ahead. But the less conciliatory line also reflected Frondizi’s bargaining with another group, the military, which though not a unified force was increasingly dominated by an authoritarian faction known as ‘The Gorillas’ who frequently criticised Frondizi for not being sufficiently tough with labour. While Frondizi needed to avoid a situation in which such a group found an excuse to intervene in a crisis by reinstalling a military junta, the armed forces comprised a potential of support for Frondizi and to a certain degree, acted as his protector.⁵⁹ They were rewarded for this with new hardware and an increased budget, which still fell short of the Gorillas’ preferences, and a series of public pronouncements of national homage to those in uniform. One such gesture, shortly after Frondizi’s

⁵⁷ *Review of the River Plate*, September 9 1958, p.39.

⁵⁸ *La Nación*, July 26 1958 *Voto Diputados la Ley que Organiza la Entidad Obrera*.

⁵⁹ *The Economist*, September 20 1958 p.950 *President Frondizi’s Tightrope*; *The Economist*, November 22 1958, pp.682-3, *Pressure Groups at Work*.

election congratulated all three forces for their services to the nation and their exceptional conduct in safeguarding the good of the nation during the transition to democracy.⁶⁰

Fronidizi's relationship with national capital was strong in the early stages of his government largely on account of the fact that as a group it was nurtured by the Frondizi-Frigerio electoral campaign and then rewarded with abundant credit.⁶¹ Frigerio, was in fact a representative of business within the government because while acting as Frondizi's closest economic adviser and unofficial chief of economic policy, he also openly presented himself as the voice of Argentine industry. Needless to say, the ever sterner policy towards the demands of the unions did much to win favour among these groups. The relationship with the traditional elites, however, was less easy. *La Nación*, Argentina's principal conservative newspaper and traditional supporter of elite interests expressed serious reservations about the quality of the Frondizi government's pro business economic track record. Regarding the foreign oil contracts, for example, there was praise for the fact that the president sought to address the balance of payments and acceptance of the involvement of foreign capital but also concern about the methods. A much more effective way to address the imbalance would be the accumulation of reserves through increased exports, suggested one editorial. This could be achieved through modernisation and intensification of Argentine agriculture through a programme of investment.⁶² The SRA, meanwhile, was concerned that Frondizi, with his emphasis on the intensification of industrial development would continue the effective coercion of the agricultural sector into subsidisation of the project. Nevertheless, there was hope within the organisation and expressed publicly by its leaders that the tougher line against labour and overtures to foreign capital signalled a resuscitation of liberal economic policy that would work to the advantage of the agricultural exporting sector. Frondizi himself also made significant overtures to the sector, such as participation alongside Juan María Mathet, president of the SRA, at the International Livestock Fair, a highlight of the Argentine agricultural social calendar.⁶³

The balance of alliances had clearly shifted by the end of 1958, away from labour which arguably had served its purpose in electing Frondizi, and concertedly in the direction of capital, both national and international. Meanwhile a delicate relationship was in place with an unpredictable military. As the Frondizi presidency progressed with ever tougher decisions, the fault lines of the balance shifted and the number of openly hostile increased until the situation descended into a precarious game of survival politics.

⁶⁰ *La Nación*, May 7 1958, *Homenaje al Pueblo y a las Fuerzas Armadas*; *La Nación*, May 8 1958 Editorial: *Pueblo y Fuerzas Armadas*.

⁶¹ Szusterman, C. *Fronidizi and the Politics of Developmentalism in Argentina 1955-62*, London 1993, pp.176-77

⁶² *La Nación* July 25 1958, Editorial: *El Intercambio Económico*.

⁶³ *La Nación* July 27 1958, *Quedó Habilitado el Torneo Internacional Ganadero*.

The Second Phase: The Stabilisation Plan

Clearly Arturo Frondizi and his team took a long-term perspective involving a sincere aspiration to fundamentally change the focus of the Argentine economy towards a 'modernised' industrial base. However, wage increases and high public spending to fund expansion in addition to imports of capital goods to construct the industrial base led to serious disequilibria. The money supply was increasing by in excess of 40 per cent per year in 1959 compared with 12 per cent in the year before Frondizi's election. Bank credit increased 59 per cent in 1958 to the public sector and 32 per cent to the private sector.⁶⁴ In consequence, inflation reached an annual rate of 129 per cent within a year of Frondizi taking office, the highest ever experienced in Argentina.

Blaming yawning budget deficits and depleted reserves on the previous government, and studiously not blaming Perón, Frondizi invited an IMF mission to Argentina to recommend a course of action. The mission suggested a raft of measures in line with many such stabilisation packages aimed at cutting the fiscal deficit and curbing the money supply. The steps proposed by the IMF included restricting the supply of credit, a wage freeze, reduction in the public payroll, higher taxes and utility rates to increase revenues, trade liberalisation and cancellation of a number of proposed public works projects. Frondizi was careful in his choice of words when announcing the resulting Plan to the nation, framing the new measures within his long term visions for Argentine development. The president suggested that macroeconomic stabilisation was part of a preconceived strategy and had been delayed so that his 'modernisation' of the economy should be allowed to run its course first.

"... A financial stabilisation without an energetic drive in development would have resulted in an economy of misery and unemployment. For this reason it was a priority to implement a program of national expansion based on the intensification of our oil, coal, chemicals and energy production," he told the nation.⁶⁵

The package included a pledge to cut the fiscal deficit which was identified as a root of inflation, with a particular emphasis on plugging the financial haemorrhage created by an outsized public sector. The origins of the deficit lay within the operations of state enterprises, particularly utilities and transport. The reasons these operations were loss making were threefold, Frondizi argued: poor organisation, a glut of administrative staff and prices inferior to costs. To resolve the situation, Frondizi pledged increased utility and petrol prices and hikes in fares on public transport, particularly the railways, an effective hike in living costs and reduction in real wages. The

⁶⁴ International Bank for Reconstruction and Development (World Bank) Internal Memorandum, *Current Economic Position and Prospects of Argentina*, January 11 1962. Washington DC.

⁶⁵ Frondizi, *A Programa de Estabilización para la Economía Argentina: Verdad, Trabajo y Grandeza*, Radio Address, Red Nacional de Radiodifusión, 29 December 1958

inefficiencies of the public sector had impeded the developmentalist vision, preventing companies like YPF achieving their optimum productivity.

In terms of trade policy meanwhile, non essential imports were to be subjected to tariffs of between 20 per cent and 300 per cent according to the grade of necessity to the country in order to protect national industry from the influence of “foreign traders.”⁶⁶ The dual exchange rate system was scrapped and export surcharges were imposed on agricultural goods. The IMF was to back the plan with a US\$75 million loan alongside further aid from the United States, both from government and the private sector, amounting to some US\$254 million.

Frondizi hailed the loans as evidence that international business had faith in Argentina’s capability as an industrial power and that further finance would be forthcoming. In spite of the high rate of indebtedness, he argued, Argentina was not having great difficulty raising further credit because there existed in the international community great faith in the country’s long-term ability to pay its debts.

“That confidence does not come from the Stabilisation Plan, but from the mobilisation of resources already implemented... They lend to us fundamentally because they are aware that within two years we will have oil, electricity, coal and chemicals enough to end the paradox of an increasingly impoverished people in one of the richest countries in the world,” Frondizi announced to the nation.⁶⁷

Nevertheless, at grass roots level, higher utility charges, wage freezes and import surcharges significantly reduced the purchasing power of waged labour. Again, the government invoked the idea of common sacrifice for the greater good and the president of the Central Bank alluded to a ‘moral’ campaign to overcome Argentina’s economic difficulties.⁶⁸ Thus the new hardship lost the president support from sectors he had nurtured as a support base. Moyano Llerena, an economist, disciple of Alejandro Bunge and intellectual voice of the urban industrialist was harshly critical of the plan in his magazine *Panorama de la Economía Argentina*. Llerena rejected the government’s claim that fulfilment of Argentina’s destiny required sacrifices to be endured equally by all, stating: “In order that the objectives of the Stabilisation Plan can be achieved, it is unavoidable that the effect will be a distinct inequality. It is the essence of the Plan that certain sectors should accumulate much greater gains in order to boost their productivity...and those investments have to be extracted from the rest of the population...”⁶⁹

Particularly contentious was the abolition of price controls which led to a rise in the cost of dietary staples such as beef. While Frondizi had dismantled IAPI, an inefficient instrument of Perón

⁶⁶ *Ibid.*

⁶⁷ *Ibid.*

⁶⁸ La Nación, January 3 1959, *Objetivos del Plan*

⁶⁹ *Panorama de la Economía Argentina*. Vol.II, Marzo 1959. *Editorial*.

era populism, which subsidised lower living costs for workers, the fallout was politically dangerous as meat consumption halved during 1959.⁷⁰ Low beef prices meant higher disposable incomes which appealed to local manufacturers, as it did to consumers, and was thus a central part of Perón's populist policies, to the detriment of export earnings and foreign exchange reserves.

It did appear that the Frondizi regime was now concentrating its efforts on appeasing international capital with a conspicuous commitment to orthodox economics. Jose Carlos Orfila, trade secretary to the Economics Ministry told a gathering of senior engineers in the western city of Mendoza in March 1959 that the Stabilisation Plan represented a profound change in direction towards holding economic discipline as the key to success rather than simple industrial expansion. The minister proclaimed: "Up to now we have done a lot of politics and not much economics. For that reason the president of the Republic has now resolved to do economics and not politics."⁷¹

The regime had also sent a powerful signal proclaiming its newfound pro business credentials with the appointment of Alvaro Alsogaray in June 1959, a vocal critic of developmentalism, as economy minister. Alsogaray was opposed to high spending expansionism and saw tackling inflation and balancing the budget as the main priorities. He quickly trampled on any hopes for a new wave of alliance building, stating that such tactics were irrelevant. His approach was to explain that the economy was in crisis and steps would need to be taken that would bring lean times.

"I believe the time in which the common man... can be motivated with general declarations, with demagogic promises or with cosy invocations to his spirit of sacrifice and his sense of patriotism are over..." the new minister proclaimed shortly after taking office.⁷²

Rather than preside over some aspirational development plan, Alsogaray regarded his role as merely creating 'liberal conditions' in which anyone can work towards their own gain:

"We are not going to ask anyone to make sacrifices either for the nation or for the government... We are going to create an environment in which individual effort, made for the benefit of the individual, bears fruit for the whole country." Alsogaray was a proponent of a classic form of liberalism, therefore.⁷³

If the choice of Alsogaray was intended to impress foreign capital of a commitment to fiscal adjustment, the strategy appeared to be successful. The appointment was heralded by the Bank of London South America in its 'Quarterly Review' as evidence that the Stabilisation Plan was to be

⁷⁰ The Economist, November 21 1959, *Meatless Days in Argentina*.

⁷¹ Dirección General de Finanzas, Departamento de Estudios e Investigaciones Financieras – División Legislación e Información Parlamentaria: 'Discurso del Señor Secretario de Comercio Dr Jose Carlos Orfila. 1 de Marzo 1959.

⁷² Alsogaray, A. *Politica a Seguir en Materia de Precios y Salarios*, Pronunciada por el Sr. Ministro de Economía, Por LRA Radio Nacional y Canal 7 TV el día 6 de Julio de 1959.

⁷³ *Ibid.*

“rigorously implemented”.⁷⁴ Thus Alsogaray lent credibility to the Plan which in turn lent credibility to the economy in the eyes of foreign investors.

However, the Plan should be taken as part of an overall scheme to boost investment, particularly from abroad, in Argentina’s basic industries rather than a genuine change of heart by an ideological president. The amount of investment forthcoming would be insufficient to fulfil Frondizi’s vision of industrial deepening without solid confidence in the stability of the Argentine economy. By curbing inflation, reducing the public deficit and addressing the balance of payments crisis, the plan should have enhanced the country’s reputation and international standing. But it appears from the timing of the new policy, several months after the announcement of expansionary projects for basic industries such as oil and steel, that macroeconomic stability was lower on Frondizi’s list of priorities than industrial development. Indeed, while Alsogaray did implement much of the recessive policy at the heart of the plan, his actions were also frequently frustrated by the president’s caution about antagonising an already volatile labour force. This was an irritant to the business community who had held high expectations of a reduction in their wage bill as a consequence of the new monetary caution and the UIA declared the Stabilisation Plan a failure on account of: “labour policy proceeding without any attention to economic reality.”⁷⁵ The nationally oriented element of business was irked by the restriction of credit as part of the Plan, meanwhile. Furthermore, Frondizi had not lost sight of his ideal of industrial deepening. His priority was to attract the funds to build the envisaged industrial base. The contradictory steps regarding the public payroll illustrate the paradox between the liberal intentions of the economics minister following the recommendations of the IMF and the developmentalist president

In accordance with the Plan, the government attempted in 1959 to reduce the government payroll by some 80,000 jobs adopting such measures as a reduction in military conscription and selling off some state-owned enterprises. Much of this progress was personally overseen by Alsogaray who as an acknowledged economic liberal who maintained cordial relations with some highly influential figures in Argentine society, was even able to persuade the armed forces to study the possibility of reducing manpower.⁷⁶ However, while the scheme was successful in eliminating 54,000 people from the government wage bill between 1958 and 1960, ideological priorities had focused on enhancing certain industries in which the state had a significant interest so 57,000 people were added to the payroll of state enterprises over the same period, a net gain of 3000. Consequently, in 1960, the government deficit “broke all records.”⁷⁷

⁷⁴ Bank of London and South America Quarterly Review Vol.1, No.1, July 1960. *Argentina*, p.8

⁷⁵ Union Industrial Argentina, *Memoria y Balance 1961-1962*, p.27

⁷⁶ The Economist, September 29 1959, *Alsogaray Says No*

⁷⁷ Review of the River Plate, April 1961 and Lewis, 1990, p.259.

Furthermore, a World Bank internal memo suggests that apparent progress in reducing the budget deficit might be superficial in account of continued excess by state-owned enterprises pursuing unchecked expansion. According to headline figures published by the Central Bank, the government's activities were no longer ostensibly deficit producing and fiscal reform meant that Treasury revenues exceeded expenditure by 15 per cent in 1960 and 23 per cent in 1961. However, the World Bank reported, this estimate did not include transfers to state enterprises which more than offset any surpluses. The memo states:

“Expenditures of the public sector as a whole are large and expanding. Expenditures of the National Government, of state enterprises, and of the city of Buenos Aires were together equivalent to 24 per cent of the gross domestic product in 1959 and 1960 and may exceed 30 per cent of the total product in 1961.”⁷⁸

So for all the fiscal discipline and wage restraint promised by Alsogaray, expansionist practices continued apace. Indeed, the World Bank's conclusions about the Argentine economy were bleak and had the memo been made public, foreign capital would arguably have been more reticent about investing in the country. Neglect and discrimination against agriculture was depressing export revenues while prioritisation of industrial re-equipment had resulted in an import boom so by 1961 trade results were “unusually bad”.⁷⁹ The bank also warned that while the production of consumer durables was growing rapidly, industry remained inefficient and unlikely to contribute to export revenues in the foreseeable future. Wage pressure in particular was highlighted as a blight on industrial competitiveness and was negating the efforts of Alsogaray to carry out the provisions of the Stabilisation Plan.

“Though the marked shift that took place after 1958 in the distribution of incomes from wages and salaries to profits, interest and self employed incomes, has undoubtedly been helping to finance much of the accelerated investment in plant and equipment that has been going on since, it has not helped mitigate the pressures for wage adjustments by strong labour unions,” the report noted.⁸⁰

Ultimately, the acquisition of technology abroad and a consequent increase in indebtedness alongside greater involvement of foreign capital in national industries meant the Argentine state saw its control over national industry much diminished during the Frondizi presidency. In other words, through indebtedness, foreign firms were able to usurp control over Argentine concerns without suffering the expense of full acquisition. When the regime came to power in 1958, foreign firms accounted for 10 per cent of total national production. By 1962 the proportion was nearly a

⁷⁸ IBRD (World Bank) Restricted Report No. WH-114a, *Argentina: Current Economic Position and Prospects*, Jan. 11 1962 pp.3-5

⁷⁹ *Ibid.* p.15

⁸⁰ *Ibid.* p.7

fifth of total output.⁸¹ There were some notable exceptions to the trend. The steel industry, one of the strategic sectors highlighted by Frondizi's developmentalist plan, was still dominated by local capital.⁸² Nevertheless, the worst fears of Frondizi's critics were realised in terms of national interests falling into the hands of foreigners and emasculation of a state upheld in the popular imagination as employer and entrepreneur. Given that a pivotal aim of developmentalist ideology was national empowerment, this increase of foreign influence marked a significant failure in the eyes of many, and arguably reflected concessions made to international capital by Frondizi in the process of alliance building.

Frondizi's government did enjoy enough longevity to witness some successes however. While GDP declined 5.5 per cent in 1959 following implementation of the Stabilisation Plan, growth exceeded 4 per cent the following year. Meanwhile, the Plan for Oil showed early promise with production in the industry growing by 28 per cent in 1960.⁸³ In terms of productivity, the developmentalist emphasis on industry also bore fruit, largely due to the boost to the oil industry. In the first half of 1961, industrial production per man hour was 21 per cent higher than the same period the previous year. The developmentalist drive preceded a protracted period of strong growth that lasted more than a decade. Annual growth of the industrial sector averaged 6 per cent between 1958 and 1974 though Frondizi's tenure is more often associated with the acute balance of payments crisis and recession of 1962.⁸⁴ The economic buoyancy that came afterwards was even hailed as the possible beginning of a new era in Argentine economic performance with a rising industrial sector generating ever more employment and growth alongside a robust agricultural sector, a situation that fits reasonably well with developmentalist aspirations.⁸⁵

So from purely from the point of view of economic planning, the developmentalist experiment was a success. Argentina did emerge from the period with a diversified industrial base although manufacturing still lagged, accounting for only 21 per cent of total output in 1960 compared with 22.2 per cent by agriculture and livestock.⁸⁶ But the government failed politically and the tenuous web of alliances on which it depended broke down. The following sub sections address the evolving relationship between the Frondizi government and the distinct economic factions.

⁸¹ Secretaria de Planamiento y Accion de Gobierno, *El Desarrollo Industrial En la Argentina*, Buenos Aires, 1973. p.102

⁸² Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1991, p.300

⁸³ Bank of London and South America, *Quarterly Review*. July 1961 Vol.1, No.5, pp.237-8

⁸⁴ Schvarzer, *La industria que supimos conseguir*, Buenos Aires, 1996, p.236

⁸⁵ See Pablo Gerchunoff and Juan Llach, 'Capitalismo Industrial, Desarrollo Asociado y Distribución del Ingreso entre los dos Gobiernos Peronistas', *Desarrollo Económico*, No.57, April – June 1975

⁸⁶ Bank of London and South America *Quarterly Review* 1961, p.237.

The Fragile Alliances:

Having portrayed himself as pro labour and a friend to the Peronist movement, by the second year of his tenure Frondizi had established a reputation for being tough on the union movement. The austerity associated with the Stabilisation plan led to an intensification of labour unrest, some of it violent and the government made regular use of decrees extending greater powers to the military to break strikes such as the declared 'state of siege'. A report in the Bank of London and South America's quarterly journal was disdainful of what it saw as dangerous Peronist activism by labour groups and trade unions.

"There still exists and obstinately large body of opinion which has to be weaned from allegiance to the regime that was largely responsible for the country's present economic difficulties. In this respect, the efforts being made to encourage the emergence of a more responsible union leadership are of great importance for the country's future," it read.⁸⁷

A general strike led by the Peronist unions in response to the Stabilisation Plan elicited an authoritarian response. Strike leaders who had declared the plan an instrument of international capital allied with the oligarchs of Argentina to undermine the country's economic sovereignty, were promptly arrested, military reservists were called up as a precaution while workers in essential sectors, such as transport and oil, were 'mobilised' so that they fell under military jurisdiction in matters of discipline.⁸⁸ During this unrest Frondizi himself persisted on a state visit to Washington, accompanied by 21 dignitaries from the business community. This symbolised the shifting emphasis of the government's campaign to win interest group support, a switch that was acknowledged by commentators. The Economist observed: "President Frondizi won the elections last year because the *peronistas* believed him to be their man. Once in power he showed very toughly that he was not."⁸⁹

The regime also managed to alienate bourgeois sectors, including those representing national capital. This animosity is reflected in Alsogaray's attempts to overhaul sugar production in the province of Tucumán where 20,000 independent cane growers had maintained a highly inefficient industrial sector reliant on government subsidies and on absolute prohibition of imports. Alsogaray moved to eliminate these benefits which elicited a strike by every cane harvester and mill worker in the country with the tacit support of growers and factory owners.⁹⁰

The government's efforts to attract foreign capital, liberalise imports of certain products and enter partnerships with multinational companies to speed up development of the industrial base meant local producers found themselves competing with newcomers with access to superior

⁸⁷ Bank of London and South America Quarterly Review Vol.1 No.1 July 1960, p.9

⁸⁸ La Nación January 18 1959 *Han Declarado El Paro General Los 62 Gremios*; La Nación January 21 1959, *Adoptanse Medidas para Normalizar la Situación*

⁸⁹ The Economist, January 24 1959, p.308, *Revolt Against Austerity*.

⁹⁰ The Economist August 29 1959, *Alsogaray Says No*.

technology and funds. The unpopularity of foreign capital, and the oil contracts in particular, transcended class divides. Yet the government also provoked a degree of disillusionment among foreign investors, particularly when Frondizi without explanation dismissed Alsogaray in April 1961. The move damaged investors' confidence in Frondizi's determination to continue the financial discipline of the Stabilisation Plan, particularly given the increased incidence of strikes. In spite of the fact that Alsogaray was replaced with another well known 'liberal' Roberto Alemann, whose belief in the need for monetary stability was well known, it appeared he was even more restricted than his predecessor.⁹¹

But it was disillusion within the high command of the armed forces which ultimately led to Frondizi's removal from office and the abandonment of many of his policies. His ascension was with the blessing of the outgoing military junta on the condition that he took an uncompromising stance regarding the Peronist movement. As such concessions were made as mentioned above though revelations about the secret electoral pact with Perón damaged the relationship and stretched the armed forces' patience. Indeed, the existence of the deal was leaked by Perón himself after he had quarrelled with the government which created an acutely tense standoff with the military and was only eased when Frigerio resigned and the generals' preferred candidate, Alvaro Alsogaray, was appointed minister of the economy.⁹² The army high command had approved the government's policies for the oil industry in principle, largely for the strategic advantages of having national resources of fuel. However, the armed services were increasingly dominated by the intrigues of officers' lodges and factions who expressed disapproval of the way policy was going. One such group, 'the Green Dragons' for example, objected to the extent to which Frondizi sought foreign capital while the aforementioned 'Gorillas' despaired at the concessions made to Peronism. Various uprisings and coup threats were dissipated during Frondizi's tenure but he was ultimately deposed in 1962 when conservative elements of the military high command lost patience, stepped in and removed him from office.

The fact that Frondizi was forced to leave office by the military on account of concessions made to Peronists is ironic as Peronists by then regarded their relationship with the regime as over and stood in aggressive opposition. Congressional elections held on 27 March 1960 for the renewal of half of the seats in the Chamber of Deputies, provincial legislatures and municipal councils revealed the extent to which Frondizi had alienated the popular vote. The total number of votes cast for Frondizi's UCRI fell from 3.78 million to 1.78 million, principally on account of Peronist abstention.

⁹¹ Bank of London and South America Quarterly Review, July 1961 Vol.1 No.5 p.234

⁹² The Economist July 4 1959, p.19, *President under Pressure*.

The style of Frondizi's policy was improvisational and inconsistent. Alliances were formed with powers at play in politics but the impulse appears to have been to buy time in order to progress with the ideological experiment. Attempts were made to mobilise society as a whole to strive towards a common future but in reality more groups were alienated than co-opted. Different policies irritated different interests which themselves appeared to come in and out of favour depending on what the president's priorities were at the time. Some issues, such as the need to attract foreign capital led to alienation of elements from all groups. Arturo Illia, who took power after Frondizi was ousted, presided over a nationalist backlash that aimed to return Argentine assets to Argentine ownership. Foreign investment, prices, wages and credit were brought under tighter control and the state's responsibility as the country's main entrepreneur was intensified. The new order was a nationalistic strive for self sufficiency, though this time more exclusive of foreign capital and many deals signed by such sectors as the oil industry under Frondizi were annulled. The balance of alliances shifted once again with a change of government.

Part 2: Spain

The period 1957 to 1960 marked a shift in the rules of the game for Spanish capitalism. As the autarkic model of the immediate post-Civil War period began to show signs of strain by the mid 1950s, the corporatist ideologues' grasp on power was challenged by a new generation of pretenders. A common view in much of the literature on the economic opening and dismantling of Spain's autarkic development model in the late 1950s is that it was a decisive transition from one system to another.⁹³ This argument assumes the new technocrats, some of whom were famously members of the conservative Catholic lay group *Opus Dei*, ascended decisively to prominence when the old guard fell out of favour with the *caudillo*. This interpretation is simplistic and the following narrative aims to illustrate that the competition for influence was waged across a delicate balance of power. The interpretation offered here that the autarkic camp, representing the nationalist syndicalist ideology of the Falange was not a spent force but a potent negotiator. The leading voice of this movement, Antonio Suanzes, was a childhood friend of Franco's and was not easily discredited. During the transition both camps competed with each other to put their stamp on policy with no group winning a clear supremacy in the ability to shape new legislation. To be sure, the liberalisers' influence set a precedent for further reform later, opened the economy to foreign investment and laid the foundations for Spain's reintegration into the international economy. But

⁹³ Comín, F and Díaz-Fuentes, D. *La Empresa Pública en Europa*, Madrid, 2004. pp.223-224; Spittaller, E. and Galy, M. *Spain: Landmarks in Economic Development 1939-92*, IMF Working Paper 92/78, Sept. 1992; Lieberman, S. *Growth and Crisis in the Spanish Economy 1940-93*, London 1995. p.51; Harrison, R. *The Spanish Economy in the Twentieth Century*, London, 1985, p.144

their efforts to deregulate, liberalise and integrate were diluted by the restraining influence of the old guard who retained much influence within the state bureaucracy. Close inspection of the introduction of economic liberalisation by the technocrats reveals a piecemeal process of peripatetic reforms interspersed with interruptions and hesitations.⁹⁴ A report on Spain by the World Bank in 1964, conceived as an economic health check to coincide with the fifth anniversary of the Stabilisation was sharply critical of the government's retention of institutions of autarky in spite of the palpable progress achieved in economic openness.⁹⁵ Furthermore, the series of five year 'Development Plans' starting in 1964, while conceding much to the recommendations of the World Bank and the beliefs of the *Opus Dei* technocrats, were corporatist and *dirigiste*, revealing Spanish policymakers to be far from unanimous on the benefits of laissez faire capitalism. Such change that occurred was achieved by chipping away at the illiberal edifice. Reforms were diluted in their implementation, so that fiscal tightening frequently comprised steps that were symbolic rather than truly effective.

The framework employed in this part of the chapter is based on the model of a war of attrition between factions representing economic or social interests within the state before an arbitrating dictator whose authority is not questioned. In this particular case the two factions were: an old guard of ideologues from the Falange and/or the military, original architects of the corporatist state and autarkic model of industrial development in isolation. Striving against them were the *Opus Dei* technocrats, schooled in economics and believers in economic liberalism. For the former, the priority was continued fiscal expansionism aimed at the attainment of economic autonomy and a greater Spain as well as improved purchasing power and living standards for wage earning Spaniards which would dissipate the threat of civil disorder. For the latter, monetary indiscipline was identified as the root of Spain's imbalances and the solution lay in a radical restructuring of the model to incorporate reintegration into the international economy. This would permit greater access to capital to finance further development in addition to export markets to mitigate the problem of exhaustion of foreign exchange reserves.

A cabinet reshuffle in 1957 empowered the technocrats as it gave them charge of the new ministries of Trade and Finance. The old guard, meanwhile, retained control over the state enterprises through the INI holding company and the ministries which were traditionally instruments of nationalist-syndicalist policy, namely Housing, Industry and Labour, which also meant jurisdiction over the official state syndicate.⁹⁶ The two camps exercised comparable amounts of power within the state despite their ideological estrangement and were equally subordinated to

⁹⁴ Carr, R. *Modern Spain, 1875-1980*, Oxford, 1980. p.156; de la Dehesa, G. Ruiz, J and Torres, A. 'Spain'. In: Papageorgiou, Michaely, M Choksi, A. *Liberalising Foreign Trade, Vol.6*, IBRD 411/6, Washington DC. 1991 p.155

⁹⁵ IBRD, *The Economic Development of Spain*, Baltimore, 1963

⁹⁶ Preston, P. *Franco, A Biography*, London, 1993, pp.666-667.

the authority of the dictator. This meant that the ultimate policy reforms were a compromise between the two factions. In the two years following the cabinet reshuffle, the technocrats lobbied hard to gather support and legitimacy before taking their most radical step; the 1959 Stabilisation Plan sponsored, like that in Argentina the previous year, by the IMF. But though this tough economic medicine represented a concerted departure for Spanish policy, the order associated with the reformers was a diluted version of what was originally proposed. On the other hand the policy also went further in terms of liberalisation of the economy than desired by the conservatives. The structure of this dynamic within the bureaucracy is illustrated in Figure 3.2 below.

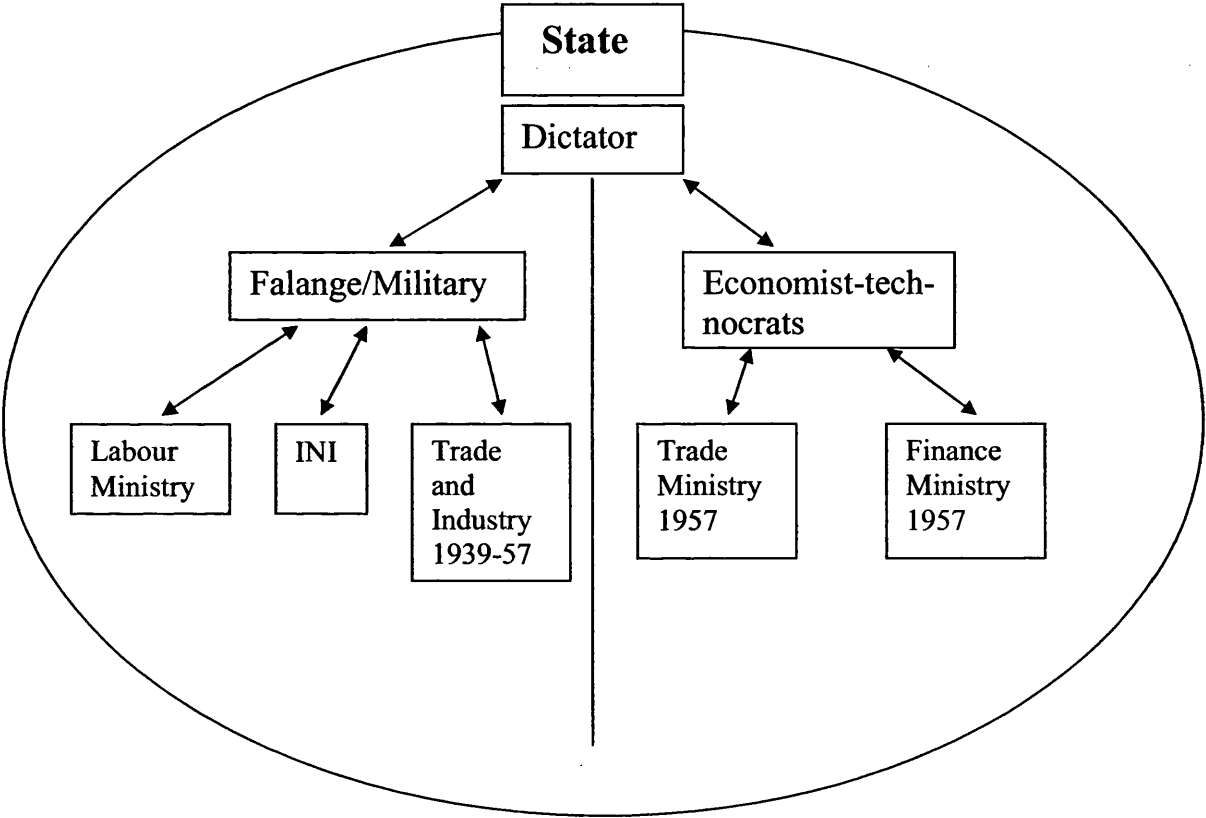


Figure 3.2: Spain’s *entente cordiale* within the state and the war of attrition over economic policy.

Within the state, the dictator is the unchallenged authority and arbitrator of debates with whom the final decision on policy rests. In the case of Franco, he saw himself as a disciplinarian guardian of order rather than a technocrat and consequently delegated the task of policy design to others. Each faction within the state, broadly representing an economic interest, and by extension a

set of economic priorities, was thus forced to compete for the dictator's attention. Different factions, at different times, were given control of particular departments of state, or ministries, affecting specific areas of Spanish life. The conflict over economic policy described in this section and illustrated in the diagram, was between the Falange, in alliance with factions of the military, whose expansionism was discredited, and the more technocratic clique of classically trained economists who sought to liberalise the economy and end its isolation. The principal feature of the system that distinguishes it from the Argentine equivalent is that the struggle for influence and control of policy takes place within the constraints and rules of the corporatist state. The battle for influence will be outlined here by contrasting various policies and statements of purpose issued by competing factions in the months prior to the Stabilisation Plan and the immediate aftermath.

The most notable new appointees to ministerial posts during the 1957 cabinet reshuffle were Alberto Ullastres (Trade), Mariano Navarro (Finance) and Laureano López Rodó, head of the Office for Economic Coordination and Planning. While these are the officials most commonly associated with the Stabilisation Plan of 1959, they were merely the most conspicuous members of a network of economists associated with the Faculty of Economic Sciences at Madrid University. Members of the clique were appointed to prominent posts in the civil service, including the Central Bank and the various economy-oriented departments of state.⁹⁷ The ministers consequently headed departments staffed with sympathetic members of the same ideological movement. Though they had weaker personal ties with the dictator than the Falange, they did possess a high degree of credibility within the regime's inner circle. They were chosen for impeccable backgrounds of public service while their association with *Opus Dei* lent them respectability in the eyes of an ultra Catholic hierarchy. Navarro was a one time Under-Secretary at the Ministry of Public Works, a former officer in the military juridical corps and had held prominent posts in the Falangist syndicates.⁹⁸ The aim was to break with the traditional *Falange* interpretation of Spanish economic hardship to international conspiracies by Jews, freemasons or hostile third countries.⁹⁹ Instead, they proposed that the economy suffered from structural deficiencies and attributed high inflation to pressures generated by undisciplined public investment and the existence of "parasitic" industries that acted as a drain on the national economy.¹⁰⁰ In an address to an IMF meeting in New Delhi, the first to be held since Spain became a member, Ullastres committed Spain to IMF consensus claiming that his government shared the institution's belief in international economic cooperation,

⁹⁷ Fuentes Quintana, E. 'La economía española desde el plan de estabilización de 1959', in: Martínez Vara, T. *Mercado y desarrollo económico en la España contemporánea*, Madrid, 1986. p.140

⁹⁸ Preston, P. *Franco, A Biography*, London, 1993, pp.668-669.

⁹⁹ Lieberman, S. *Growth and Crisis in the Spanish Economy 1940-93*, London 1995. p.51

¹⁰⁰ Ullastres, A. *Discurso, pleno de la Junta de Arancel de Aduanas, 23/9/1958*. in: Ullastres, A. *Política Comercial Española*, Madrid, 1958. p.118

stability, individual liberty and free enterprise. He also pledged to make Spain's development planning compatible with balance of payments equilibrium and monetary stability.¹⁰¹

Nevertheless, to impose monetary and fiscal discipline on Spain was to prove difficult. In spite of their authority as a senior ministers, Ullastres and Navarro had to take on some powerful figures who had helped shape the ideological vision of the *Movimiento* since the Civil War; not least Suanzes himself. Though the Falangist star was fading as a motor for policy design¹⁰², Suanzes was popular in the regime and the INI was regarded as the saviour of many downtrodden provincial backwaters to which it had brought labour intensive industries for the first time. To provoke his ire was politically dangerous, therefore. Monetary instability and budget imbalances were clearly tipping Spain into crisis and threatened to undermine progress in improving living standards that were hard won. But the tangible progress in industrialization was widely attributed to Suanzes who still enjoyed a lot of support both within the military and other elite factions close to the dictator.

Nevertheless, Navarro singled out the INI as an excessive drain on the Treasury and an important culprit of Spain's rising inflation and less than a year after his appointment introduced new legislation to exclude the INI from the state budget.¹⁰³ A particular irritant to Navarro was the Central Bank's automatic underwriting of public debt, a facility the INI in his view was in the habit of exploiting with abandon. The main state agencies such as the INI but also the Institute for Agricultural Credit, the National Wheat Office and the National Railways Company could obtain funds from the Treasury, the capital market and the central bank in addition to the firms under their charge but were in effect using the *Banco de España* as a bottomless kitty.¹⁰⁴ Mindful of Suanzes' influence in the regime, the reformers sidelined him as much as possible while they lobbied other figures associated with the INI. Suanzes was not entirely oblivious to this, however, and threatened to resign over the issue. In a letter to Luis Carrero Blanco, Minister of the Presidency and prominent member of the regime's inner circle dated 8 May 1957, Suanzes expressed his intention to resign his post in protest at not being invited to attend a meeting between Ullastres, Navarro and a number of his subordinates at the Institute in which the issue of financing was discussed.

“Given the nature of the issues discussed, all of which were essential for the Institute, and given the presence of the relevant Ministers, the fact that the manager and not the president of the Institute was invited to the meeting has a clear implication that neither you nor I nor my subordinates nor anybody can hide from.... I wish to relinquish my role as president of the Institute and I urge you to

¹⁰¹ Ullastres, ‘Discurso pronunciado por el Excmo. Sr. D. Alberto Ullastres, Ministro de Comercio y Gobernador por España en la sesión plenaria de clausura,’ *Ministerio de Comercio: Información Comercial Española*, Marzo, 1959.

¹⁰² Preston, P. *Franco, A Biography*, London, 1993, p.666

¹⁰³ Ley de Presupuestos Generales del Estado, 26 Diciembre 1957

¹⁰⁴ The Statist: International Banking Supplement, December 13 1958 ‘*Economic Policy in Spain*’

take the necessary steps to ensure that this logical and obligatory wish should be satisfied,” he wrote.¹⁰⁵

The resignation was not accepted and Suanzes was persuaded to remain in his post for a further six years. Had he left the scene at this early stage in the reform process, restructuring of the economy might have proceeded faster. However, his continued presence strengthened the conservative lobby’s power in the negotiating dynamic outlined in figure 3.2, and allowed it to continue as a significant check on the power of the reformers.

The pretext for freezing the INI out of the State budget at the end of 1957 was that the INI’s industries had reached a level of maturity that meant they were capable of financing themselves. Indeed it was written into the INI’s founding articles that its aim was to nurture the industries towards self reliance so that they became capable of running a profit and raising further finance on the capital markets without reliance on government finance.¹⁰⁶ Predictably, the move was not welcomed by the INI’s leadership who argued the appropriate maturity was not yet reached. The new legislation, the INI’s management stated in its annual report for 1957, meant that the Institute would not reach all of the targets it had set itself for that year. The INI hoped to be able to raise enough funds on the capital markets to fulfil its ambitions for the following year, it said, and suggested obtaining short-term loans from savings institutions in addition to raising funds through the sale of shares in its industries on the stock market. If the private sector was not as forthcoming as it hoped, it warned that it might be forced to sell off some of its interests or reduce the pace of its operations which it warned were ‘already excessively reduced’. The threat was increasingly real, it warned, that there could be ‘serious disruptions to the economy and to employment’.¹⁰⁷

In reality, the budgetary constraints on the INI, while an important symbolic step in liberalising the economy and imposing a degree of fiscal discipline on the public sector, were stifled and the new legislation restricted in its implementation. Ostensibly, INI firms after 1957 could only finance their expansion by recourse to private investment. But in seeking capital in the market, INI firms enjoyed an advantage over their contemporaries in the private sector in that Spain’s savings banks, the *Cajas de Ahorro*, were obliged by law to invest part of their funds in INI securities. As they represented ‘public paper’, they were in effect guaranteed by the state to the same extent as government bonds and interest on these was exempt from tax. While the State was no longer, strictly speaking, financing the firms out of the central budget, it was subsidising their efforts to

¹⁰⁵ Letter from Suanzes to Luis Carrero Blanco, Minister of the Presidencia del Gobierno, 8 May 1957: Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria.

¹⁰⁶ See: Ley de Creación del Instituto Nacional de Industria, 25 Septiembre 1941, Artículo 6°

¹⁰⁷ INI *Memoria del Ejercicio 1957*, p.19

raise capital and protecting them against private sector competition on the capital markets.¹⁰⁸ Thus the move to freeze out the INI was a symbolic step rather than truly meaningful reform. By September 1958 the autonomous agencies' net position at the *Banco de España* showed a net indebtedness of 13.6 million pesetas, an increase of 111 per cent on the previous year. For all Navarro's aspirations to rein in spending and tackle inflation, his efforts were being frustrated by reckless spending on the money hungry visions of figures like Suanzes. What this represents is a compromise solution between the priorities of competing factions within the bureaucracy. While the new ministers had a reforming remit, the old ideology was not entirely discredited and had some powerful proponents. Suanzes could mobilise robust support in the face of hostile bureaucratic manoeuvring.

One high ranking official, Civil War veteran, high ranking diplomat and friend of both Suanzes and indeed Franco himself, continued to voice strong support for the industrial vision in the face of the monetarist threat. In a letter to Suanzes, congratulating him on the success of efforts to boost Spain's 'strategic' energy sector, Tomás Suñer Ferrer, former general and ambassador to Brazil wrote:

"Every day we receive news of possibilities totally inconceivable ten years ago... but this path succeeds on the strength of enormous costs the magnitude of which constitutes their risk economically speaking. It would be difficult and inadvisable therefore that private capital and certain types of public capital should finance firms of this kind."¹⁰⁹

It was not merely the top echelons of the regime associated with the Civil War generals that held Suanzes in high regard. His support extended throughout all levels of the civil service, particularly provincial officials who either had him to thank for regional development projects that had revitalised their previously impoverished municipalities, or hoped to persuade him to favour their regions in some new industrial project. Indeed, Suanzes received much support from provincial officials during the campaign to implement monetary stability and fiscal austerity to the detriment of Suanzes' expansionary projects. Suanzes' vision was after all, a nationalist populist model of full employment, state sponsored inward looking import substituting industrialisation with a suspicion of foreign capital at its core.

"I agree absolutely with your priorities and for a long time I have thought like you that investment in industry is always worthwhile and interesting, in that it helps us cease to be the agrarian and colonised country we once were, sending our raw materials to be used in

¹⁰⁸ International Bank for Reconstruction and Development, *The Economic Development of Spain*, Washington 1963, p.35

¹⁰⁹ Letter from Tomás Suñer Ferrer, Ambassador to Brazil, to Suanzes, 7 December 1957, Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria.

manufacturing abroad, condemning us to a life of misery while other countries enriched themselves with our animal like labours, and we in turn import those manufactured goods and pay handsomely for them,” reads one such communication from a town councillor in the rural Aragonese province of Teruel. The same letter goes on to ask Suanzes to consider Teruel for his next industrial investment scheme, stating:

“As you know, the level of misery in our province is great, mass emigration away from rural communities is alarmingly high, and considering we are a province rich in natural resources with great possibilities for industrialisation, only you can lend us a hand so that this poor land of Teruel does not disappear off the map of Spain.”¹¹⁰

In reply, Suanzes is unequivocal in his views of what his opponents in government intended, writing: “I am very much heartened to know that you agree with me on the fact that investments in industry are of vital interest for the economic transformation of our country and that under no circumstances should they be influenced by factors such as inflation and monetary stability or other issues of this type that preoccupy so many people to such an extent. The reality is that increases in production elevate standards of living, as you appreciate perfectly...”¹¹¹

Thus the reformers were up against some stiff resistance rallying around firm ideological conviction and, therefore, appeasement of this camp was a necessity in any new policy.

Government Consultation on the New Economic Policy

Scepticism among the conservatives about the wisdom of fiscal and monetary discipline was not the only ideological dogma on which the regime was founded that the new ministers had to confront. The late 1950s was time of global economic integration marked by events such as the Treaty of Rome in 1957, which set the pace for greater European unity as well as currency convertibility and liberal exchange of goods and services. The new Spanish ministers and their teams of civil servants saw a solution to Spain’s current and capital account deficits in European integration. But concepts such as unhampered trade and currency convertibility were novel in Spain where structuralist interpretations of a hostile international economy, espousing suppression of the external connection, lay at the core of belief systems. Thus Spain’s rulers were presented with two options on how to address the phenomenon; to either continue its isolation or to integrate. Needless to say that while Ullastres and Navarro believed in the latter and had made significant progress in persuading others in government to agree, they were aware that proponents of the opposite view were still powerful enough to scupper any initiatives.

¹¹⁰ Letter from Angel Sanz, Consejero Nacional de Les Jons, Teruel, 24 Septiembre 1957, Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria

¹¹¹ Letter from Suanzes to Angel Sanz, November 1957, Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria. Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria

A radio address to the nation by Ullastres in January 1959, for example, argued in favour of Spain participating in European integration. This in itself was ideologically treacherous territory in that aligning Spain with western Europe challenged the sense of national identity promoted by Spanish conservatives. The divide in government on this issue is aptly described by López-Rodó in his memoirs. Whereas Ullastres, Navarro, Lopez Rodo were Europeanists, Franco himself: “perhaps due to his status as a soldier, continued to be attracted to the idea that the Spanish economy should seek self sufficiency as far as possible and reduce dependency on foreign interests.”¹¹²

A prerequisite for closer ties with Europe was exchange rate liberalization and thus abandonment of a significant component of the autarkic model of import substitution. The language employed illustrates continued caution in spite of the progress made already by the technocrats in liberalizing the economy. Ullastres’ speech was meant for public consumption and thus dressed proposals up as negligible in impact on jobs, wages and prices. But elements in the regime also needed to be appeased, concerned as they were by any threat to Spain’s industrial progress or worse still, widespread civil disorder in response to a reduction in living standards. The industrialisation model pursued thus far was aggressively expansionary in an attempt to diffuse social opposition. So on the one hand the Trade Minister spoke of a need to liberalise exchange controls and trade policy but he also stressed the insignificance of the effects such a process would have at ground level. The fact that foreign trade constituted such a small proportion of national income would ensure that the effects would hardly be felt by the populace. Liberalisation of trade was necessary in order to address the supply problems experienced by national industries whose supply of raw materials was not guaranteed by the existing system of bilateral trade agreements. Sacrifices would be necessary but they would be small and ultimately worthwhile in the march towards better living standards for the Spanish people.¹¹³ Notably, there was little hint at the austerity the minister had in mind for later policies.

Convertibility, monetary stability and free trade were clearly appealing to the reformist ministers who sought international investment and export revenues as a solution to Spain’s credit shortage and budget imbalances.¹¹⁴ But it was still too early in the reform process to act decisively in a direction which might have upset conservatives in government agencies and the military who were still influential with the Caudillo. Furthermore, Franco himself was hostile to the idea of Spain’s reintegration into the world economy and continued to insist that the country could solve its

¹¹² López-Rodó, L. *Memorias*, Barcelona 1990, p.104

¹¹³ Ullastres, A. ‘El Ministro de Comercio Explica la Situación Española’, Ministerio de Comercio, *Información Comercial Española*, Enero 1959,

¹¹⁴ Ullastres, A. Discurso ante el pleno de la Junta de Arancel de Aduanas 23 Septiembre 1958. pp.109-115; Alberto Ullastres, ‘Discurso pronunciado por el Excmo. Sr. D. Alberto Ullastres, Ministro de Comercio y Gobernador por España en la sesión plenaria de clausura,’ *Ministerio de Comercio: Información Comercial Española*,

own problems without the interference of foreign capital.¹¹⁵ Facing this uphill struggle to gain approval for their plans, the ministers' ultimate course of action was unprecedented in Spain.¹¹⁶ The government issued a consultation to academic institutions, interest groups and state agencies asking for opinions on the implications for Spain of greater international integration. The consultation invited opinions on the benefits and disadvantages if Spain decided to implement convertibility of the peseta, the prerequisites for such a step, the best methods to implement it and the possible advantages or disadvantages of Spanish participation in European free trade.¹¹⁷ Although it is apparently contradictory of the paternalistic authoritarianism that characterised Spanish government to publicly seek the approval of interest groups in formulating policy, it represented a shrewd act of self empowerment by the reformers. They believed by this stage that few would disagree with the need for change and an end to Spain's isolation given industrial supply problems and rising inflation. Suanzes' correspondence from the era shows, for example, that meetings held by the ministers with representatives in various agencies to discuss reform that excluded hostile members of the leadership was an increasing irritant to the old guard.¹¹⁸ It was likely, therefore, that the reformers were confident responses in the consultation would be largely favourable regarding the concept of integrating Spain into a wider European trading bloc, having gauged opinion for themselves. Participation by Spain in an international monetary order and the global, or at least European, trading system was a radical departure. Clear evidence of consensus would serve to placate the highest authorities in government, ease fears of social instability and subdue the objections of conservatives.

In the event, the submission by the INI was highly critical of the proposed new direction in economic policy but contrasted conspicuously with the other responses. This may of course have been expected by the reformers who hoped to demonstrate the Institute as somehow out of touch with broader consensus. With otherwise universal endorsement, the conservatives would find it extremely difficult to veto the Stabilisation Plan imposed later that year which was designed in cooperation with the IMF. In which case the 1959 Stabilisation itself was not in itself a pivotal point in the liberalisation of Spain's economy, but the culmination of a protracted process of negotiation and piecemeal change that dated back at least as far as 1957.

Fortunately for the researcher, the government published the answers submitted by all the respondents. The responses show wide recognition of the inevitability of greater opening of the

¹¹⁵ Preston, P. *Franco, A Biography*, London, 1993, p.677.

¹¹⁶ Pedro Schwartz and Manuel-Jesús Gonzalez, 'Una Historia del Instituto Nacional de Industria', 1941 – 1976, Madrid, 1978, p.87

¹¹⁷ Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959, p.7

¹¹⁸ Letter from Suanzes to Francisco Franco, 17 April 1959, and Letter from Suanzes to Luis Carrero Blanco, Minister of the Presidencia del Gobierno, 8 May 1957: Archivo Personal de Juan Antonio Suanzes, Centro de Documentación del Instituto Nacional de Industria.

Spanish economy and convertibility of the currency, even from some long standing pillars of Francoist autarky such as the Organización Sindical, the 'vertical' state syndicate. This body should not be taken as an accurate gauge of organised labour's position on the consultation. It was formed to compensate for the regime's ban of all existing trade unions and served as an instrument of the corporatist state which also represented employers' interests.¹¹⁹ Thus the OS is best understood as an organ of Francoist ideology subordinated to the regime's original Falangist ideologues and promoter of the notion that class conflict had been overcome and a harmonious pyramidal structure of state, province, municipality and family had substituted older confrontations.¹²⁰ Yet the group's submission showed acceptance of the inappropriateness of continued isolation and the futility of pursuing industrial self sufficiency. The OS highlighted stress on Spain's terms of trade with other countries in Europe adopting currency convertibility. Freer (and cheaper) currency exchange would make Spanish exports less competitive if the regime maintained its protectionist policy of multiple exchange rates. Closer ties with Europe was preferable, therefore, incorporating a 'normalisation of foreign trade', namely a single exchange rate thus returning 'purity' to the currency by "renouncing its use as an instrument of subsidy and restriction."¹²¹ In sum, the organisation viewed export promotion to build up reserves alongside price stability as the most effective means to increase Spain's ability import capital goods. This in turn would boost productivity and further the OS' pursuit of full employment, improved living standards and thus mitigate the threat of labour unrest.

The response did not entirely relinquish the nationalist vision. While the OS acknowledged the potential benefits of allowing entry to foreign investment in easing capital shortages that had hampered industrial progress, it also warned of a threat to Spain's autonomy from full capital account liberalisation. Spanish economic development had to be achieved through indigenous effort in order to avoid subordination to foreign interests and the possibility of exploitation. The response stated that: "the indiscriminate entry of foreign capital that would compete in unfair conditions with a national economy which does not have sufficient financial resources to acquire the necessary means to modernise, should not be accepted; there should be a planned transition."¹²²

Thus the document proposes establishing a list of selected activities that would benefit from foreign capital, such as those industries aspiring to achieve exportability and international competitiveness.

The view of private business interests, forced to operate in a protected environment for so long might be expected to be cautious on the wisdom of rapid liberalisation and opening of the home market to more advanced foreign competition. On the other hand, greater ease of exports with a freely convertible and competitively valued currency might fare them well in the international

¹¹⁹ Mateos López, A. *Exilio y Clandestinidad. La Reconstrucción de UGT 1939-1977*. Madrid, 2002. p.223

¹²⁰ See: Salvador Giner & Eduardo Sevilla, *Spain: From Corporatism to Corporatism*, in: Allan Williams (ed.)

Southern Europe Transformed: Political and Economic Change in Greece, Italy, Portugal and Spain, London, 1984

¹²¹ Oficina de Coordinación y Programación Económica, 1959, pp. 28 – 30.

¹²² *Ibid.* p.34

marketplace, bring in more revenues which could then be used to purchase better equipment. It would also open the door to foreign investment, which would appeal to the capital-starved Spanish entrepreneur of the time. The response from the Higher Council of Chambers of Commerce reflected this latter view, coming out firmly in support of the government reformers on ending Spain's isolation with a document that was enthusiastic about economic liberalisation.¹²³ There was no hope, it argued, in the existing "ultradirigisme", and if Spain failed to conform to the wider international trend then its isolation would deepen and terms of trade worsen. Thus, Spain needed to emerge from its isolation with a convertible and stable currency that would attract investment. If Spain failed to implement convertibility, then in the long term it would become uncompetitive in relation to those other markets that were participating in the liberalised system. Furthermore, Spain would be starved yet further of vital capital imports because foreign producers would be disinclined to service a market in which they could only be paid in money that can only be spent on overpriced goods within Spain. The Chambers also favoured liberalisation of trade, with the possibility of a reciprocal agreement with Latin American countries in addition to the emerging European common market. In sum private business interests wished for: "high productivity, liberalisation of economic activity, financial equilibrium, internal price and wage stability, thriving foreign trade, and ultimately, healthy purchasing power for a currency that needs to be convertible."¹²⁴

Private business, it seems, was firmly in favour of the efforts made by reformers in government. This illustrates a crucial distinction within the 'industrial' elite, in that the enthusiasm of private business contrasts sharply with serious reservations held by representatives from 'national' industry. Francoism could no longer be classified as representing a vaguely defined elite against forces that favoured redistribution. Indeed, private national capital had found themselves at a disadvantage at least in terms of access to capital because while the ideologies elaborated by Suanzes and others identified a role for this sector, their Greater Spain vision of development had prioritised strategic, state enterprise.¹²⁵

The fact that Spain's central bankers, obliged for so long to underwrite the limitless ambitions of the engineer planners came out in favour of change is reasonably predictable. In its submission the Banco de España argued that greater international economic integration, made Spain's continued adherence to the self sufficient model untenable. The Treaty of Rome, and liberalised exchange of capital and goods within a European bloc that neighboured Spain was a particularly acute threat to Spanish progress unless changes were made. The concern was how would Spain compete with this new behemoth on its doorstep. A European free trade area with

¹²³ Consejo Superior de las Camaras Oficiales de Comercio, Industria y Navegación de España (Chambers of Commerce, Industry and Navigation.), in: Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959

¹²⁴ *Ibid*, p.45

¹²⁵ IBRD, *The Economic Development of Spain*, Baltimore, 1963, p.335

reciprocated currency convertibility would inevitably lead to greater economies of scale, broader choices of location for ever larger companies, higher productivity and ultimately rising living standards. Because of the fact that all this would incorporate some of Spain's competitors: "any policy which does not lead to an increase in international trade could lead us to isolation and an ever wider gap between our prices and international prices".¹²⁶

It was essential that Spain be a participant in further negotiations regarding greater liberalisation of trade because almost two thirds of its exports were to the European countries involved in the agreements. But participation in an international, or at least European, trading network had to be accompanied by adherence to greater financial interchange and consequently convertibility of the currency was equally important. A liberalisation of trade, the bankers argued, accompanied by a parallel deregulation of external payments and convertibility had to be underpinned by a single exchange rate. However, the viability of all this reform of Spain's external relations depended on internal stability and the constraint of inflationary pressures. Unsurprisingly, in the Bank's view any stabilisation plan to reduce inflation had to focus on reducing growth in the money supply which had expanded in recent years far faster than national income

How best, then, to prevent the availability of money increasing faster than production? End the policy of providing central bank support to the capital market making it easier to enforce monetary discipline. Ministers Ullastres and Navarro, as described above, had struggled to curb the practice of automatic central bank underwriting of frivolous public investment by the 'autonomous' agencies of development, particularly the INI. It is unsurprising, therefore, that the ministers could rely on the support of the central bank in their attempts at economic policy reform. This like mindedness also reflects the fact that the rise of classically trained economists applied to the civil service as much as to high ministerial government and the Central Bank in particular had become a stronghold of the technocratic clique.¹²⁷

What of the wider banking sector? Two responses to the consultation, from the Spanish Confederation of Savings Banks and the High Bankers Council, both industry associations, also came out in support of an end to Spain's autarky and runaway public spending habits. The savings banks highlighted the need to boost savings, a necessary "discipline to achieve better use of wealth". Clearly, when inflation is high, as it was in Spain in the 1950s, savings suffer. What was

¹²⁶ Consejo Superior de las Camaras Oficiales de Comercio, Industria y Navegación de España (Chambers of Commerce, Industry and Navigation), p.49

¹²⁷ Fuentes Quintana, E. 'La economía española desde el plan de estabilización de 1959', in: Martínez Vara, T. *Mercado y desarrollo económico en la España contemporánea*, Madrid, 1986. p.140

needed, therefore, was an “inflexible policy of price stabilisation”.¹²⁸ Meanwhile the bankers’ council stressed that international isolation was unsustainable because of growing reliance on both export revenues and capital imports. The Council stressed, however, that Spain was still not in a position to compete on an equal footing with other nations in a liberal international market. Thus the policy it suggested was one of ‘preparation’ that would build up confidence and credibility and eventually elicit the necessary international support for Spain’s full reintegration in the international economy. Thus, industry needed to be protected although subsidies and artificial pricing should end. Liberalisation of trade to boost exports was important, as was the courting of foreign capital to aid continued industrial progress.¹²⁹ Like the labour organisation, the banking sector approved of re-establishment of external economic relations by way of liberalisation of the capital and current accounts. But like the OS its enthusiasm came tempered with a warning against over rapid liberalisation, recommending a gradual liberalisation of trade.

The Faculty of Economic Sciences at the University of Madrid, an intellectual incubator of the cause to undermine corporatist ideology, used the consultation to further the views held by the new generation of technocrats. The faculty’s response arguably reflected most accurately the vision of the ministers. Indeed, it was where most of the Opus Dei generation had acquired their belief in a self equilibrating market having passed through as either academics or post graduate students. It was thus a spiritual home of the liberalising movement and its response revolved around: “the absolute necessity of an authentic policy of stability to which all monetary, credit and investment policy is subordinated.”¹³⁰

Once stability was assured Spain would be able to benefit fully from reinsertion in the world economy. This is significant in terms of belief systems in that it is diametrically opposed to the *Movimiento* doctrine of national development which subordinates monetary policy to political priorities. The standard bearer for this view and a conspicuous exception to the consensus revealed by the consultation was the INI. The Institute’s submission was unsigned but reads like one of Suanzes’ ideological writings. It echoes the authoritarian propaganda of the immediate post Civil War era by calling for a continued drive to greater productivity, continued state control of prices

¹²⁸ Confederación Española de Cajas de Ahorro, *Cuestionario Económico del Gobierno*, in: Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959 p.96

¹²⁹ Consejo Superior Bancario, *Cuestionario Económico del Gobierno*, in: Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959, p.117

¹³⁰ Facultad de Ciencias Económicas, *Cuestionario Económico del Gobierno*, in: Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959, p.218

alongside labour law that would “reinforce the principles of authority and responsibility”.¹³¹ Whereas growing unrest caused by the economic instability led many to look to a new policy direction, the State’s industrial monolith considered reinforcement of the old authoritarian principles to be more appropriate. The Institute acknowledged that the trend towards convertibility of currencies and greater liberalisation of trade would disadvantage Spain’s competitiveness if it remained outside the system, but not in the immediate term. In other words, there was no hurry to address the challenge. Meanwhile, the concept of ‘economic stabilisation’ as presented by the government reformers was viewed with deep suspicion. The Institute regarded itself as the navigator of Spain’s economic transformation from agrarian backwater to industrial power, a role it had carried with evident results. The proposed stabilisation of the economy which the government alluded to, threatened to stop that transformation in its tracks, the Institute argued, because it implied a “constraint of expansion”. In other words:

“Stabilisation might suggest the retention...of that expansive or transformative process which, applied to production in all sectors and correctly planned and coordinated, is considered from all points of view, the pivot of our economic development and constitutes, logically, the hopeful aspirations of the vast majority of Spaniards.”¹³²

The report thus railed against veneration of economic theories that endangered “the sources of wellbeing and progress”, stating that while Spain remained an international laggard in terms of living standards, industrial expansion and employment growth had to take precedent over modish theories calling for restraint and budget austerity. Thus the report dismissed the entire concept of orthodox stabilisation for a country in transition, claiming:

“Countries which, on account of their high standards of living can allow themselves the luxury – if it can be called that – of putting the brakes on its process of expansion, cannot compare themselves with our (country), in which growth is an urgent priority...”¹³³

The report contains other idiosyncrasies, stating Spain’s exclusion from Marshall Plan aid after World War II was an “enormous injustice” and warning against continued ostracism of Spain.

“Spain is not the periphery of Europe, as is sometimes claimed, comparing it with Turkey and Greece.” Continued isolation of Spain would mean loss of the benefits of its “special relations with the Hispanic American and Arab worlds”.¹³⁴ There were rejections of the importance of calibrating investment with savings and statements of the necessity of state-led measures to combat “speculation.”

¹³¹ Instituto Nacional de Industria, *Cuestionario Económico del Gobierno* in: Oficina de Coordinación y Programación Económica: Documentación Económica, *Contestaciones al Cuestionario Económico del Gobierno*, Madrid, 1959. p.167.

¹³² *Ibid*, p.162

¹³³ *Ibid*. p.163

¹³⁴ *Ibid*. p.169

Notwithstanding, general support on matters of monetary reform and economic liberalisation from all representative agencies except the INI emboldened the reformers to press ahead with an IMF sponsored stabilisation package. Navarro, for example, was at pains to stress the extent to which the bodies consulted represented all the most important groups and institutions in Spanish society. In a speech to parliament on 28 July in which he unveiled the Plan formally, he said: “It is cause for celebration that this consensus on economic issues has found a unanimous voice in all the organs representing the country because in this way, the decision of the Government becomes an authentic national agreement...”¹³⁵

This left little room for opponents to obstruct the Plan. The consultation had demonstrated to the caudillo that the concept of liberalization in trade, currency exchange as well as greater integration in the international economy was approved by the most important agents in Spain. Suanzes’ was thus presented as anachronistic in terms of the national mood and the reformers could now proceed with the Stabilisation, contrary as it was to what the regime had represented hitherto.

The Stabilisation Plan and ‘The New Economic Order’

The Stabilisation Plan of July 1959 is frequently cited as the definitive moment in starting Spain’s liberalisation. There is a conventional view that in spite of its shortcomings, namely inadequate structural reforms to the tax system, it was the bold first step in an ambitious project of liberalisation.¹³⁶ It was certainly an effective expression of the government’s commitment to restore balance both internally and in terms of external deficits. However, the Plan did not represent on its own an unexpected statement of economic housekeeping by newly appointed technocrats having conclusively superseded the old guard in the Franco regime. It was, nevertheless, a defining moment in the sense that it represented the reforming ministers’ most concerted act of nailing their colours to the mast, announcing the Plan amid much discourse on the ‘New Economic Order’.¹³⁷

“The Spanish government considers that it has reached the time to orient its economic policy towards aligning the Spanish economy with the nations of the western world by liberating it of

¹³⁵ Discuso Pronunciado pro el Excmo. Sr. D. Mariano Navarro Rubio, Ministro de Hacienda Ante el Pleno de las Cortes Españolas en Sesión Celebrada el 28 de Julio de 1959, Oficina de Coordinación y Programación Económica, Documentación Económica No.7: *Nueva Ordenación Económica*, Madrid, 1959.

¹³⁶ See: Prados de la Escosura and Sanz, *Growth and Macroeconomic Performance in Spain 1939 to 93*, In: Crafts and Toniolo (eds.), *Economic Growth in Europe since 1945*, Cambridge, 1996

¹³⁷ Discuso Pronunciado pro el Excmo. Sr. D. Mariano Navarro Rubio, Ministro de Hacienda Ante el Pleno de las Cortes Españolas en Sesión Celebrada el 28 de Julio de 1959, Oficina de Coordinación y Programación Económica, Documentación Económica No.7: *Nueva Ordenación Económica*, Madrid, 1959.

interventions which, inherited from the past, are not compatible to the requirements of the current situation,” stated a government memorandum to the IMF.¹³⁸

In its conception the Plan was a conventional IMF sponsored austerity package designed to reduce inflation by curbing excess demand. Devaluation of the currency and inducements to capital inflows, it was hoped, would restore a healthy balance of payments. Thus, the system of Central Bank financing of extravagant public investment was to be terminated with limits on the deficit and money and credit expansion. The Plan attributed a pivotal role to the market as an economic equilibrator. The aim outlined by Mariano Navarro to the parliament was to ‘overcome administrative obstacles which prevent prices reaching their natural level and the price of the peseta reaching its true value.’¹³⁹ In an acknowledgement of the opposing ideological camp in government, Navarro said that post Civil War reconstruction had led to ‘economic maturity’. Hence his conviction that the INI was now capable of financing itself without draining the resources of the Treasury as before. The next step in the process of Spain’s modernization was liberalization. In other words, the old model had served its purpose. Thus the legislation outlining the ‘economic order’ states: “Thanks to (our) rapid progress, our economic structure has been profoundly modified. Now that an endless number of problems have been resolved, it is necessary to confront others related to the higher standard of living achieved and the evolution of the global economy, especially that of the West, in whose economic organizations Spain is now integrated.”¹⁴⁰

Prices were too high, Navarro argued, because excessive state intervention in the form of ‘premiums and subsidies’. The ‘suppression’ of such state interferences had to be at the heart of any stabilization plan.¹⁴¹ This was to be achieved by way of two ‘simultaneous objectives’: domestic price stability and international convertibility of the peseta. They were described by Navarro as ‘simultaneous’ in the sense that: “they both relate to a single problem, the sustainability of the value of the currency in its two features – internal and external.”¹⁴²

This stability was to be built on liberalization of the economy, based on a definition of ending state intervention in prices. Navarro also focused on ‘equalisation’ of the economy, or scrapping of multiple exchange rates. At the same session in the parliament Alberto Ullastres outlined the new policy on trade which was less liberal in spirit as it endorsed the continuation of Spain’s restricted regime of import substitution on manufactures. Restrictions were to be lifted on

¹³⁸ Oficina de Coordinación y Programación Económica: Documentación Económica, Documentación Económica No.6, *Memorando al Fondo Monetario Internacional y a la Organización Europea de Cooperación Económica*, Madrid, 1959

¹³⁹ Navarro, ‘Discurso Pronunciado por el Excmo. Sr. D. Mariano Navarro Rubio, Ministro de Hacienda Ante el Pleno de las Cortes Españolas en Sesión Celebrada el 28 de Julio de 1959’, Oficina de Coordinación y Programación Económica, Documentación Económica No.7: *Nueva Ordenación Económica*, Madrid, 1959.

¹⁴⁰ Decreto-Ley 10/1959 de 21 de Julio, *De Ordenación Económica*.

¹⁴¹ Navarro, *Discurso*, p.14

¹⁴² *Ibid*, p.14

half of Spain's imports, namely primary imports, on the pretext that it would make raw materials more available to Spanish industry. Exchange rate liberalization and currency convertibility outlined by Navarro would facilitate this trade in raw materials in addition to allowing industries to purchase new capital goods and technology from abroad. In terms of imported manufactures, the restrictions would for the most part remain in place.¹⁴³ Spain was now committed to the liberalising ideals of the international organs it had joined the previous year and restructured its system of financing so that availability of credit was limited to quotas set by the Finance Ministry.¹⁴⁴

At the behest of Navarro and Ullastres, a team from the OEEC compiled a report on the progress of the Stabilisation Plan during its first six months. The document authored by one Milton Gilbert, director of economic affairs at the OEEC was heavily censored by its recipients, so that only the most ideologically palatable parts were released for public consumption as well as to public officials outside the Opus Dei circle. However, Alberto Martín Artajo, an official at the Banco Exterior and former foreign minister to the pre 1957 cabinet leaked the contents to Suanzes, warning that what the government suppressed included a recommendation by the OEEC that the INI and control of its component industries be 'decentralised'.¹⁴⁵

In response, Suanzes states that Mr Gilbert from the OEEC had not to his knowledge carried out any research into the administration of the Institute that would qualify him to form opinions on its management. Suanzes suggested to Martín Artajo, furthermore, that Mr Gilbert had been manipulated as a pawn by forces seeking to discredit the management of the INI.

"It is possible that (Mr Gilbert) has in the end become a more or less innocent victim of some attempt by those who, serving their interests or their emotions, do not hesitate to attack the good name of other people, neither do they pause to ridicule their own nation... but it remains clear to me that this represents unforgivable deviousness...." Suanzes wrote.¹⁴⁶

The OEEC report on the state of the Spanish economy following the Stabilisation which was published by the government's Office for Economic Programming and Coordination in April 1960, refrained from direct criticism of the INI. It did, however recommend that structural reform continue with particular reference to continued 'intervention' in the economy. The criticism was levied at 'certain controlling organisations' rather than specifically at Suanzes and his Institute. The report recognised that significant progress was in evidence six months after the Stabilisation Plan was launched. Excess demand was under control and prices were stable in spite of a sharp

¹⁴³ Ullastres, Discurso Pronunciado pro el Excmo. Sr. D. Ullastres, Ministro de Comercio ante el Pleno de las Cortes Españolas en Sesión Celebrada el 28 de Julio de 1959, Oficina de Coordinación y Programación Económica, Documentación Económica No.7: *Nueva Ordenación Económica*, Madrid, 1959.

¹⁴⁴ Decreto-Ley 10/1959, Artículo 10.

¹⁴⁵ Letter from. Alberto Martín Artajo to Juan Antonio Suanzes 16 December 1959, Centro de Documentación del Instituto Nacional de Industria. Archivo Personal de Juan Antonio Suanzes,

¹⁴⁶ Letter from Suanzes to Martín Artajo 7 January 1960, Centro de Documentación del Instituto Nacional de Industria. Archivo Personal de Juan Antonio Suanzes,

readjustment to the exchange rate. The organisation cautiously suggested that Spain had turned an important ideological corner, abandoning the old model with the comment:

“It appears that the inflationary psychology that has reigned in Spain for so long is on the verge of disappearing.”¹⁴⁷

On the other hand, the report warned that much still needed to be done in the area of structural adjustment saying that liberalisation of the economy was “fragmentary and insufficient”.¹⁴⁸ In particular the organisation lamented a lack of progress in liberalising the economy far enough to allow the private sector more manoeuvrability. In spite of notable progress in abolition of price controls and the suppression of mechanisms for intervention in the economy, private firms remained subjected to rigid controls on investment and employment.¹⁴⁹

The restrictive employment policy criticised by the inspectors was a centrepiece of Franco policy that would not be abandoned lightly. Given that the Civil War had been fought against an enemy that derived much of its support from an anarcho-syndicalist movement, the regime’s greatest fear was a resurgence of labour militancy. The two main policy instruments employed were authoritarian, and often violent, suppression of protest but also a generous wage policy alongside rigid employment regulation. The Suanzes doctrine, furthermore, moulded the INI and the industrialisation programme to act as an instrument of this policy aiming to increase industrial employment. Thus, in spite of the liberalising zeal of the architects of the Stabilisation Plan, and the credibility lent to the liberalisers by involvement of multilateral organisations such as the OEEC, the World Bank and the IMF, certain sacred cows of the regime were still untouchable. Furthermore, the exchange between Suanzes and Martín Artajo suggests that the OEEC report on the state of the Spanish economy was altered to remove, or at least obscure specific criticisms of the INI.

Further evidence of this tempering of the technocrats’ plans lies in the evolution of the 1959 National Investment Plan, published by López Rodó’s Office for Economic Coordination and Programming. This represented a concerted effort by the reformists to put Spain’s finances in order and impress the international community with its transparency. The details of the budget imply the ministers were treading cautiously, however, exercising policies based in economic liberalism but stressing the need for expansion of productivity favoured by the pre *Opus Dei* ‘engineers’. In other words, a new direction was hinted at but veiled in the language of the old regime. Indeed, the Plan represented a policy of accelerating investment at a time when inflation was rising. Liberal elements were included but expansionary public spending was still a feature and there was little hint of the

¹⁴⁷ Oficina de Coordinación y Programación Económica, Documentación Económica: *Informe de la OECE sobre el Plan de Estabilización*, Madrid, April 1960, p.8.

¹⁴⁸ *Ibid*, p.9

¹⁴⁹ *Ibid*, p.14

structural adjustment Navarro may have planned in the medium term. Thus trade was portrayed as the answer to the economy's imbalances, marking a significant departure from previous export pessimism. The Plan hailed progress made thus far in expanding levels of production while recognizing the inadequacy of export revenues in the face of growing deficits. Paradoxically however, the purpose of achieving this trade balance as articulated to the public was to enhance Spain's international purchasing power. Greater foreign currency reserves meant greater ability to import the equipment needed to augment production yet further. The emphasis presented to the public, therefore, was on easing supply bottlenecks rather than curbing excess demand or tempering industrial expansionism.

"To go faster, it is necessary to import more. And to be able to import, it is necessary to export. To export more or progress less: This is the dilemma of the Spanish economy." Stated the public declaration of the Plan.¹⁵⁰

The document proposed to orient public spending in favour of export oriented agriculture and specific industrial sectors identified as being "most beneficial to the economy of the fatherland."¹⁵¹ The target and culprit of Spain's persistent economic imbalances was the double "strangulation" imposed by both foreign trade and inadequate energy and raw material production within Spain. Agriculture was assigned to address the former through a drive to surpass domestic needs and produce an exportable surplus, with a targeted increase in production of 35 per cent within four years. To achieve this surplus, agricultural imports were to be reduced by 17 per cent over the period while increasing production through extension of irrigated land, intensification of agriculture through parcelisation of holdings, improved storage, expansion of forestry, increase of land dedicated to exportable fruit products, expansion of olive growing, improvement of livestock herds and increased mechanization. The target was a surplus of US\$183 million by 1963¹⁵² The industrial "strangulation" was to be tackled by intensification of energy production and raw material extraction.

"Industrial investment is not to be aimed at intensification of (industrial) export trade. Rather, it is aimed at achieving an expansion of energy production... Undoubtedly, in the past Spain has experienced obstacles to its ability to acquire goods on account of lack of supply in certain key sectors of the economy. One of these has been the energy sector, while deficiencies of supply have also been identified in the cement and construction materials, steel products and fertilizer industries."¹⁵³

¹⁵⁰ Ministerio de Comercio: Información Comercial Española, *El Plan Nacional de Inversiones*, March 1959, p.91

¹⁵¹ Oficina de Coordinación y Programación Económica. Documentación Económica No.3, *Decreto 323/1959 – Programa de Ordenación de las Inversiones*, 12 Marzo 1959. p.7

¹⁵² *Información Comercial Española*, March 1959, p.95

¹⁵³ *Ibid.* p.97

Targets were set within the plan for production increases of up to 69 per cent within a year in oil refining, cement, steel, fertilizers and nitrates, shipbuilding, aluminium, and chemicals.¹⁵⁴ This is not to say that the idea of industrial exports was entirely discounted. The expansion of production in basic industry was aimed at relieving bottlenecks in supply in the short term which over a longer period would benefit firms seeking revenues from exports, particularly in the manufacturing and food processing sectors.¹⁵⁵ The chief beneficiaries of the budget were to be those 'basic' sectors highlighted in the Law of October 1939 as being in the national interest: steel, coal, transport and so on. The ministries of Trade and Agriculture were obliged to orient their own budgets according to the priorities outlined in the Plan and, crucially, monetary policy was to be similarly aligned with a remit to provide the necessary stability alongside full employment.¹⁵⁶ The plan was highly centralized, establishing a central committee made up of representatives of various economy oriented ministries, namely the Presidency, Finance, Public Works, Agriculture, Industry, Trade, Employment, Information, Tourism and Housing.¹⁵⁷

The reason behind the caution was the fact that opponents to any austerity were powerful and the restrictions on state finance for the INI had provoked some high level opposition. Indeed, the dictator himself was aware of the objections of some of his closest allies to what the technocrats were trying to achieve. Suanzes in April 1959 sent a dossier to the caudillo outlining the funding difficulties of the INI, expressing the damage that budgetary conservatism was having on his vision.

"I get the impression that they will very soon allow us a certain quantity but our problems have been mounting for a long time... which translates into not merely the Institute and the firms that depend on it losing their credit, but also their investments are necessarily hindered."¹⁵⁸

After mid 1959, however, the budget was subordinated to the monetary and fiscal austerity which comprised the Stabilisation Plan and priorities were reoriented. In a memorandum to the IMF regarding the Stabilisation Plan, the government pledged to limit public spending to less than 80 million pesetas that would reduce the need for government financing from 18.3 million pesetas in 1958 to 13.4 million in 1959. The added benefits of 6 million more from the capital market including savings banks as well as 4 million of US aid, it was anticipated that the public sector would only require a further 3.4 million from the banking sector.¹⁵⁹ In consequence, therefore, the agricultural sector heralded in the original investment plan as the great saviour of Spain's trade

¹⁵⁴ *Ibid.* p.98.

¹⁵⁵ *Oficina de Coordinación y Programación Económica: Documentación Económica No. 3*, 'Programa de Ordenación de las Inversiones, Madrid, 1959. pp.43-44

¹⁵⁶ Decreto 323/1959. Artículo 4º

¹⁵⁷ *Ibid.*, Artículo 2º

¹⁵⁸ Letter from Suanzes to Francisco Franco, 17 April 1959, Centro de Documentación del Instituto Nacional de Industria. Archivo Personal de Juan Antonio Suanzes,

¹⁵⁹ *Oficina de Coordinación y Programación Económica: Documentación Económica No.6*, Memorandum al Fondo Monetaria Internacional y a la Organización Europea de Cooperación Económica, Madrid, 1959, p.9

balance which was to be nurtured as an export revenue earner, saw its budget revised and reduced over the course of the year.

“Investments planned (in agriculture) were revised in the course of the plan’s development and adjusted to a lower level...with the aim of accommodating them within the National Economic Stabilisation Plan, put into force a few months later....The readjustment of investment in relevant public sectors had necessarily to affect the reach of objectives (outlined in the original plan), in favour of the objectives of the National Stabilisation Plan,” reads the revised Investment Plan.¹⁶⁰

In respect of investment in basic industries, the revised budget states that in calculating the original targets for implementation in 1959, the figures were “rounded off at an excessive level and represented a limit greater than what is desirable.”¹⁶¹ In short, the original allocations of spending for industry were somewhat overenthusiastic. Given that the architects of the ‘overenthusiastic’ budget were the reformers, it appears they were conceding much to the conservatives as part of a gradualist political strategy, with full intention of rescinding the generosity later. The following table (Figure 3.3) illustrates the original targets outlined in 1959 against investments made by 1960 in addition to the ‘revised’ budgets. This third variable was, however, more a statement of intent rather than an effective plan on account of the fact that much of the money had been spent and all the targets were close to being reached by the time action could be taken. In the case of spending on ‘basic industry’, the target was exceeded.

Figure 3.3: 1959 National Investment Plan: Gross Total Investment by Sector (millions of pesetas)

Sector	Projected(A)	Adjusted(B)	Implemented(C)	%C/A	%C/B
Agriculture	15,773.4	14,635.5	14,120.5	89.5	96.4
Basic Industries	16,566.4	16,566.4	20,130.2	121.5	121.5
Other Industry	12,052.3	12,052.3	10,873.1	90.2	90.5
Public Works	11,457.9	10,347.6	9,770.2	85.2	94.7
Airports	484.6	184.6	68.8	14.1	37.2
Housing	17,921.5	17,921.5	19,500.0	108.8	108.8
Other	7,226.4	7,226.4	6,315.6	87.3	87.3
Total:	81,482.5	78,934.2	80,778.4	99.1	102.3

Source: Oficina de Coordinación y Programación Económica: Documentación Económica No. 16, ‘Informe Sobre la Ejecución del Programa de Ordenación de las Inversiones para el año 1959’, Madrid, 1960

¹⁶⁰ *Oficina de Coordinación y Programación Económica: Documentación Económica No. 16, ‘Informe Sobre la Ejecución del Programa de Ordenación de las Inversiones para el año 1959’, Madrid, 1960. p.7*

¹⁶¹ *Ibid.* p.18

The overall budget reduction is an unspectacular 1 per cent although the actual amount spent exceeds the original projection by more than 2 per cent. Much of this excess is attributable to the basic industries which not only exceeded their budget allocation by more than a fifth, but were also left unscathed by the budget reductions announced in 1960. The agricultural sector, in contrast, saw its budget slashed by more than 10 per cent, which suggests greater lobbying power held by the state industrialists compared with their colleagues at the Ministry of Agriculture.

However, the liberalisers intended to extend their restructuring of the economy further by adopting a plan for development built upon the new monetary stability. The design was for a high rate of growth underpinned by foreign trade and a more modest role for the public sector. Efforts to liberalise were still limited by stalwarts in the regime and to implement a new phase of development without jeopardising the hard won stability and surpluses in the balance of payments, the Ministers sought further international sanction. A World Bank mission was invited to Spain early in 1961 to conduct a survey and formulate a series of recommendations based on the brief set for them by the Spanish government. The report was uncompromising in its criticism of the INI and industrial policy in general, declaring that in spite of progress in liberalising the economy, much work was still necessary. The continuation of price controls and subsidies in certain sectors seriously threatened long-term stability and prospects for a more participatory private sector. Cross subsidies among state enterprises were a particular irritant to the World Bank team which highlighted the example of ports making land and other installations available to government owned enterprises at highly subsidised rates. This, it argued, stifled entrepreneurship in the private sector. The mission argued that the INI should suffer greater exposure to market forces urged the immediate removal of its special privileges that made uneconomic allocation of resources a serious issue. The report highlighted the founding article of the INI which pledged to nurture industry until such time that it became self sustaining and committed itself to a gradual phasing out of state control while encouraging private initiative. The INI had reneged on this pledge and was actually seeking to increase its role in the economy at the expense of fair competition. The private sector was seriously constrained in the existing system of subsidised public competition, the report argued. On this point the mission described charges against the INI without naming the source of the information.

“We understand that INI has sought to reserve for itself fields of activity in which private interests were prepared to operate. We believe that the more broadly the mandate of INI is interpreted, the more uncertainty it creates. Businessmen are reluctant to make new investments in view of the uncertainty as to the future intentions of INI. Spanish and foreign firms have encountered long delays when seeking authorisation to set up plants in fields that INI also wished to

enter. Continued uncertainty of this kind can only retard the growth of private industry and the inflow of foreign capital.”¹⁶²

In the view of the World Bank, therefore, the INI had served its purpose as an industrial pioneer and now acted as a hindrance to the further maturing of Spain’s economy by distorting the market. The solution was simple:

“Over the next five to ten years, when a new relationship with the private sector is being worked out, caution should be exercised in assigning new activities to INI.”¹⁶³

Suanzes’ reaction was despondent as by now he was aware of the ascendancy of the liberalisers and a sustained campaign against his industrial project. Writing to one of his subordinates shortly after the World Bank report was published, he stated:

“The truth is that I have attached very little importance to the report and the recommendations made by the World Bank related to the future development of our economy, as I would never have requested a report of this type and it therefore follows that I am not interested in what they might say to me...”¹⁶⁴

Suanzes referred to the report as part of a “perfectly orchestrated campaign attacking the Institute” but remained defiant nonetheless. The efforts of his detractors, he claimed, were merely strengthening the Institute. Indeed, the final design of the first Development Plan does not indicate much adherence to the World Bank mission’s recommendations regarding exclusion of the INI and the centrality of the market. For example, as mentioned above, the World Bank had highlighted the need to end ‘unfair’ subsidisation of state enterprises in order to allow the private sector to compete. Cross subsidisation, tax advantages based on state industries’ categorisation as ‘strategically important’ and alleviation of duty on imported capital goods put private competitors at a severe disadvantage, the report argued. Yet the first Development Plan fell somewhat short of this ideal. The structure of the Plan was a series of economic forecasts and targets covering a four year period from 1964 to 1967. Clearly there was no heed paid to any suggestion that control of the economy should be decentralised and left to market forces. The language of the Plan portrayed the initiative as a partnership between private and public with an eye to gradually tipping the balance in favour of the former. Thus the public sector was to act as a subordinate to the private sector, enshrining in law the idea that State enterprises should avoid competing unnecessarily with private interests. New public companies would now only be launched in cases where there was “insufficient private enterprise”. However, the private sector was to “follow guidelines” regarding what the government

¹⁶² International Bank for Reconstruction and Development, *The Economic Development of Spain*, Washington 1963, p.350

¹⁶³ *Ibid.*

¹⁶⁴ Letter to Francisco Dopico, subdirector jefe de obras civiles de la empresa nacional ‘Bazan’, 18 December 1962, Centro de Documentación del Instituto Nacional de Industria. Archivo Personal de Juan Antonio Suanzes,

believed to be the most suitable allocation of resources.¹⁶⁵ Furthermore, if private companies failed to meet those guidelines or targets set by the government, it's the subordinate status of the public sector was to be rescinded. Thus the legislation stated that:

“The government will be able to identify the inadequacy of private initiative and the opportunity to substitute for it with public activity, in cases when it does not achieve within certain sectors the objectives assigned to it, as guidelines, in the Economic Development Plan.”¹⁶⁶

The law also maintained and reiterated the right of the public sector to intervene and exclude the private sector from sectors designated as of national interest or important for defence, a privilege highlighted by the World Bank as an unfair advantage.

To summarise the new order therefore, the government also undertook to subsidise activity in certain sectors identified as struggling to meet targets set by the Plan, a regime in which the law stated the private sector could participate in voluntarily. Once the sector in need was identified, a process of negotiation would take place between the Ministries of Industry and Finance as well as the *Organización Sindical*, and the Central Committee of the Development Plan, in effect a new ministry. In this way a plan would be formulated to direct production targets, necessary subsidies and any administrative issues. Failure to reach these targets would mean suspension of government help.¹⁶⁷ What this represented was a continuation of heavy handed corporatism and centralised state control that was dominated by subsidies in spite of pledges to act otherwise.

Much emphasis was also placed on regional development with a view to elevate living standards in impoverished provinces. The method employed was to be a system of the central government choosing the locations for “poles of industrial development” each of which was to be approved by government decree. Again, as with the selection of industrial sectors for preferential treatment, the choice of locale for development was left to a team of representatives from various ministries and the Central Committee of the Development Plan. Once approved, the inhabitants of these areas could expect to see rapid development of publicly funded industrial projects and public works initiatives.

Such a system empowered the State rather than diminished it in the spirit of free enterprise and was a far cry from the vision laid out by the World Bank in its report. Control of this and subsequent development plans was highly centralised and state-owned enterprises were to maintain a leading role. In spite of pledges to subordinate activity to private enterprise, decision making was a top-down process. Whether a region or an industrial sector could expect to develop was not left up

¹⁶⁵ Presidencia del Gobierno, Comisaría del Plan de Desarrollo, *Plan de Desarrollo Económico y Social para el periodo 1964-67*, Madrid, 1963, p.47

¹⁶⁶ Presidencia del Gobierno, *Proyecto de Ley por la que se aprueba el Plan de Desarrollo Economico para el Periodo 1964-1967 y se dictan normas relativas a su ejecución*, Ley 28 de Diciembre 1963, Artículo 2º, 2:a

¹⁶⁷ *Ibid.* Artículo 5º 1 and 2.

to market forces, comparative advantage or any other market driven process. It was decided by decree from above. It appeared therefore, that the INI could rest assured that it was not on the verge of extinction as in spite of the hostility of reformist ministers. Structural adjustment was to stop well short of dismantling the developmental state. The leadership of the INI regarded the nature of the Plan as vindication, a continuation of its own expansionist ideals.¹⁶⁸

Conclusion:

This section has looked at parallel economic liberalisations to tackle imbalances associated with previously employed models of state sponsored industrialisation. In each case examined here policy reform stopped short of what Frondizi's administration in Argentina and Spain's Opus Dei technocrats had in mind. This was due to a need to placate powerful factions who were either concerned about the possibility of social disorder or sought to retain or increase their share of national income. There was, in each case a continuation of the basic concept of modernisation through forced industrialisation overseen by the state, as a central priority, but the new model sought to co-opt a new force, foreign capital, to participate in the project ideally in a subordinated role. They both represented, therefore, a rejection of the autarkic component of ideologically conceived, national modernisation through managed industrialisation. Thus the stabilisation plans in Spain and Argentina, conceived with the help of the IMF, were components of both governments' efforts to attract foreign capital. Association with the IMF arguably added prestige and served as high level endorsement of the regimes' financial responsibility which in turn served to attract foreign private investment. Returning to the debate over 'ownership' of the stabilisation plans, there may have been stringent conditions attached to the relevant loans by the Fund, but the indirect benefits associated with IMF endorsement, as opposed to the financing, was the primary motivation for each government's efforts to secure the Fund's participation. The plans were used as instruments in alliance making, both with local and foreign capital, and thus 'ownership' can be largely attributed to the Argentina and Spanish economic policymakers.

So what separates the two models and qualifies the assumption of this paper that Spain was the more successful case? Firstly, the continuity of the Franco dictatorship provided a degree of institutional stability despite the splits within the government between conservative and reformist factions. Crucially, the clash of ideas between factions was internalised as a debate among branches of the state with loyalty to the executive as protector against disorder binding the system together. This institutional continuity is reflected in not just the survival of the dictatorship itself which ensured political stability, but also of the INI and other bodies such as the Organización Sindical.

¹⁶⁸ INI, *Memoria 1962*, pp.12-13.

In the Spanish case, the state successfully harnessed the conflicting interests of distinct economic and social groups by constructing a system of corporatist representation within the state, which itself was an arena for negotiation under the authority of Franco himself. Different factions, representing distinct interests, lobbied for privilege and favour with the executive, and the period analysed here was one characterised by the waning influence of the Falange and ascendance of a technocratic, pro enterprise internationalist faction. But though one group may have enjoyed momentary favour, other groups were still heard and capable of exerting influence to restrain new policy.

In Argentina, however, there was no binding force to which interest groups were formally answerable. Bargaining was thus external, between the executive who wished to impose reforms, and interest groups such as business, labour and foreign capital. The popular voice in Spain was captured by the state though a system of vertical syndicalism following military defeat of the old syndicalism in the Civil War. In Argentina, while Perón was exiled at the insistence of Argentina's military, his syndicalist movement was not successfully dispersed in spite of interventions in unions and prohibition of their political party. Thus Argentine labour was a potent and unchecked force to be reckoned with. But while Frondizi was pragmatic enough to realise Peronist labour had to be appeased, powerful groups, including the military were suspicious of any conciliatory behaviour towards the Peronists. Pacts were necessarily secret but the clandestine nature of negotiations gave the appearance of policy inconsistency and contradiction as Frondizi tried to make concessions to as many groups as possible. The Argentine state lacked autonomy and the government collapsed under the strain of competing demands.

Returning now to the 'crony capitalism' corollary to the new institutionalist school of economics. Spain, as illustrated here, presents a higher quality of crony capitalism based on successful vertical political integration through consolidation of the corporatist state. Its political discourse over economic reform was a war of attrition kept within the control of the state while the diversity of interests represented by state agencies represented a broader reach of 'credible commitment' within a system defined by cronyism. The zero sum game of Argentine factions making tenuous alliances with Frondizi based on ever less credible assurances that their economic interests would be protected, was less stable and the goodwill of asset holders and the wider civil society more limited. This snapshot may go some way, therefore, to helping us understand Spain's economic outperformance of Argentina over the longer term.

Chapter 4

Crisis, Transitions and Frustrated Markets: 1976-80

This chapter, like the previous section, addresses contemporaneous attempts at economic reform and structural adjustment in the face of crisis blamed by the governments in each case on the legacy of their predecessors. A further similarity is that this chapter compares an authoritarian with a democratic government except that in this case the roles are reversed. The period in question starts in 1976 and was a time of rapid political change in both Argentina and Spain. The former was under military rule following a second crisis-ridden period of Peronist rule characterised by accelerating macroeconomic and political turmoil. The latter was immersed in a fragile but popular political transition following the death of Franco in 1975. The monarchy was restored but democracy was also constitutionally enshrined. Nevertheless, society was restive and the economy in crisis because a precarious political environment had caused inaction regarding the issue of higher international energy prices after the first oil crisis in 1974.

The reforms implemented in each case were presided over by economics ministers who believed in the market as the optimal allocator of resources and blamed the crises they were appointed to tackle on previous *dirigisme*. Nevertheless, political realities meant both cases as examined in this chapter were examples of frustrated orthodoxy with the eventual model stopping well short of what the respective ministers had originally envisaged. The difference between the two cases is presented here as rooted in the nature of policy implementation with respect to the extent to which economic interest groups were granted access to the policymaking process. The Argentine economics minister José Alfredo Martínez de Hoz, was granted exceptional powers by the ruling military junta and took a hard line against associational pressure, particularly labour. Meanwhile, the military had outlawed all political activity so parties were proscribed as were unions and other collective organisations. In reality, however, as argued throughout this thesis, associational life in Argentina is resilient enough to withstand such restriction. Indeed, in the case of the Peronist unions, they have spent more of their history operating clandestinely than legally. This meant that the minister's uniformed colleagues in government were in direct negotiation, albeit secretly, with unions over such issues as wage policy. So for all the government's authoritarianism and its ideological crusade against the main associations, very little had changed within the policy-making process. The economics minister may ostensibly have been granted unprecedented power in implementing policy but the practice of direct bargaining with interest groups over economic policy persisted.

In Spain, meanwhile, the government was constrained by the perceived threat to democratisation from reactionary forces in the military so shock treatments to the economy were ruled out as too dangerous. The solution was to invite representatives of newly legal political parties to negotiate wage and price constraints and persuade them to limit their demands in return for a pledge by the government to bring macroeconomic instability to a prompt end, a political accord

commonly referred to as the Moncloa Pacts named after the prime minister's residence in Madrid where the negotiations took place. Crucially, associations of employers and labour were not invited to the talks on the basis that such interests were adequately represented by the parties. They were subsequently put under pressure to endorse the agreements on the grounds that political stability was in Spain's best long-term interest. The result was a gradualist economic reform given at least a semblance of cross-party consensus by the negotiations and characterised by institutional continuity and recognition of the legality and legitimacy of existing political structures. Calls for revolution or authoritarian crackdown became the preserve of extreme factions of the left and right while the mainstream parties from all sides of the political spectrum, including regional nationalists, signed up to constitutional conformity. Thus through a highly precarious political and economic situation, the crucial public good of political stability was maintained. The inclusion of parties in policymaking and exclusion of associations, though two large labour union confederations were affiliated to the main leftist parties and therefore indirectly represented, reflects, it is suggested here, a *de facto* continuation of the Franco-era vertical system of representation. This does not represent a rupture with the old corporatism, so much as a change in management of economic and social interests. The official 'vertical' corporatist entity, the OS was disbanded following democratisation and the legalisation of trade unions. But unions were inherently weak, their claim to representation captured by a political party which meant in effect, interest negotiation was still kept within the state, carried out under the structure of a political party system that mirrored the old corporatist structure, presided over by an executive whose authority was universally recognised.

The chapter is split into two parts, the first of which addresses the Argentine case while the second describes the Spanish experience. Each of these subsections starts with a brief review of the pertinent literature and state of scholarship followed by an explanation of the principal structures of argument and a narrative of events. The chapter ends with a summary of the main points of the case study comparison before offering some conclusions.

Part 1: Argentina

The new order implemented in Argentina in April 1976 attempted to change fundamentally the environment in which economic forces had to operate, and was designed as a radical departure from "the old and deficient schemes" applied by previous regimes.¹ Nevertheless, its capacity to achieve this was limited in spite of the patronage of military authority because implementation of the vision in its purest form was politically unacceptable. Belief in the free market as the most

¹ See: Peralta-Ramos, M. 'Toward an Analysis of the Structural Basis of Coercion in Argentina: The Behavior of the Major Factions of the Bourgeoisie 1976-1983' in: Peralta-Ramos and Waisman, C. *From Military Rule to Liberal Democracy in Argentina*, Boulder 1987

desirable allocator of resources meant the reasoning behind reform demanded that protected industries be cast adrift by the state. Yet at a time of spiralling political violence and the threat of civil war, measures that would be too galling to the public and threatened state control of 'strategic' assets did not appeal to Argentina's new rulers. For practical reasons, therefore, the policy stopped short of the vision. This chapter holds that the episode conforms to the model outlined in early chapters of the thesis whereby the executive, in this case a military junta, negotiated directly with interest groups regarding policy. All political activity was proscribed and parties suspended, rendering them even weaker than usual. However, pragmatism by military authorities in the cabinet meant they continued to engage with unions as well as business interests even though the regime made dismantling of Peronist corporate entities such as the CGT a priority. The dynamic was more complex than that of the previous snapshot addressing Frondizi's attempts at economic reform, however. Though there was a clearly defined head of state who occupied the office of the presidency, the regime was a junta representing all three armed forces. This meant factionalism between the services, and indeed within them, played a role in policymaking. Ostensibly this resembles the Spanish authoritarian model of enduring corporatist bureaucracy where factions nominally representing economic groups negotiate within the state before an arbitrating final authority. However, the head of the Junta was not as enduring an authority as his Spanish dictatorial counterpart. Only the first leader, Jorge Videla, served his full term, preoccupied by challenges from within the military hierarchy. After he stepped down, the regime was punctuated by coups within the coup as junta heads were deposed and replaced by usurpers.

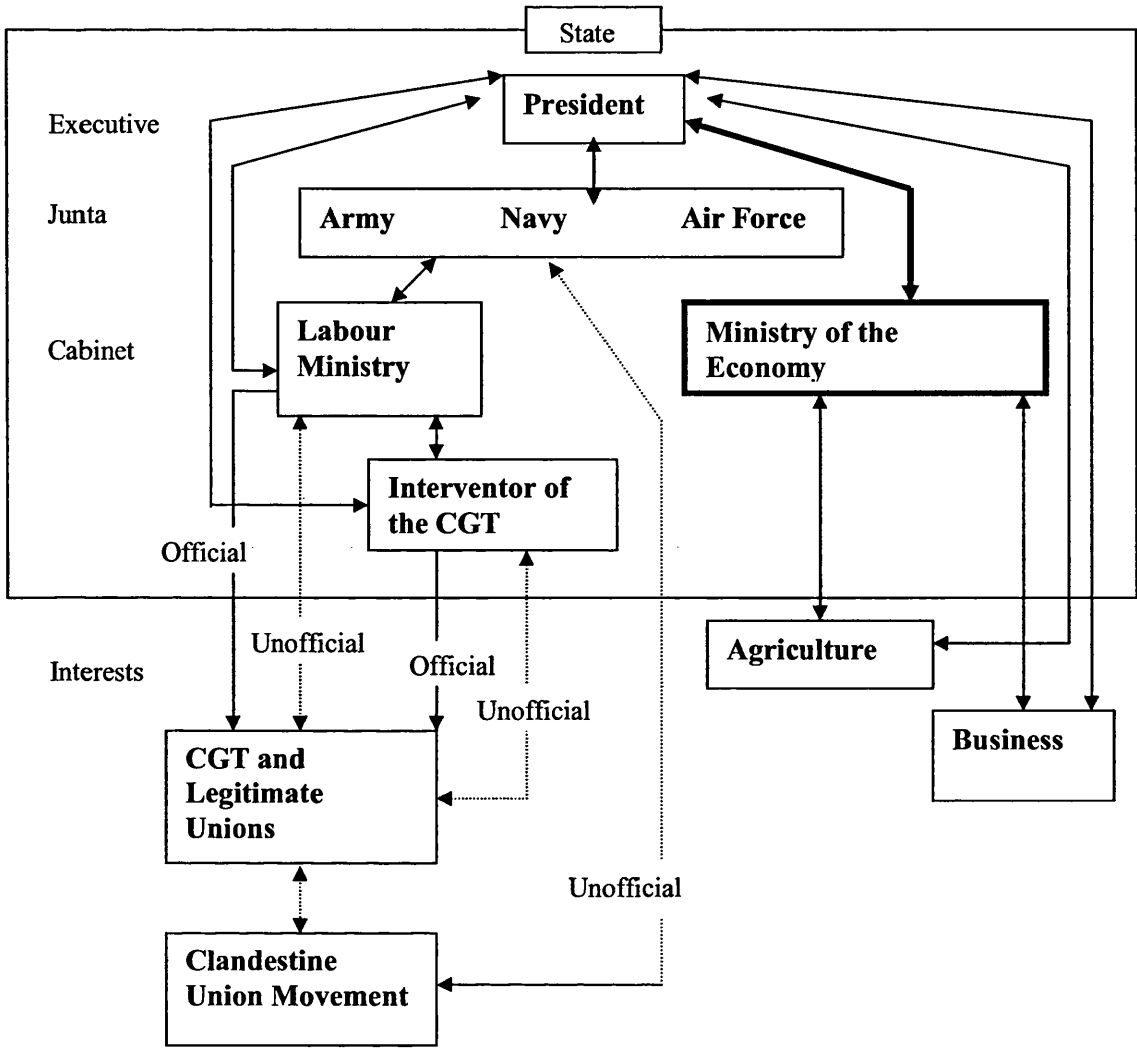


Figure 4.1: Argentina: Hierarchy of representation between President and interest groups during the Videla – Martínez de Hoz partnership 1976-1981

The framework for analysis used in this section to understand economic policymaking during Martínez de Hoz’s tenure at the Economics Ministry is outlined in figure 4.1. Again, the structure is characterised by a powerful executive. However, the nature of the regime is such that the president identifies itself with the new economic policy associated with the ministry of Martínez de Hoz. So the economics minister is uniquely powerful in this combination and the creation of a ‘super ministry’ to administer all facets of economic policy means he is an effective prime minister. Thus in the dynamic portrayed, the link between the executive and economics minister is the closest of all the combinations portrayed here. Officially, however, Argentina was ruled by a Junta with the three armed forces represented in equal measure with the power to appoint a president. During the initial stage of the regime, Jorge Videla both governed as President of the Republic and retained his

post as commander-in-chief of the army. Objections from the other services, particularly the navy, led Videla to appoint a 'fourth man' to head the army. His choice of Roberto Viola, a personal friend and known to be a political moderate proved contentious with more hard line members of the services. When Viola was also chosen as Videla's successor as president, certain factions of the military openly defied his authority and the Junta lost its cohesiveness. Nevertheless, during the crucial period of Martínez de Hoz's ministry, Videla maintained effective control over military factions, as is portrayed in the diagram. The next tier in the hierarchy below the Junta was the cabinet. All the appointed ministers were serving military officers with the exception of Martínez de Hoz and the Minister of Culture. Economic policy was market oriented and necessitated a degree of austerity for many sectors of society. The winners were likely to be the agricultural elites, because of an emphasis on promoting grain and beef exports, and externally oriented industry because of greater access to capital and the liberalisation of imports. Thus the minister looked to these groups for support while taking a harder and unsympathetic line with groups associated with the old order, particularly organised labour. Consequently networks of communication were established between the Economics Ministry and business and agricultural interests while the same department of state, while retaining a hand in setting wages, kept itself aloof from labour. However, the relationship between the minister and entrepreneurial elites eventually soured. Martínez de Hoz had liberalised prices as an ideological priority, while personally administering restrained wage increases. But when producers refused to absorb these rises and increased prices, the minister became openly critical and implemented a price freeze. He was also repeatedly exasperated by speculative activity by elites which undermined his efforts to keep inflation in check so resorted to dictating temporary price freezes. When this relationship broke down, however, business and agricultural elites resorted to their traditional inflationary weapons, such as retention of supply, and direct contact with the executive, bypassing the Economics Ministry altogether and isolating the minister.

Labour, meanwhile, identified as a disruptive force and a bastion of Peronist degeneracy, was to a great extent the sector treated most harshly. Its institutions were tethered with new regulations, unions were intervened and stripped of much of their power, while the right to strike was withdrawn. The Economics Ministry retained the right to set wages, whereas it had freed prices in the name of economic liberalisation, but did not recognise any form of labour representation or lobbying. Labour's official channel into the state was through the military intervenor of the CGT and the Ministry of Labour. The law stated that unions could not participate in politics so union leaders were not strictly speaking, permitted to voice concerns to either the intervenor or Labour Minister. Meetings were conducted according to the law and consisted of audiences of trade unionists listening to the dictates made by the Minister or intervenor. Unofficially, however, labour's access to government remained in place and both the Labour Minister and intervenor held

regular informal meetings related to proposed legislative reform with union leaders. The workers also found sympathisers within the Junta, particularly the Navy which expressed concern about the potential for social disorder on account of the falls in living standards associated with Martínez de Hoz's policies. For their part, the official union leaders were pragmatic in their dealings with the government and adopted a cautious approach on account of indiscriminate arrests of labour representatives deemed a threat to order. This resulted in the disaffection of the union movement's rank and file and saw a burgeoning of clandestine labour movements which were highly effective at organising industrial action at the shop floor level and pressurising the government. These movements were closely linked with their official counterparts and consequently also enjoyed a degree of contact with government.

Ostensibly, this structure appears corporatist with a vertically integrated hierarchy of representation from executive to trade union. However, the labour movement was by far the most junior partner among the corporatist entities negotiating with government and remained openly hostile to Martínez de Hoz's policies. Business and landed elites also opted out of the system and resorted to direct lobbying of the executive and the Junta, bypassing the Economics Ministry. The most important difference with the Spanish system is its fragility. The first military president, general Videla was the closest to acting as a Franco style arbitrator but even he could not guarantee the loyalty of all factions of the military so his hold on power remained tenuous.

There follows a summary of views expressed in the existing literature on the period which leads into a summary of the economic programme attempted by the regime. The subsequent section then addresses empirical documentary and archival evidence of relations between the junta and different corporate interests and how these affected policy implementation and economic performance. The episode is often cited as a definitive end to the inward-oriented growth strategy that had prevailed since the 1930s achieved through confrontation with its associated interests and labour in particular. Policy was defined by a view that the reduction of labour costs was considered indispensable for restoring growth so the government saw to it that real wages declined and repressed trade unions, eliminated collective bargaining and the right to strike.² An influential essay written contemporaneously to the events attributes economic opening as a conscious strategy to conclusively dissipate the problem of Argentine social struggle. Assuming inflation is an indicator of social struggle, economic opening puts a ceiling on rising prices and obliges businesses to confront workers. Economic liberalisation, therefore, used to implement social discipline.³

² Marshall, A. 'State Intervention, the Labour Market and Inequality in Argentina', in: Berry, A. (ed.) *Poverty, Economic Reform and Income Distribution in Latin America*, Boulder, 1997

³ Canitrot, A 'La Disciplina como Objetivo de la Política Económica. Un ensayo sobre el programa económico del Gobierno Argentino desde 1976, *Desarrollo Económico*, No.76, Jan.-March 1980; See also Peralta-Ramos, M. 'Toward

The new tranche of ideologically driven policy was most famously articulated by the economics minister Martínez de Hoz, the chief architect of the economic component of the so-called 'Plan for the Recovery, Reorganisation and Expansion of the Argentine Economy', launched on 2 April 1976⁴. The economics minister, prior to his appointment by the military, was president of the '*Consejo Empresario*', an employers' association representing business and had held directorships at several corporations. He was also from a landowning pedigree, whose listed occupation in the Argentine Who's Who was *hacendado*, and therefore claimed to represent both town and country.⁵

Commentators consequently have made much of Martínez de Hoz's apparent belief that Argentina's economic recovery was dependent, to a large extent, on agricultural exports, a view associated with Argentina's traditional landed elites. The 'conflict society' thesis⁶ states groups in favour of agriculture are necessarily inclined to discriminate against industry and the neo-liberal experiment was widely interpreted as 'anti-industry' with its sustained attack on the mechanisms of import substitution.⁷ It is easy to identify the period, therefore, as a 'liberal' alliance between authoritarian rulers and agricultural producers formed around a conspiracy to turn the clock back to Argentina's late nineteenth century golden age of export-led growth.⁸

To Aldo Ferrer, a developmentalist ideologue who was a junior minister to the Frondizi government and economics minister to General Roberto Levingston's military mandate of the early 1970s, this policy was a 'grave mistake'. Argentina was too large an economy to simply abandon an industrialisation process begun in the 1930s and much advanced since. "It is not possible to frame a country of Argentina's dimensions in a pre-industrial economic system", he writes.⁹

This process of deindustrialisation that characterises the snapshot examined in this section saw industrial product fall by more than a fifth and the contribution of industry to overall GDP reduced from 28 per cent to 22 per cent between 1975 and 1982. Furthermore, up to 20 per cent of Argentina's largest manufacturing firms were closed during this period.¹⁰ A related argument suggests that while the regime presided over a process of deindustrialisation, some industries benefited from the new liberalism. A trust in comparative advantage meant the focus of the regime

an Analysis of the Structural Basis of Coercion in Argentina: The Behavior of the Major Fractions of the Bourgeoisie 1976-1983 in: Peralta Ramos and Waisman, C. (eds.) *From Military Rule to Liberal Democracy in Argentina*, Boulder 1987

⁴ In Spanish: *Programa de Recuperación, Saneamiento, y Expansión de la Economía Argentina*.

⁵ The Economist, July 10 1976, *Argentina – Brains and Brawn*; Business Week August 9 1976 (Industrial Edition) *Who Runs Latin America?*

⁶ Mallon and Sourouille *Economic Policymaking in a Conflict Society: The Argentine Case*, London 1975,

⁷ See Azpiazu, E. Basualdo and M. Khavisse *El Nuevo Poder Económico en la Argentina de los Años 80*, Buenos Aires, 1986, p.186 or Ferrer, A. 'The Argentine Economy 1976 to 1979', *Journal of Interamerican Studies and World Affairs*, Vol. 22, No.2, May, 1980; Katz and Kosacoff. *El proceso de industrialización en la Argentina: Evolucion, retroceso y perspectiva*, Buenos Aires, 1989

⁸ See Erro. D. *Resolving the Argentine Paradox*, Boulder, 1993

⁹ Ferrer, 1980, pp.151-155

¹⁰ See Kosacoff and Azpiazu, *La Industria Argentina: Desarrollo y Cambios Estructurales*, Buenos Aires 1989, p.20.

shifted to industries associated with Argentina's abundance of natural resources, especially the oil and steel industries.¹¹ Jorge Schvarzer, then as now was a vocal critic of the regime for its pandering to vested interests, accused the generals of creating a web of influence between state and selected capitalists without public debate. In particular, Schvarzer accuses Martínez de Hoz of deliberately encouraging large conglomerates to grow even larger by granting them privileged access to credit from the much-abused National Development Bank.¹² The result: the political and economic structure of Argentina changed conclusively to favour the capitalist class and especially those operating in the capital markets, thus retarding the economy further by neglecting industrial development.¹³

The narrative that follows treats the political dynamic as a failed attempt to break away from the socio-political constraints inherent in Argentine policymaking. Though it acknowledges that the period represents an effort to restructure the dynamic, as argued by Canitrot, the regime did not modify the alliance-based approach adopted by earlier regimes such as Frondizi's. Though there was an assault on Peronist corporate entities, both national capital and labour had to be mollified and this restricted Martínez de Hoz in his ability to implement his neo-liberal reforms. The classic pattern of distributional conflict continued unabated, therefore, and the regime ultimately resorted to calls for solidarity in the national interest, a strategy not unlike Frondizi's conception of a National Movement. In spite of initial economic success and relative political stability during the first five years of military rule, Argentina ultimately slipped back into crisis as the regime alienated all sectors and lost credibility.

The armed forces took control in a long-anticipated coup on 24 March 1976 in a context of extreme political violence by leftist groups, hyperinflation, a widening public deficit, a crippling shortfall in the balance of payments and imminent default on the external debt.¹⁴ The crisis was acknowledged as unparalleled in the country's history¹⁵ so any ideological purpose had by necessity, therefore, to be incorporated into emergency policies of crisis management.¹⁶ The cabinet appointed after the coup was comprised entirely of serving military officers with the exception of Martínez de Hoz at the Economy Ministry and the new Minister of Culture and Education, professor Ricardo Pedro Bruera. Martínez de Hoz was put in charge of the newly consolidated

¹¹ Schvarzer, J, *La industria que supimos condeguir*, Buenos Aires 1996, p.288

¹² See chapter I; Schvarzer, J. *The National Development Bank and the Technological Development of Argentine Industry*, Buenos Aires, 1981; Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1990. p.456

¹³ See Schvarzer, J. *Implantación de un Modelo Económico: La Experiencia Argentina entre 1975 y el 2000*, Buenos Aires, 1998.

¹⁴ Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1990, p.448

¹⁵ International Bank for Reconstruction and Development (IBRD), *Argentina: Reconstruction and Development*, Report No. 1645 – AR, August 31 1977. p.ii

¹⁶ Ministerio de Economía, *Un Año de Evolución Económica Argentina*, Buenos Aires 1977

“super ministry” and was so constitutionally powerful, he was identified by *The Economist* newspaper as “prime minister of Argentina in all but name.”¹⁷

In the eyes of the ruling Junta, the political violence that beset the country was a result of ideological, political and economic distortions originating in the first Perón presidency. Groups advocating exclusion of Peronism from the political process and champions of liberal economic ideas therefore found a sympathetic audience in the armed forces for the first time. There is also evidence to suggest that the dominant factions of the military hierarchy were persuaded by the liberal view that economic opening was the means to enhance Argentina’s international standing. The vision was informed by a new ‘internationalist’ as opposed to inward-looking nationalism whereby an open economy rather than the introversion that had prevailed since the 1930s would strengthen the country and not weaken it. The established introversion, moulded to suit forces such as Peronism, deprived Argentina of a destiny to be something more outstanding than “a land inhabited by more or less satisfied and contented people.”¹⁸

Given the patronage of an authoritarian system and his exceptional powers, Martínez de Hoz was theoretically given an extraordinarily free hand to implement his ideological vision for a new Argentine economy. Without having to appease an electorate, and with a suppressed union movement, the programme could be more long-term in its focus. Policy was thus liberated from a ‘political business cycle’ associated with the electoral terms of democratic government.¹⁹ So from a political perspective, with the exception of servicing the external debt, macroeconomic stabilisation did not have to be tackled so urgently. The prioritisation of long-term over short-term objectives “was feasible under a regime that was not facing elections the next year, since continuity was essential,” Martínez de Hoz writes.²⁰ Indeed, a central feature of his plan was its “dynamic gradualism” as opposed to a macroeconomic shock treatment, the effects of which might be too superficial to constitute the desired restructuring of the economy.²¹ In this way, measures to address immediate problems such as inflation or balance-of-payments disequilibrium, while a necessity, were regarded as secondary in importance as short-term as opposed to long-term issues.²²

So in tackling inflation, for example, the government established a programme of partial devaluations of the local currency against the US dollar. The rate of devaluation decreased over time and it was hoped that in a context of increasing economic openness to the outside world, domestic interest and inflation rates would converge with international levels. The long-term view

¹⁷ *The Economist*, June 11 1977, *A Centimetre a Day*.

¹⁸ Review of the River Plate, Jan.12 1977, *Leader*.

¹⁹ ¹⁹ Alesina, A. 'Political Models of Macroeconomic Policy and Reforms', in Haggard, S and Webb, S (eds.) *Voting for Reform*, (World Bank, Oxford,1994). p.38

²⁰ Martínez de Hoz, J-A *Statement*, in: Di Tella, G and Rodríguez Braun, C. (eds.) *Argentina 1946-83: The Economics Minsiters Speak*, London, 1990, p.151

²¹ Ministerio de Economía, 1977, p.4

²² Canitrot, 1980, p.455

was that a new relative price structure would emerge and induce resource allocation to favour the development of sectors with a comparative advantage allowing them to compete internationally and enhance the overall productivity of the economy.²³ Nevertheless, in other areas, Martínez de Hoz did implement a 'dash for freedom'.²⁴

The overall economic programme emphasised three objectives: monetary and financial stability, acceleration of economic growth and the achievement of "a reasonable distribution of created wealth while maintaining the income level in relation to the aggregate production of the economy."²⁵ The causes of the problem, as identified by Martínez de Hoz, were economic isolation, state interventionism and over-regulation which had stifled individual initiative and reduced private enterprise to jostling for favours from public officials. This had not been accompanied by an increase in public resources and the inevitable consequence had been a budget imbalance.

"Subsidized investment had become widespread, which determined a low return rate for the economy as a whole, though perhaps not for the entrepreneurs. Business profitability was divorced from the common good."²⁶

Martínez de Hoz saw himself as redefining the way industrial policy was understood in Argentina. Traditionally, he argued, industry was seen as something that needed to be nurtured at the expense of other sectors, through mechanisms of promotion or protection. The minister wanted to change this perception, dismissing it as incompatible with the kind of market system he wanted to encourage, free of distortions caused by the kind of public intervention encouraged by the traditional view.²⁷

Like Frondizi, the new regime attempted a profound change in the structure of financing industrial activity through liberalisation of capital flows. Except that unlike Frondizi's reform, the effort at assigning a greater role to market forces extended to the arena of trade. Thus import tariffs were reduced by up to 90 per cent on some products on the idea that by being forced to compete with foreign competition, domestic industry might become more efficient. Martínez de Hoz's main criticism of past trade policy and the traditional form of Argentine import substitution was its emphasis on protecting local manufacturers in that it only applied to imports of finished products. The need to import ever more raw materials or capital goods required by the protected local industries meant that industrial growth was dependent on more imports while exports had failed to keep pace with demand for foreign currency to purchase those imports. Meanwhile, the lack of

²³ Kosacoff, B. *The Development of Argentine Industry*, in: Kosacoff (ed.) 'Corporate Strategies under Structural Adjustmant in Argentina', Oxford, 2000

²⁴ The Economist July 10 1976, *Brains and Brawn*

²⁵ Ministerio de Economía, 1977, p.5

²⁶ Martínez de Hoz, 1990, p.152

²⁷ Martínez de Hoz, J-A. *Bases Para Una Argentina Moderna*, 1976-80, Buenos Aires, 1981, p.150.

competitiveness had raised costs while the quality of industrial output had not improved, thus hindering growth.

Early results were encouraging. During the first year of military rule, substantial progress was made in reducing the public sector deficit from 16 per cent of GDP in 1975 to 11 per cent by the end of 1976.²⁸ The “gliding parity” exchange rate and a drop in aggregate demand resulting from restrictive fiscal management meant a sharp reduction in inflation from 737 per cent for the 12 months to the end of 1976, to 116 per cent the following year. Meanwhile, a reduction of export taxes led to acceleration of foreign exchange earnings alongside a fall in imports related to the drop in real wages and the sliding parity exchange rate policy offered much-needed resuscitation of the current account.²⁹ The leader of a group of US Congressmen visiting Argentina in January 1977 called Martínez de Hoz a “miracle man”.³⁰

At the same time, however, Martínez de Hoz’s plan was circumscribed by the conflicting priorities of his military superiors who were engaged in a battle against radical leftist elements. The military made it clear that economic policies could not increase unemployment for fear of further radicalisation of the popular classes. Secondly, given that the Junta perceived itself to be engaged in a *de facto* civil war, any plans to cut down the state sector had to stop short of privatisation of strategic assets.³¹ This also suited vested interests such as the industrial bourgeoisie because it entailed continuity of state patronage of ‘basic industries’ perceived to operate in sectors in which Argentina had a conceivable comparative advantage, particularly the oil sector. Martínez de Hoz pledged, therefore, to promote these basic industries on the basis that their development would have a multiplier effect on the rest of the economy.³²

So notwithstanding an ideological commitment to the market as an enforcer of optimal allocation of resources, the state did not regard its total relinquishment of involvement in the country’s march towards industrialisation as an option. In certain respects, industrial policy echoed that of Frondizi in its quest to streamline the public sector and reopen Argentina to international sources of credit. Regarding the oil industry, for example, the government still envisaged petroleum self-sufficiency as a key objective, to be achieved through greater efficiency of YPF and a closer partnership with the private sector.³³ At the time of Martínez de Hoz’s appointment, Argentine oil production was covering approximately 85 per cent of demand following a period of declining

²⁸ International Bank for Reconstruction and Development (IBRD), *Argentina: Reconstruction and Development*, Report No. 1645 – AR, August 31 1977. p.ii

²⁹ *Ibid.* p.iii

³⁰ The Economist, February 18 1978, *Argentina: Pulling Out is the Awkward Bi*

³¹ Erro, D. *Resolving the Argentine Paradox*, London 1993 p.102; Lewis, P. *The Crisis of Argentine Capitalism*, Chapel Hill, 1990, p.459

³² From a speech given by José Alfredo Martínez de Hoz at a meeting of Interamerican Development Bank directors at Cancún, Mexico on 19 May, 1976. Reproduced in *Review of the River Plate*, May 31, 1976. pp.753-756

³³ Decreto 632/74.

production.³⁴ The state monopoly signed 35 exploration contracts with private firms to drill 768 wells by 1980 while deals were struck with private firms working reserves controlled by YPF to pay in extracted oil and gas.

As for the state-sector the government recognised, as had Frondizi's team, a need to reduce the public payroll as public expenditure as a proportion of GDP was at 40 per cent when Martínez de Hoz took over the Economics Ministry. The fiscal deficit represented 13.5 per cent of GDP, an excessive figure blamed on oversized government and an ineffective tax system.³⁵ To address this, the government pledged to "rationalise the central administration, eliminate the deficits of state corporations, abolish the covering of provincial budget deficits with federal funds and restructure the management of public works. To quote a specific example, the budgetary burden of the national railways had amounted to some US\$2 million per day shortly before the military takeover. This subsidy was halved in the 1977 budget and a rationalisation programme was put in place to eliminate loss-making services. In their first year of office, the government reduced passenger services by 36 per cent and cut the amount of railway employees by 20 per cent before the end of 1977.³⁶ By 1980, nearly a quarter of the railways, in terms of track length, had been closed or dismantled, and the number of employees on the payroll had fallen 40 per cent to 96,000.³⁷

What was implemented was a strategy labelled "peripheral privatisation", mainly involving public utilities whereby certain services were contracted out to private companies. So the state railways left maintenance of rolling stock to private contractors while ENTEL, the state telephone company no longer maintained much of its own equipment. YPF relinquished management of certain oil fields and Gas del Estado ceased to be the sole operator of Argentina's power stations. In evidence, therefore, is a limit to the adoption of free market principles. None of the large state enterprises were privatised and the Martínez de Hoz's military bosses insisted that Fabricaciones Militares should be exempted from any closures or privatisation. The minister was forced to content himself with some trophy privatisations of companies nationalised by the previous regime³⁸ when they were on the verge of bankruptcy in order to avoid the 'social problem' of the loss of a large employer.³⁹ Martínez de Hoz insisted, however, that he never ruled out the possibility of selling off the larger state enterprises, and that the issue needed to be approached gradually and on a case-by-case basis.⁴⁰

³⁴ *Ibid.*

³⁵ Ministerio de Economía, 1977, p.7

³⁶ *Ibid.*, pp.8-9

³⁷ Martínez de Hoz, 1990, p.165

³⁸ Second administration of Juan Perón, 1973-74, succeeded after his death by second wife Isabel 1974-76

³⁹ Bank of London and South America Review, April 1977, Vol.11, No.4/77. p.194

⁴⁰ Martínez de Hoz, *Bases para una Argentina Moderna 1976-80*, Buenos Aires 1981, pp.50-51

There were also limits to the extent to which the regime implemented its pledge to liberalise trade. Tariffs were maintained on imports with a view to gradual reduction. Martínez de Hoz believed that industry required a degree of protection at its inception but that protection should be phased out progressively as the new operation matures. It was a failure to implement this type of gradual reduction in protection that had resulted in the inadequacies and uncompetitiveness of Argentine industry, the Minister said.⁴¹

Tariff barriers were reduced from an average of 55 per cent in 1976, the maximum rate being 210 per cent, to an average of 41 per cent, and a maximum 100 per cent by the end of the year. In 1978 legislation was put in place to regulate a gradual reduction to levels of zero per cent on goods not produced locally to a maximum of 75 per cent on automobiles. This continued protectiveness of the car industry implies that Argentine pride in its motor industry resisted the new ideological conviction as much as the state-owned 'strategic' industries. Nevertheless, the new economic team were frank about their perception of it as a bastion of the old regime of sectoral discrimination and privilege at odds with the realities of the market. The response, again, was a planned restructuring of the car industry, acknowledged by Martínez de Hoz as an "important sector of the Argentine economy" notwithstanding its past mismanagement. So while tariffs on automobiles remained relatively high, a new law eliminating the previous policy of outright prohibition marked a first step in the gradual opening of the Argentine automobile market.⁴² The introduction of foreign competition did catalyse the intended consolidation of the market. Three out of the seven plants operating in 1978 closed before the end of the year and the number of models produced fell by up to a fifth. Simultaneously, the price of cars grew proportionately less than the overall rate of inflation while demand increased. Sales of cars increased from 176,047 in 1978 to 283,000 in 1980, a 60 per cent increase.⁴³

In addition to limitations to the extent to which market-led policy was implemented, the promised monetary discipline was also stifled. In the three months after the Junta seized power, the rate of increase in currency in circulation was the highest for the period in Argentine history. For the second quarter of 1976, the increase was 34 per cent while the same period the previous year, under the regime of Isabela Perón blamed by Martínez de Hoz for irresponsible monetary policy, saw an increase of just 18 per cent. For 1974, the figure was 15 per cent. One financial newspaper observed at the time that: "it constitutes a remarkable psychological success for the authorities that they should have made even people who must be presumed to follow the statistics on the subject believe that they are following a restrictive currency policy or that they are achieving notable

⁴¹ *Ibid*, p.154.

⁴² Ley 21,932/1979

⁴³ Martínez de Hoz, 1981, p.173

success in their tax collection policy to deal with government expenditure which is not happening either.”⁴⁴

By 1978, the inconsistencies between free market, economic disciplinarian rhetoric and actual policy was translating into imbalances and distortions. The deregulation of prices had encouraged opportunist behaviour by entrepreneurial sectors which offset achievements in reducing inflation through demand management and wage restraint. The economic team had also removed ceilings on domestic interest rates and abolished capital controls hoping to restrict the availability of credit to the domestic private sector while boosting savings rates and attracting foreign exchange. Simultaneously, the government introduced the *Tablita*, a system whereby adjustments of the exchange rate and public utility tariffs were lagged behind the increase in general prices in an effort to dampen inflationary expectation. However, it was becoming clear by the end of the 1970s, that not only was the economic team losing the battle against inflation, but economic growth was not forthcoming and political discontent was spreading. The lagging exchange rate adjustments combined with falling import tariffs and stagnating international prices put exporters in an increasingly difficult competitive position.⁴⁵

Furthermore, freed interest rates rose after 1977 and brought many small and medium-sized firms to their knees, as debt repayments started to surpass revenues. A rise in bankruptcies precipitated a banking crisis which in turn resulted in financial panic and accelerated capital flight. The government was forced to intervene and the Central Bank guaranteed deposits in savings accounts against bankruptcy of the institution where the funds were held. Though this was an emergency measure, it was regarded in banking circles, both domestically and internationally, as a reversal of Argentine progress towards a free market economy.⁴⁶

At this stage, a rift started to emerge between Martínez de Hoz and the Junta which was increasingly concerned about social and economic stability. There was also conspicuous discord within the Junta over issues such as who should be Videla’s successor as president, and the viability of Martínez de Hoz’s economic vision.⁴⁷ When Videla’s term of office drew to a close in October 1980, he was replaced as head of the Junta by the army commander-in-chief general Roberto Viola who, it became increasingly clear, was less than enthusiastic about Martínez de Hoz’s programme. The minister lobbied both the Junta and Viola himself to preserve the course he had set but found an ever decreasing number of sympathetic ears within the regime.⁴⁸ With a myriad of interest groups protesting the *Tablita*, including the hitherto loyal SRA agricultural lobby who were concerned at

⁴⁴ Review of the River Plate, July 30 1976, *Leader*.

⁴⁵ International Bank for Reconstruction and Development (IBRD) *Economic Memorandum on Argentina*, March 2 1984. p.2

⁴⁶ Associated Press, April 25 1980, *Government Heads off Banking Collapses*

⁴⁷ Pion-Berlin, D. *The Fall of Military Rule in Argentina 1976 – 1983*, Journal of Inter-American Studies and World Affairs Vol.27 (3), Summer 1985 p.61

⁴⁸ Pion-Berlin, 1980, p.64

overvaluation of the currency, Martínez de Hoz was eventually compelled by Viola to abandon the policy. On 29 March 1981 Viola was formally inaugurated as president and Martínez de Hoz replaced by Lorenzo Sigaut. With the departure of the technocrat, the regime was no longer committed to the liberal plan which was imperfectly implemented and stifled by military priorities in any case. Given the lack of constitutional checks on the regime and the apparent assault on corporatist entities, particularly those normally regarded as hostile by economically liberal factions of the military, it is perhaps surprising that the toughest policies were stillborn. But this chapter holds restrictions on union power were themselves limited because of the regime's pragmatic priorities and the government continued to negotiate with labour even through the height of the liberal period of Martínez de Hoz's ministry.

Policy and the Economic Interests

Extending the zero-sum analysis, an attack on the economic status quo such as that attempted by Martínez de Hoz is also an assault on the groups that benefit from the old statism, namely urban waged labour, traditionally entrusting its political voice to the Peronist movement. This was precisely the group identified by both factions of the ruling coalition, the military and the liberal elite, as responsible for the country's problems and the depth of the economic imbalances. So the government legislated to depoliticise the unions and decreed that parties identified with "Communist" ideologies must close down. Their assets were frozen while the remainder, including the Radical and Peronist Justicialist parties were obliged to suspend all political activities.⁴⁹ Regarding the corporatist entities, those associated with Peronism were intervened in the first instance and eventually, in the case of the CGT and CGE, banned outright.⁵⁰ Unions were also limited to negotiation with employers over labour issues and prohibited from participation in politics or association with any party or candidate.⁵¹ Furthermore, unions were directly answerable to the Labour Ministry which exercised the right to intervene in their management or cancel their registration.⁵² The junta also abolished the Peronist system of labour immunity, under which trade union delegates were entitled to privileged treatment before the law, on the grounds that it was contrary to the national Constitution.⁵³

But the debilitation, persecution and eventual proscription of the established Peronist union infrastructure should not be confused with the exclusion of labour from debate over policy. The CGT was indeed weakened by the fact that it was discredited by association with the unsuccessful Peronist governments of 1973 to 1976 and the general agreement regarding the need to plot a new

⁴⁹ Review of the River Plate, March 31 1976. p.401

⁵⁰ Decreto Ley 22/105 Artículos 1-3.

⁵¹ *Ibid.*, Artículo 9

⁵² *Ibid.*, Artículo 61.

⁵³ Review of the River Plate, March 31 1976. p.401

course in economic policy was shared by most labour groups.⁵⁴ The Junta also insisted that it held a monopoly over policymaking, hence the ‘superminister’ status bestowed on Martínez de Hoz.⁵⁵ Yet the government, through the Labour Ministry, kept channels open with union leaders throughout the most intransigent phase of the liberal reforms who themselves maintained high level contacts within the regime. Unions, as a result of their corporatist origins, were far more than mere instruments of collective bargaining and held considerable economic power. The Labour Minister, general Horacio Liendo, for example, regularly consulted his predecessors in the post with respect to reforms to labour legislation. Given that these figures were predominantly associated with, or senior members of, the mothballed political parties, the contact illustrates the extent to which the government recognised the extent to which political forces played a role in moderating labour conflicts.⁵⁶ Furthermore, though union leaders were prohibited from acting together or even holding meetings, the military was aware that their function went well beyond merely asking for wage increases. Unions, and their leaders, managed important social works, hotels and clinics, administered large sums of money and maintained constant contact with members of the armed forces, the Church, business organisations and some foreign embassies. In short, despite the restrictions, they were able to make their views known and exchange ideas with a variety of people in high places.⁵⁷ Secondly, the regime was aware that by refusing to bargain with union leaders, workers themselves might become frustrated, bypass their representatives and organise highly destructive collective action. There is also evidence that in spite of the rigidities of Videla’s hierarchy of command during the first five years of military government, elements of the armed forces’ command remained sympathetic to the labour cause.

An example of this contrast between authoritarian façade and inclusive practice can be found in press coverage of a meeting on June 30 1976 between the government’s “intervenor” in the CGT, Julio César Porcile and representatives of more than one hundred affiliated unions. The official purpose of the event was not to hold talks, but for labour leaders to listen to the report of the Argentine delegation at the sixty first annual International Labour Organisation convention in Geneva. Unofficially, however, it was acknowledged that talks took place about the establishment of a mechanism that would make possible periodic consultation between the government and union leaders.⁵⁸ Such events were a regular occurrence throughout 1976, though the official programme continued to insist that the only speaker should be the intervenor himself and CGT delegates were expected to sit and listen. The issue of contention was that the government intended to reform the

⁵⁴ Erro, 1993, p.100

⁵⁵ Pion-Berlin 1985 pp.55-56.

⁵⁶ Review of the River Plate, August 20 1976 *On the Labour Front*; Review of the River Plate, September 10 1976, *The Basic Labour Law Still in the Air*.

⁵⁷ Review of the River Plate, August 20 1976 *On the Labour Front*

⁵⁸ Review of the River Plate, July 8 1976, *On the Labour Front*

labour laws and realised the most effective way to achieve this peacefully with minimum economic disruption was to consult representatives of labour.

In spite of the restrictions on union activity, meanwhile, the ability of organised labour to use its favoured weapons of strikes, lockouts and go slows remained very much in evidence. During the first week of September, for example, the motor industry was brought to a standstill by strike action in protest at a three day week operating in response to reduced demand which itself was a consequence of a slowing economy and declining real wages. A 12 per cent wage increase announced by the government was simultaneously widely derided by workers as inadequate.⁵⁹ The protest spread over subsequent months to some state enterprises, particularly the telephones and utilities sectors, though on account of the laws restricting strike action, they were portrayed by participants as spontaneous, unorganised actions.⁶⁰ In truth, however, particularly in the case of strikes by electricity workers at the state generator SEGBA, the actions were organised by a clandestine proxy CGT, the *Confederación General de Trabajo en la Resistencia* (CGTR) which sponsored more radical forms of resistance than those advocated by the mainstream union leaders. Sabotage, in the form of bombs at SEGBA installations, overloading the transformers and flooding, extended to other public services while 14 kilometres of cable were stolen from the state telephone company.⁶¹ Martínez de Hoz's project to reduce government spending by slashing the wage bill associated with the state enterprises also provoked industrial action, initially among members of the Power and Light (*Luz y Fuerza*) union of workers at SEGBA but later spreading to the dockworkers.⁶² Though such sectors were politically sensitive for their 'strategic' value the ability of the military to prevent this kind of subversion was limited. Direct supervision of shifts by troops could force people back to the shop floor but given many of the trades involved were highly skilled, the soldiers did not possess enough understanding of the work in order to be able to supervise it effectively. Thus it was extremely difficult for military supervisors to spot a 'go slow' action.⁶³ The impact of the strikes and other forms of action proved a 'nasty jolt' to the government, coming after six months of intense efforts to inhibit all expressions of working class militancy including imprisonment of several thousand unionists, the use of death squads and draconian legislation.⁶⁴

Meanwhile, the combination of a need to be seen to engage the government more aggressively to offset the rise of radical alternative union leaderships and increased confidence that there were sympathetic ears within the Junta led to open defiance of the law by the legal union leadership. In January 1977, the leadership of 70 non-intervened unions produced a document

⁵⁹ Review of the River Plate, September 22 1976, *On the Labour Front*.

⁶⁰ Review of the River Plate, October 8 1976, *Three Views of the Situation*.

⁶¹ Intelligence Research Latin America October 22 1976. *Argentina: Who Rules?*

⁶² Business Week, November 22 1976, *World Roundup: Argentina*.

⁶³ Intelligence Research Latin America October 22 1976. *Argentina: Who Rules?*

⁶⁴ Intelligence Research Latin America October 1 1976. *Argentina: Naval Calculations*.

demanding they be incorporated into the process of reforming legislation regarding the structure of collective representation. This was a high-risk tactic given its open defiance of the junta's legislative centrepiece, Decree No.9 of March 24 1976 which prohibited all political activities.

The document criticised the materialistic "liberal capitalist" policy pursued by Martínez de Hoz which enabled minority sectors to subjugate the workers and recreate the inequitable society of the late nineteenth century. The new policy also involved the sale of national wealth and transferred management of the financial system to monopolies thus placing the capital of the nation and its public savings in foreign hands. It warned that restrictions on union activity and limits to labour participation in affairs would result in highly destructive class struggle and called for the restoration of internal democracy within unions with full participation of members. There were also seven controversial economic and political proposals: restoration of purchasing power of real wages, worker participation in deciding wage policy through free collective bargaining, an end of the ban on union activity and restoration of the CGT's autonomy, the freeing of trade unionists arrested without charge and publication of lists of political detainees, abolition of the Redundancy Law which facilitated the sacking of thousands of public sector employees, reinstatement of privilege clauses in collective agreements of state enterprises, and a substantial change of direction in economic policy and prioritisation of social justice and full employment.⁶⁵

The intention was to deliver the document to Martínez de Hoz but the minister refused to accept it either through the Labour Ministry or the Intervenor of the CGT. The unions were also prevented by law from publishing it by buying advertising space in the national press but many newspapers published extracts as news which publicised an increasingly proactive 'official' union leadership in openly challenging the Junta. While the demands themselves were familiar Peronist notions, the criticism of the economic component of the Junta's policies was highly polemic. The nature of the Junta's perception of itself was that a policy of so called National Reorganisation comprised both political and economic components as equals so that an attack on one was also an attack on the Junta itself. The Labour Ministry, the department of state most sympathetic to workers, was said to have been "caught completely off balance.... by the brazen way in which the document was made public."⁶⁶

Immediately after this open act of defiance, the unions called off a proposed illegal meeting of secretaries on the basis that it would have been too obvious a form of provocation and that the document was enough for the time being. On the other hand, the government took no direct action

⁶⁵ Review of the River Plate January 21 1977 *The Document Considered*; Review of the River Plate January 12 1977 *The Fourth Man*

⁶⁶ Review of the River Plate January 12 1977 *The Fourth Man*.

related to the document which was regarded as implication of behind-the-scenes tacit agreement between labour leaders and the military.⁶⁷

By late 1978, another firmly Peronist “dissident verticalist” labour movement had evolved, which adopted the name of National Labour Commission (CNT)⁶⁸. This new confederation comprised 71 intervened and non-intervened unions and on August 30 1978, in defiance of the Junta’s prohibition on political organisation, published a communiqué announcing its existence signed by some of Argentina’s best-known union negotiators. The document lamented “the reduction of incomes to levels never seen before accompanied by restrictions imposed on the free exercise of union activity and efforts to weaken representative organisation by such means in the law which would amount to virtual expropriation (of union assets) if put into practice.” The Argentine labour movement, according to the document, is one of the driving forces that created modern Argentina and the best qualified to protect the country’s sovereignty. It also mentioned “numerous leaders and delegates imprisoned without trial and constant sackings of authentic worker representatives.” The CNT’s principal demand, however, was the normalisation of the CGT and an end to interventions with restoration of the right to strike.⁶⁹

A further and equally vocal opponent to government union policy was “The 25”, a disparate collection of verticalists, anti verticalists and independents which eventually merged with the CNT to form the Single Centre for Argentine Workers/*Conducción Única de Trabajadores Argentinos* (CUTA). The formation of the new body coincided with the long-awaited reform of the Professional Associations Law⁷⁰ which definitively banned the CGT and CGE, regulated the right to organise and curtailed the right of unions to manage financial assets. Aware that the international community took a dim view of the Junta’s human rights record, the CUTA adopted the tactic of lobbying international bodies such as the International Labour Organisation. Indeed, its first public act following its foundation was to receive a delegation from the Inter American Commission on Human Rights, an autonomous organ of the Organisation of American States (OAS). The mission concluded after the meeting that:

“...the Argentine labour union movement still had its traditional strength, despite the restrictive measures imposed by the Government, and that the working class is greatly concerned about the economic policy adopted by the Government, which it believes, places the greatest sacrifices on its shoulders to correct the situation.”⁷¹

Meanwhile, industrial action was achieving concessions on demands for wage increases and the reinstatement of sacked workers purged from state enterprises. A dispute at the white goods

⁶⁷ Review of the River Plate January 31 1977 *On the Labour Front*.

⁶⁸ Unrelated to the Spanish Anarco-Syndicalist confederation of the same name.

⁶⁹ Review of the River Plate September 8 1978 *More Divisions in Sight*.

⁷⁰ Ley N° 22.105

⁷¹ Inter-American Commission on Human Rights *Annual Report 1979*, Chapter VII, Article 5.

manufacturer SIAM Electrodomestica in Avellaneda was solved when management agreed to reinstate 70 per cent of personnel while the rest would remain suspended on 75 per cent of their salary for six weeks. A public transport strike in Rosario was halted by the granting of a 25 per cent salary increase.

So while enhanced regulation of union activity, including the proscription of the CGT led many to believe that union power was in decline⁷², alternative organisations were capable of filling its organisational role. Furthermore, the original decree of March 24 1976 that prohibited all political action or association was by 1980 routinely flouted by the labour movement which saw no need to meet clandestinely. Indeed, the government by now talked of a dialogue between all sectors of society over policy and there were hints from the Labour Ministry that workers would not be excluded.⁷³ At no point, therefore, was the influence of organised labour banished from the traditional dynamic of political dialogue between interest groups and the executive. As a force, it continued to wield its traditional economic weapons to gain policy concessions and more immediate gains such as wage increases and reinstatement of personnel sacked as a consequence of Martínez de Hoz's campaign to slim the public sector and its wage bill. This is in spite of the fact that under the economy minister's charge, policy was at its most aggressive regarding the labour movement and the government took steps to keep it on a tight leash. These included government retention of the right to set wages, in contrast to the ideologically consistent freeing of prices, and the eventual abolition of the CGT. Yet this did not prevent the government acting in a more conciliatory way than these measures suggested in respect of labour.

How did the inner circle of command relate to interest groups during the Martínez de Hoz mandate at the Ministry of the Economy? The united front presented by the regime which supported the minister and allowed themselves to be directly associated with the neo-liberal policies is cited as an explanation for the political and economic success of the Videla presidency (1976-1980). This assumes policy was formulated within a military inner circle which excluded all political contributions whether from parties, corporatist entities or economic interest groups. The reality, however, is that the Junta was less unified than this view suggests. Though Videla was denounced as a military dictator by the international community, there were limits to his power. The structure of the Junta stated that all three armed services should retain an equal measure of power with an appointee, in this case Videla, to occupy the office of president. Initially, Videla operated as both President of the Republic and Commander in Chief of the Army, rendering it the service with effectively the most power. Following insistence from the charismatic and outspoken head of the

⁷² See Review of the River Plate February 29 1980 *Divided Forces Defending the CGT Together*.

⁷³ Review of the River Plate March 20 1980 *The Meaning of Dialogue*; Review of the River Plate March 28 1980 *A Dialogue that Divides by Three*.

navy Admiral Emilio Massera, Videla appointed his close friend General Roberto Viola to replace him as army commander and pledged to retire at the end of his term as president in 1980. Though the navy had a fearsome reputation as a bastion of conservatism and heavy handed warrior against leftist guerrillas, Admiral Massera became a loud voice of moderation within the Junta. In particular he regularly voiced concern about the threat to social order posed by the austerity of Martínez de Hoz's economic policies. He also exasperated many of his colleagues by declaring his opposition to the campaign of state sanctioned violence against political subversion. Contemporary commentators hinted that he was preparing himself as successor to Isabel Perón as head of a future populist government.⁷⁴ But he was not the only moderate voice in the cabinet. The Labour Minister, General Liendo acted as an arbitrator between the executive and the labour movement and was an advocate of an organised popular participation in policymaking, particularly regarding labour law, while the military intervenors in the CGT and other such organisations served a similar role. General Viola was known to share some common ground with this camp and was regarded as too liberal by more hard line factions of the military authorities that became openly hostile to both his appointment as head of the army, which according to Argentine tradition outranked the head of the navy as the more senior service, and later to his appointment as President to replace Videla. A mission to Argentina by the Inter-American Commission on Human Rights, instigated by Viola to dissipate international criticism of the government's rights record backfired because many generals bridled at what appeared to be an invitation to outsiders to interfere in the country's internal affairs. The visit proved disastrously embarrassing when relatives of missing people queued along four blocks in Buenos Aires to air their grievances to the delegation.⁷⁵

When Viola was nominated as Videla's successor in October 1980, it became clear that Martínez de Hoz's policies were out of favour with the top military ranks of the regime. The minister lobbied Viola to preserve the economic course he had set by the liberals' power base was now irretrievably eroded and on February 2 1981, the *Tablita* was abandoned. In his inaugural speech as president on March 28 1981, Viola announced a 'Plan of National Integration' and proposed a gradual normalisation of intermediary organisations such as unions and political parties.⁷⁶ Most controversially, he stated that he would open the door to dialogue with "representative sectors of Peronism".⁷⁷ This put the presidency on a collision course with the new commander-in-chief of the army general Leopoldo Galtieri who gave a speech on 10 April warning Viola not to seek popularity by dissociating himself from direct responsibility for the Junta's

⁷⁴ The Economist January 26 1980 (Argentina Survey) *The Plots Thicken*.

⁷⁵ The Economist January 26 1980 (Argentina Survey) *The Plots Thicken*.

⁷⁶ La Nación 29 March 1981 p.22; Bank of London and South America (BOLSA) Review, May 1981 Vol.15, p.72; Pion Berlin, D. 'The Fall of Military Rule in Argentina 1976-83' *Journal of Inter-American Studies*, Summer 1985 Vol.25(2)

⁷⁷ Latin America Weekly Report May 1 1981, *Argentina's New President Faces Showdown with his Generals*.

achievements hitherto, particularly the campaign against Peronism and the guerrillas. Galtieri eventually staged the coup within the coup, restoring the original Videla-era structure of the regime whereby as head of the army, he was also President of the Republic.

The Junta was less heavy-handed in its anti-inflationary policy regarding business sectors. While Martínez de Hoz retained the government's right to set wages, thus constraining labour's contribution to inflation, prices were left to producers' discretion. The idea was that lower wages would translate into reduced costs for industry and therefore lower prices for the finished product. This did not occur, however, and industrialists continued to raise prices, jeopardising efforts to curb inflation so that the government resorted to more aggressive tactics on prices. But price freezes, such as that implemented in March 1977, were presented as 'truces' and were always temporary measures. Though the government was committed to a reduction in real wages, there were regular salary increases for workers which Martínez de Hoz expected industry to absorb without compensating through higher prices. When business was uncooperative, the minister became exasperated and ultimately found himself in direct confrontation with a powerful interest group he had hoped to nurture as a partner.

Other issues of contention between business and the Minister were the deindustrialisation of the period, favouring internationally and agro-oriented industries associated with his origins within the UIA, and his efforts to liberalise trade.⁷⁸ The plan to put downward pressure on factory prices by allowing cheap alternatives from abroad was not popular with local capital which benefited from Argentina's traditional inward looking policies of tariff barriers. The Peronist business association, the CGE, was disbanded by the Junta and many of its members joined the UIA. During the early months of the military government, national capital was compliant with the regime. Though Martínez de Hoz had extolled entrepreneurs to act responsibly regarding price increases, no legislative constraints were placed on their actions. The early stages of trade liberalisation involved the freeing of exports rather than allowing greater entry to imports so small business saw little reason to feel threatened. Though import bans and restrictions were lifted, the prospective importer was obliged to present a sworn declaration showing his need to import rather than buy locally. He also needed to buy a Foreign Commerce Investment Bond, effectively a deposit, before embarking on prolonged negotiation with Byzantine customs regulations and bureaucracy.⁷⁹ But the industries associated with the CGE ultimately bore the brunt of an ideologically driven policy to liberalise markets and eliminate the web of regulation, subsidies, privileges and protectionist tariff policies on which they depended. Local firms faced a two-pronged assault of higher domestic interest rates

⁷⁸ Erro, D. *Resolving the Argentine Paradox: Politics and Development 1966-92*, London 1993.

⁷⁹ Review of the River Plate, July 30 1976 *Free Imports and Protecting Industry*.

alongside pressure on revenues resulting from an increasingly competitive local market flooded with cheap imports of manufactured goods. Argentine industry found itself suffering something of a local debt crisis that preceded by some years the better-known Latin American credit crunch that started in 1982. The result – a process of deindustrialisation that characterises the episode examined in this section. Between 1975 and 1982, industrial product fell by more than a fifth and the contribution of industry to overall GDP was reduced from 28 per cent to 22 per cent. Up to a fifth of Argentina's largest manufacturing firms were closed during this period.⁸⁰

A conspicuous beneficiary of this pattern was the iron and steel industry. The sector was a long running tool of Hirschmanian aspirations to promote the wider economy by supporting sectors identified as likely to encourage the widest range of linkages. Perón's National Steel Plan and the creation of state enterprise SOMISA in 1947 was conceived as a means to kick start the industry. The view was that a large company would maximise economies of scale but because of the magnitude of the required investment, the state was the only institution capable of shouldering the burden. Once established, it was hoped, a dynamic publicly owned giant would promote complimentary, less capital-intensive activities within the private sector. In other words, firms would emerge to consume SOMISA's products. In the event, throughout the 1950s and 1960s, the industry failed to keep pace with domestic demand for processed iron products, putting pressure on the balance-of-payments. Nevertheless, successive administrations did not lose faith in the sector, and investment continued to flow into projects to expand its capacity. The recessive environment of the late 1970s, however, saw the cancellation of many projects to establish new plants and expand existing ones as part of Martínez de Hoz's efforts to cut public spending and rationalise the state-owned enterprises. In the event, many smaller private steel producers, their subsidies cut off, came under pressure. Two firms, Siderca and Acindar, beneficiaries of the peripheral privatisation initiative and closely linked contractually with SOMISA were able to acquire many weaker competitors, eventually forming a virtual duopoly by the 1980s. Thus the number of steel producers fell from 59 in 1975, to 47 in 1980 and 42 by 1985. From the perspective of the Economics Ministry, their policies were a success. So while output rose by 60 per cent, the steel industry underwent a 25 per cent cut in the number of people it employed from 1978 to 1981, comprising 11,100 redundancies.⁸¹

Martínez de Hoz was explicit in his belief that Argentina's economic recovery was dependent, to a large extent, on agricultural exports and considerable changes were implemented to the sector during his ministry. The marketing of agricultural produce had been monopolised by the

⁸⁰ Kosacoff, B. and Azpiazu, D. *La Industria Argentina: Desarrollo y Cambios Estructurales*, Buenos Aires 1989.

⁸¹ Azpiazu and Basualdo, *La Industria Siderurgica Argentina en un Contexto de Privatizaciones y Transformaciones Estructurales*, Buenos Aires, 1993. pp.6-10

Junta Nacional de Granos, a marketing board set up by the previous administration, and Martínez de Hoz swiftly stripped it of its powers to assign it a more passive, supervisory role while the bulk of trade was carried out once more by private actors. Meanwhile export taxes were phased out and the agricultural sector began to thrive.⁸² However, the *Tablita* and its inadvertent consequence of maintaining a high exchange rate dented the competitiveness of Argentine exports and the SRA became a prominent opponent of Martínez de Hoz's policies. Agricultural producers started to stage protests and the SRA issued a series of statements questioning why economic liberalisation should be extended to all but the exchange rate.⁸³ Like industrialists, farmers chose to pass on the cost of re-equipment to the consumer by raising the price of staples such as grain, beef and milk, much to the frustration of the minister. They also engaged in speculative practices which further reduced supply in the domestic market. Cattle farmers in particular held on to livestock in the hope prices would continue to rise, a tactic described by the liberal business newspaper *Review of the River Plate* as "economic dyslexia".⁸⁴ Because grain, beef and milk comprise the majority of the calculated Consumer Price Index, speculative action by farmers had an immediate and profound impact on the rate of inflation and real wages. To some extent, such practices were used as a protest tool against government, especially the *Tablita*, in the hope that the economics ministry might agree to a currency devaluation which would be in the agricultural exporters' interests.⁸⁵

With the departure of Martínez de Hoz as Economics Minister and his replacement by Lorenzo Sigaut in 1981, the government's grip on some corporate entities loosened and the UIA had its autonomy restored. The group used its newfound liberty to criticise in the strongest language possible, the Junta's economic record of deindustrialisation both through personal contact with the Dr Sigaut, an option still not available to labour groups, and in its publications. The handling of the monetary and exchange rate policy was singled out for the strongest criticism. Devaluations, which may have helped primary exports but did little to aid industry in need of capital goods imports, were not accompanied by "complimentary measures" to cushion producers and had failed to correct the disequilibrium in the balance-of-payments. Internal activity had remained stagnant. Manufacturing activity had dropped by 1981 to the lowest levels in a decade and proposals put forward by the UIA to resuscitate the sector "suffered delays to their implementation and sterilisation in their practice."⁸⁶

⁸² Bank of London and South America (BOLSA) *Review*, August 1979, Vol.13, No.8/79

⁸³ Erro, D. *Resolving the Argentine Paradox: Politics and Development 1966-92*, London 1993 p.113

⁸⁴ *Review of the River Plate*, January 12 1977 *Farming: A Call for Action*.

⁸⁵ Peralta Ramos, M. 'Toward an Analysis of the Structural Basis of Coercion in Argentina: The Behavior of the Major Factions of the Bourgeoisie 1976-1983' in: Peralta-Ramos and Waisman, C. *From Military Rule to Liberal Democracy in Argentina*, Boulder 1987

⁸⁶ Unión Industrial Argentina, *Memoria y Balance 1981*, p.1.

To conclude this sub section therefore, the period did not represent as radical a break with Argentine policy traditions as is often suggested. Although the free market zeal of Martínez de Hoz's team is not in dispute, he was ultimately unable to implement his vision fully. The minister may have intended to oversee a transformation and liberalisation of the economy. However, rigidities in the economy and the disapproval of elements in the military to whom he was ultimately answerable prevented this. What emerged from his tenure was essentially one more shift of power in favour of the business sector, away from the popular sector of which there have been many. The sacred cows of the public sector, transport, oil and gas, steel, power and so on, were not privatised. Import tariffs to protect domestic industry were far from eliminated. Thus one of Martínez de Hoz's most notable failures, at least from his own ideological perspective, was an ultimate inability to reduce public spending. Indeed, some reductions in state financing were merely cosmetic, replaced by the heavy borrowing from abroad that occurred in the 1970s with such severe consequences in the 1980s. All of this is commonly blamed on the stubbornness, or at least caution, of his military bosses. But it is hardly surprising that these elements were not disposed to abandon their view of certain sectors as pivotal to national security and remained intransigent on whether the state should relinquish control. In their eyes, the country was in virtual civil war and the junta took a belligerent approach to its management of affairs, curbing press freedom and sanctioning the murder of political opponents. Perhaps then, if Martínez de Hoz had ascended to the head of the Economics Ministry in more peaceful times, his vision would have been realised more fully.

Part 2: Spain.

This sub-section examines the agreement reached in October 1977 between the centrist government of Adolfo Suarez and delegates from newly legalised political parties on economic policy which shaped economic and social policy in post-Franco Spain. The end result was the Moncloa Pacts, a heterodox stabilisation that involved reciprocal cuts in wages and prices in return for pledges to lower inflation, with tentative steps towards further liberalisation of the economy. Like the contemporary reforms in Argentina, a determined economics minister, Enrique Fuentes Quintana, sought to apply orthodox reforms to dismantle the legacy of an inward-looking development model. Also, as in Argentina, the minister's power was checked by the political pragmatism of the executive, sensitive to the risk of social unrest resulting from labour discontent. But unlike Argentina the eventual policy was shaped by neo-corporatist negotiation, where the executive invited representatives of political parties, each of which purported to represent a faction

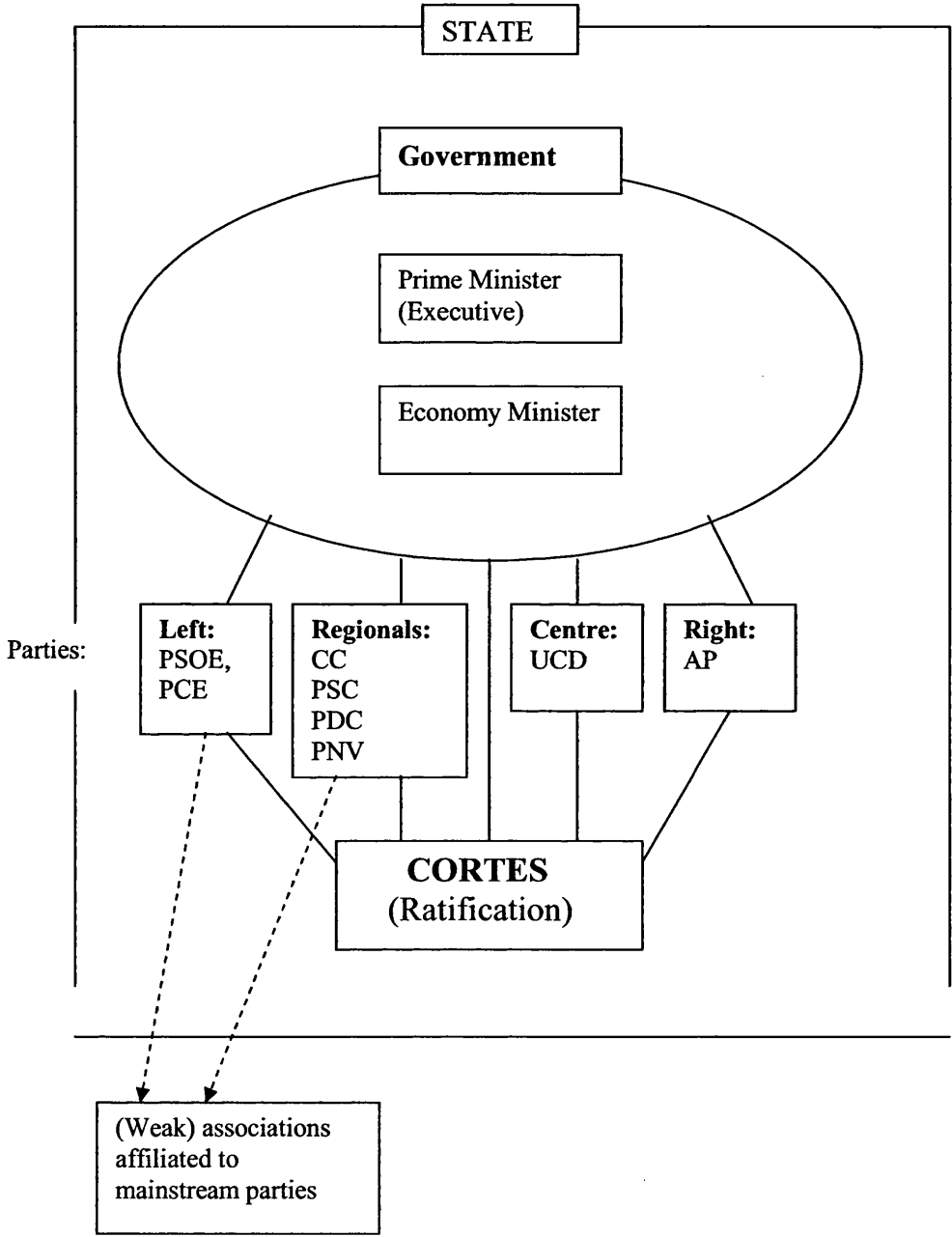
of society such as labour or, as is characteristic of Spanish political discourse, a regional nationalist interest. A further distinction from the former case is that associations were not present on the basis that the parties were deemed sufficient representation for social, political and economic groups.

Fuentes Quintana, though a senior cabinet minister, represented a voice among many at the negotiating table and the reforms were thus a compromise solution. In exchange for limits to wage increases, the minister pledged to curb inflation. Labour unions were told, through their affiliated political parties, that in return for suffering the austerity associated with fiscal and monetary tightening, the entire legacy of Franco-era 'vertical syndicalism would be dismantled and replaced with legislation enshrining the right of collective bargaining.

The dynamic of the bargaining is illustrated in figure 4.2 whereby the government engages with representatives from all legitimate political parties. The economics minister's role is to pursue a policy of crisis resolution but is engaged with the parties over what shape the eventual policy will take. The prime minister, meanwhile, retains a role comparable to that of the dictator in the previous snapshot whereby he acts as a convenor to the negotiations but is recognised by all participants as the legitimate authority and arbitrator. The next tier of the structure is occupied by the parties which come from all factions of Spain's political spectrum and are thus designated as the only officially recognised representatives of society's interests. This is achieved through a number of brave decisions on the part of the government in a climate of uncertainty following the transition to democracy. In order for the negotiators to be recognised as legitimate by society, it was necessary for the government to legalise such entities as the Communist Party and regional (nationalist) groups against the objections of rightist elements. The eventual economic package, the Moncloa accords which are the subject of this section were then presented to parliament, the Cortes, for ratification. Excluded from this dynamic were associations on the basis that their voice was adequately represented by political parties. Indeed, the two principal labour federations were directly affiliated to the main leftist parties, the Socialists and Communists and in the event gave grudging approval to the accords after the event in accordance with the advice of the PCE and PSOE. Essentially, the dynamic supports the argument at the heart of this thesis whereby negotiations are kept within the state so that non state associations representing specific economic interests are in effect assigned the role of passive subordinates. This in turn ensures that interest groups play a minimal role in policymaking and creates a more benign political climate in which to take difficult economic decisions.⁸⁷

⁸⁷ El País 21 October 1977, *Redacción definitiva del documento sobre el programa economico*

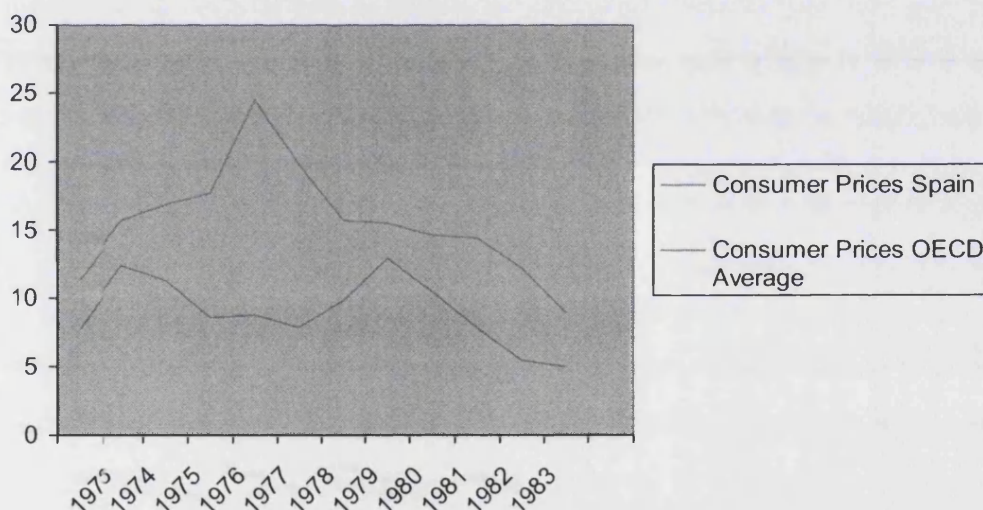
Figure 4.2. The hierarchy of representation during the Moncloa negotiations 1977.



Spain's economic reforms of the late 1970s represented a delayed response to the oil shock at the start of the decade to which Spain was particularly vulnerable. Economic growth had continued apace throughout the 1960s, reflecting favourably on the *Opus Dei* ruling technocrats and

three French-inspired Development Plans. Yet the new industries were in large part energy intensive and Spain was necessarily highly dependent on oil imports. The rigidities of the Franco regime in its closing years prevented an effective response to the crisis while social-political tensions following the dictator's death meant the eventual 'stabilisation' was moderated. Figure 4.3 (see below) illustrates this politically motivated delay in stabilisation by showing that Spain tackled the inflationary effects of the 1973 international oil crisis a full two years after its OECD neighbours. It was an inauspicious time to face a terms-of-trade shock, given that the dictator was dead and a generation of reformers was attempting to reinstall democracy after decades of authoritarian rule against the instincts of a powerful conservative faction in government. The apparent success of this "dual transition" in such unlikely circumstances has inspired many to enthuse about the model as a "nugget of transitology" to inspire other developing countries, particularly since the end of the Cold War.⁸⁸

**Figure 4.3: Inflation, Consumer Prices Spain vs. OECD
1973-84**



Source: de la Dehesa, G. 'Política económica frente a la crisis 1973-1984', *Información Comercial Española*, Ministerio de Economía y Hacienda, Num 617-618, 1985.

This argument compares Spain favourably with other democratic transitions in both Europe and elsewhere and attributes its consolidation to the fact that it was achieved through a process of alliance building. Spain underwent a pacted transition, and the compromises incorporated into an economic stabilisation plan in 1977 illustrate the extent to which the political process was achieved

⁸⁸ The comparative literature comparing Spain's transition favourably with that of other countries is extensive. See: Whitehead, L *The Drama of Democratic Transition*, Madrid, 1997, p.17; O'Donnell, G. Schmitter, P & Whitehead, L. 'Negotiating and Renegotiating Pacts' in: O'Donnell, G. Schmitter, P & Whitehead, L. *Transitions from Authoritarian Rule*, Baltimore, 1986; Sachs, J. *Poland's Jump to the Market Economy* London, 1993 p.26; Huntington, S. *The Third Wave: Democratization in the Late Twentieth Century*, Norman, 1991; pp.104-105

through consensus at a politically sensitive moment in history.⁸⁹ But interest groups such as the newly-legalised labour unions, the INI and the infant employers' association, the CEOE representing respectively workers, the state enterprises and the private sector were excluded from talks over wage policy. This does not lend strong support to the idea that Spain's economic reforms were achieved through inclusive negotiations. The idea of a 'pacted' transition has its limits therefore. Though they are often referred to as such, this was not a 'social' pact. There were other pacts in which interest groups were included. In 1979, the *Acuerdo Básico Interconfederal* was signed by the CEOC, the employers' association and the UGT. Another, the *Acuerdo Marco Interconfederal*, between the UGT and the CEOE, emerged in 1980 followed by yet another, signed by the same groups, the *Acuerdo Nacional de Empleo*, in 1981 (see chapter 5).⁹⁰

Literature on this transitional period falls broadly into two related camps. The first of these argues that the era is best understood as a consequence of neo-corporatism inherent in the Spanish polity. Political parties and associations held a monopoly of representation at the negotiating table on behalf of interests such as capital and labour.⁹¹ The second interpretative strand builds on this assessment but derides the 'social pacts' of late 1970s as 'elite' settlements, where forces representing dynastic interests, business and capital dictated policy adopted by the government.⁹² The principal inspiration for this view is the early work of Richard Gunther which suggested that although the Spanish state was corporatist in its design, networks of representation were clientelist. In spite of the 'vertical' structure of representation, in reality, business elites enjoyed better access to political elites.⁹³ The focus in this section is on the first wage and price agreement, the Moncloa accords because it is most representative of policymaking networks in post-Franco Spain. The participants were the leadership of newly legalised political parties who spoke for relevant interest groups. Thus Labour was represented by two such organs, the Communist PCE and the ascendant Socialist PSOE. Neither the Communist or Socialist union confederations (CCOO and UGT respectively) were invited to the negotiating table and their role in approving the final settlement was implicit and subordinated to the two workers' parties.

Subsequent pacts, where interest groups were engaged with the government, were more a political public relations exercise and the impact they had on wages or prices was negligible. Figure

⁸⁹ Schmitter, P. 'An Introduction to Southern European Transitions from Authoritarian Rule' and O'Donnell, Schmitter & Whitehead 'Negotiating and Renegotiating Pacts' in O'Donnell, G. Schmitter, P & Whitehead, L. *Transitions from Authoritarian Rule*.

⁹⁰ De la Dehesa, G. 'Spain', in: Williamson, J. (ed.) *The Political Economy of Economic Policy Reform*, Washington, 1994. p.128

⁹¹ See Pérez-Díaz, V. *The Return to Civil Society*, London 1993; See also Schmitter, P. 'Still the Century of Corporatism', in: Schmitter and Lehmbruch, G. *Trends Toward Corporatist Intermediation*, London, 1979

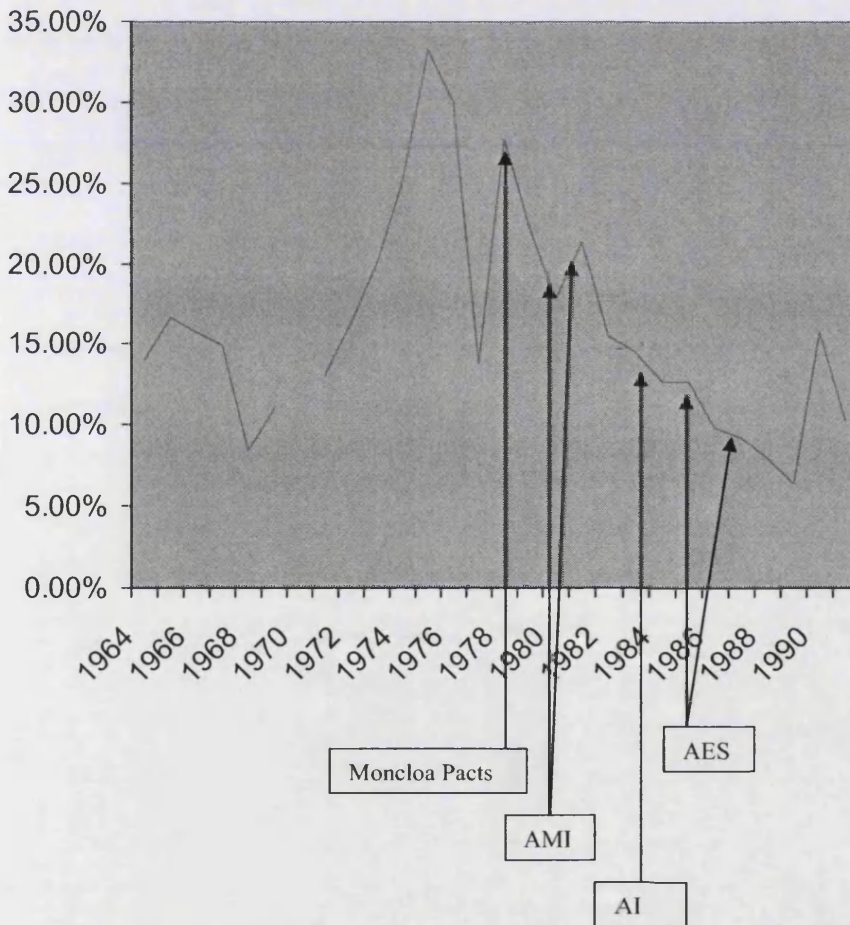
⁹² Petras, J. 'Spanish Socialism: The Politics of Neo-Liberalism' in: Kurth, W. and Petras (eds.) *Mediterranean Paradoxes*, Oxford, 1993. See also: Aguilar, S. Barteló, A. Muniesa, B. Regio, A. Vidal-Villa, J.M. 'Notes on the Economy and Popular Movements in the Transition', in Abel, C and Torrents, N. *Spain: Conditional Democracy*, London, 1984

⁹³ Gunther, R. *Public Policy in a No-Party State*, Berkeley, 1980.

4.4 shows that by far the most significant agreement of the period was the first while the effect of the AMI, AI or AES was relatively slight, merely conforming to a long-run trend that owed its momentum to the Moncloa accords.

Nevertheless, the arguments presented here contend that the nascent and resuscitated pre-Civil War unions were politically weak and unrepresentative of the labour force while the threat of violence remained a very real issue for policymakers and the populace to keep in mind during the negotiations. So while the stabilisation plan of 1977 may appear to be a triumph of negotiation and accord, it was a *de facto* authoritarian solution to macroeconomic instability just as much as the 1959 stabilisation examined in the previous ‘snapshot.’ On the basis of this continued threat of violence, the line of analysis presented here departs from convention that the economic transition was pacted.

Figure 4.4. Spain: Index of industrial wages. 1963=100 (Source, Mitchell 2003)



AMI = Acuerdo Marco Interconfederal; AI = Acuerdo Interconfederal; AES = Acuerdo Económico y Social

The conservatives at the head of the armed forces were uncomfortable with the new political pluralism which they had failed to anticipate given that the constitutional monarch was Franco's hand picked successor. The evident popularity of the political project restrained them from intervening, however. But following a rise in political violence during the transition associated with Basque separatism and labour militancy, there was a fear that the Spanish state would disintegrate. Furthermore, the months after the dictator's death witnessed a mass mobilisation of opposition forces calling for legalisation of political movements. The number of politically motivated strikes by workers grew 1800 per cent, from 931 in 1973, to 2290 in 1974 to 3156 in 1975 and to 17731 in 1976.⁹⁴ There was a very real threat that the democratic experiment would be abandoned and the old guard would intervene as had occurred in 1981.⁹⁵ Indeed, the final months of Franco's life had borne witness to an intensification of violence by the regime expressed through heavy-handed strike breaking and executions of political activists.⁹⁶ Thus, the armed forces, including the *Guardia Civil*, a paramilitary security service closely linked with the regime during the dictatorship, played a significant role as the silent and invisible negotiator in discourse over wage and fiscal.

The final draft of the Moncloa Pact for macroeconomic stabilisation comprised a 'heterodox' mix of price and wage restraint.⁹⁷ As an economic reform programme that incorporated a populist component it is often invoked as an example to follow by politicians in the developing world who face the challenge of reforming a statist economy in a context of social discontent and interest group pressure.⁹⁸ The temperance of the package's orthodoxy reflects the polarisation of Spanish society at the time with popular movements gaining confidence following Franco's death on 20 November 1975. This confidence is reflected in the sharp increase in strike activity coinciding with the dictator's demise. Elite factions supported by the military's officer class were faced with two possible responses: to accept reform or implement an authoritarian backlash. But this decision also had to be made at a time when serious macroeconomic imbalances caused by the international downturn associated with the oil shock necessitated economic adjustment which would exacerbate labour unrest. The economic miracle of the 1960s had failed and annual GDP growth which had averaged 9.4 per cent between 1960 and 1973 fell to 0.8 per cent between 1975 and 1983.⁹⁹ The reason Spain was so acutely vulnerable to international oil prices lay in the nature

⁹⁴ Maravall, J-M *La Política de la Transición*, Madrid, 1981, p.33.

⁹⁵ Foweraker, J. 'Corporatist Strategies and the Transition to Democracy in Spain', *Comparative Politics*, Vol. 20, no.1, October 1987. p.61

⁹⁶ Preston, *The Triumph of Democracy in Spain*, London, 2001. pp. 72-74

⁹⁷ Spittaller and Galy, 'Spain: Landmarks in Economic Development 1939-92', IMF Working Paper 92/78 (Sept. 1992), pp.1-3

⁹⁸ El País 25 Octubre 2002 *Los mimbres de la Constitución*

⁹⁹ Salmon, K. *The Modern Spanish Economy, Transformation and Integration into Europe*, (2nd Ed.) London, 1995. p.7

of its industrialisation model. Oil accounted for 68 per cent of Spain's energy requirements in 1973 compared with an OECD average of 55 per cent.¹⁰⁰

The international crisis also helped to expose structural problems in the Spanish economic model that ran deeper than the direct effect of higher energy prices. The populist wage policies of the Franco regime alongside public sector deficits compounded rising energy prices so that inflation reached 26 per cent by 1977. Furthermore, the climate of uncertainty associated with the dictator's demise and the delicate transition to democracy with threats looming on all sides resulted in a distinctly permissive economic policy direction. Political violence perpetrated by a great variety of groups, regional separatists and extremists of both the Right and Left intensified the sense of crisis. The Moncloa Pacts were borne out of this environment. Social tensions were great but the economy was reaching crisis point and unpopular measures were inevitable.

Commentators who herald the reforms as a model of gradualist, pacted transition regard the pacts as a policy mix of restricted monetary policy and income restraint with a lenient fiscal stance aimed at mitigating the social costs of restructuring the economy. In the context of a fragile transition to democracy, social consensus is key and in this sense, Spain's approach was radical. The agreements represented recognition by both Right and Left that a return to economic stability and increased productive efficiency were crucial to the viability of the newly established democracy. To oppose reforms for political reasons would be self-destructive so for the sake of political pluralism, ideology and political priorities were put to one side. A related view emphasises the looming presence of the army, ready to seize power at the first sign of social disorder, regional separatism or other threats to the post Civil War order.¹⁰¹

Criticism of the pact is polarised between those who consider it too permissive in terms of its wage policy and those who say it bolstered elite interests at the expense of labour which was an inherently weak political force following decades of Francoist suppression. Both camps agree that the result of the misjudgement was rising unemployment and economic stagnation in the early 1980s. Robert Harrison is of the former camp, suggesting that in retrospect, because of the government's desire to avert serious social and political problems, the negotiators allowed real wages to rise too fast in relation to productivity growth which resulted in stagnation and an end to Spain's long cherished record of full employment.¹⁰² Meanwhile, neo-Marxist assessments of the pact adhering to the latter camp sustain that the agreements favoured the capitalist class and the

¹⁰⁰ See Fuentes Quintana, E. Centro Asociado de la Universidad Nacional de Educación a Distancia, Cádiz, Lección inaugural: *La crisis económica actual: sus problemas y soluciones*, 27 Nov. 1976

¹⁰¹ Lieberman, S. *Growth and Crisis in the Spanish Economy 1940-93*, London, 1995.p.7. See also: Gunther, 'Spain: The very model of the model elite settlement'. In: John Higley and Richard Gunther, *Elites and Democratic Consolidation in Latin America and Southern Europe*, Cambridge, 1992, p.55; de la Dehesa. 'Spain', in: Williamson, J. (ed.) *The Political Economy of Economic Policy Reform*, Washington DC, 1994, p.135. See also Foweraker, J. 'Corporatist Strategies and the Transition to Democracy in Spain', *Comparative Politics*, Vol.20 no.1 October 1987

¹⁰² Harrison, R. *The Spanish Economy in the 20th Century*, London 1985. p.180

bourgeois government. On the one hand, the Moncloa pact helped eliminate the deficit in the balance of payments and reduced inflation to 16 per cent. The fact that the negotiations were politically inclusive at only the highest level, granting a voice only to recently legalised political parties lends support to this view. The working class was denied a part in the formulation of the agreements and had to bear the brunt of the austerity associated with fiscal reform, devaluation of the currency and monetary discipline.¹⁰³ In this way, Moncloa marked the start of an era in which labour was co-opted into an elite agreement and thus tolerated a continuous decline in real wages. It was thus a catastrophic failure of Spanish unionism.¹⁰⁴

If this is the case, why should representatives of leftist parties have signed the pact when they ostensibly represented the working classes? A likely solution lies in the fact that the Communist Party was led and represented at the talks by Ramon Tamames, then as now one of Spain's best known economists. His academic background may have left him open minded to the long-term benefits of reduced inflation and thus more prepared to sign up to short-term wage restraint. In other words, adopting a perception of the negotiation in expanding sum terms rather than zero sum terms.¹⁰⁵ Tamames himself states that the priority for the negotiators was to facilitate a fundamental transformation in the economic model with far reaching reforms to the fiscal regime, social security and the modernisation of regulatory regimes. It was part of a protracted process that facilitated ratification of a democratic constitution in 1978 in a parliament newly filled with democratically elected deputies and senators. In other words, representatives of the Left regarded themselves as caretakers of the democratic transition and were thus prepared to temper their distributional priorities in order to avoid derailment of the long-term process.¹⁰⁶

Economic reform.

The 1977 general election, Spain's first since the 1930s, represented a consolidation of the new political system and also excluded the Francoist lobby from parliamentary power. Thus strengthened, prime minister Suarez was able to address the economic crisis and appointed Enrique Fuentes Quintana, one of Spain's best-known liberal economists as vice president for economic affairs. His tenure marked the passing of an era of passive economic policy, totally subordinated to the political priorities of the system's transition. Thus the exogenous shock of the OPEC oil price hikes in 1973, in spite of Spain's disproportionate dependence on imported oil, had not been addressed and the crisis was allowed to deepen. While a budget for 1977, drawn up late in 1976 was

¹⁰³ See Aguilar, S. Barteló, A. Muniesa, B. Regjo, A. Vidal-Villa, J.M. 'Notes on the Economy and Popular Movements in the Transition', in Abel, C and Torrents, N. *Spain: Conditional Democracy*, London, 1984, p.128

¹⁰⁴ Pérez, S. 'From Labour to Finance: Understanding the Failure of Socialist Economic Policies in Spain', *Comparative Political Studies* Vol.32. No.6. September 1999

¹⁰⁵ Gunther, 1992, p.56.

¹⁰⁶ Tamames, R. 'Política Económica y Cambio Social en la Transición,' *Información Comercial Española*, Enero-Febrero 1985.

designed to curb expenditure, the realities of the political situation, and the prevalence of strikes and unrest meant the figures were revised in February 1977. The new budget was considerably more expansionary with growth of expenditure and revenue at 49 per cent and 32 per cent respectively, which translated into a deficit equivalent to more than 1 per cent of GDP.¹⁰⁷

Early attempts by the new economics minister to curb the external debt and inflation, including a 20 per cent currency devaluation and an attempt to freeze wages and prices did not win the cooperation of interest groups. Union leaders objected to wage increase ceilings while business balked at fiscal tightening and restricted credit.¹⁰⁸ Senior figures in government also acknowledged publicly that price freezes were unenforceable over the long term in spite of the existence of an inspectorate of prices (*Servicio de Vigilancia del Mercado*).¹⁰⁹

With collective action and non-cooperation threatening the government's authority, Suarez adopted a new approach, namely the Moncloa negotiations as a vehicle to introduce the reforms but reinforcing neo-corporatist hierarchies to impose discipline on the political process. Fuentes-Quintana's priority remained a reduction in the deficit in the balance-of-payments through a 20 per cent devaluation of the peseta and curbing growth in money supply and instituting wage restraint so that salaries grew in line with inflation. To the minister, economic interests had to be kept out of the process of policymaking because their influence was counterproductive. Lobbying had tempered, in his view, the liberalisation of the 1959 Stabilisation Plan so that it was imperfectly applied and he viewed his task to be one of addressing unfinished business. His opinions echoed those of his counterpart in Buenos Aires, Martínez de Hoz, that the nature of the Spanish economic crisis was a consequence the "parasitic interventionism" of previous development policy. In particular, Fuentes Quintana identified the Development Plans of the 1960s as having undermined the purpose of the 1959 Stabilisation. This had resulted in "bureaucratisation" and over-centralisation of the Spanish economy. He stated:

"The social market economy, envisaged in 1959 was not implemented properly in any of its fundamental tenets and we were left with free enterprise subject to a semi liberty and a State that was incapable of defining a complete budget for its activities or financing itself with sufficient efficiency or even-handedness".¹¹⁰

It was time, he argued, to divorce economic policy from political priorities and for Spaniards to appreciate the extent of the crisis. Interest groups had to appreciate that they could not be indulged and should abandon unreasonable, and self-centered expectations of the government. He

¹⁰⁷ OECD Economic Surveys, *Spain*, Paris, June 1978. p.31

¹⁰⁸ El País 21 July 1977 *Fuertes presiones sobre el programa económico*; 26 July 1977 *Las centrales sindicales contra el plan económico*; Lieberman, S. *Growth and Crisis in the Spanish Economy 1940-93*. London 1995 p.178

¹⁰⁹ El País 30 July 1977 "*El control de precios es ineficaz más allá de cortos periodos de tiempo*"; Fuentes Quintana, E. Centro Asociado de la Universidad Nacional de Educación a Distancia, Cádiz, lección inaugural: *La crisis económica actual: sus problemas y soluciones*, 27 Nov. 1976 pp.45-58

¹¹⁰ Fuentes Quintana, E. *La crisis económica actual: sus problemas y soluciones*, 27 Nov. 1976 p.31

pointed out that consumers expected the State to “provide” stable, or better still, declining prices but when the same individuals act as producers, they expect compensation for the effect of rising prices on production costs. The unemployed meanwhile expect the provision of jobs while savers and investors clamour for higher yields, interest rates and stock market growth as a reward for the retention of some of their potential consumption. All these priorities simultaneously contradict each other so it is inevitable that any measure to address economic problems will fall short of the expected miracle.¹¹¹

The government had hitherto devoted too much effort to humouring as many conflicting demands as possible with temporary measures such as price freezes and consequently failed to articulate effective measures, Fuentes Quintana argued. The solution, regardless of society’s objections, had to be built on an end to protectionism, a legacy of the defunct model, liberalisation of the exchange rate and monetary discipline. To preserve the antiquated productive structure of Franco’s Spain would be “a rejection of progress” so economic policy had to be professionalised.¹¹²

The Negotiations: The Political Background

Franco famously stated towards the end of his life that he had left Spain “well tied up” with Juan Carlos to succeed him as monarchical head of state and Carlos Arias Navarro, a close personal friend appointed prime minister. When it became clear that the new administration was not eager to implement constitutional change, the popular clamour for reform grew louder. A simultaneous deterioration of the economic situation further dented Arias Navarro’s credibility and he resigned. His replacement was Adolfo Suárez, a senior member of the Francoist hierarchy and former Minister Secretary General of the *Movimiento*, or ruling party. In spite of his conservative credentials, however, Suárez was more open-minded regarding political reform. An early achievement was approval by parliament of a political reform law to formally establish democracy.¹¹³ This legislation established free election by secret ballot with the right to vote granted to all Spanish adults for the first time since the Civil War.¹¹⁴

It also paved the way for future constitutional reform with a statute that enshrined the right of the democratic legislature to institute change.¹¹⁵ Shortly afterwards, a further law was enacted that granted legitimacy to political parties although Francoist pressures ensured a delay in legalisation of the Spanish Communist Party.¹¹⁶

¹¹¹ Fuentes Quintana, E. *La crisis económica actual: sus problemas y soluciones*, 27 Nov. 1976 pp.33-34

¹¹² Fuentes Quintana, E. *La crisis económica actual: sus problemas y soluciones*, 27 Nov. 1976 pp.58-59

¹¹³ Ley 1/1977, 4 enero, ‘Para la Reforma Política’.

¹¹⁴ *Ibid.*, Article 2, part 2

¹¹⁵ *Ibid.* Article 3. part 1

¹¹⁶ Ley 54/1978, de 4 de diciembre, ‘de Partidos Políticos.’

The eventual inclusion of the Communist party in mainstream politics was thus the result of careful negotiation kept within the establishment. Suárez had given assurances to the armed forces that he would not legalise the party as part of the process of democratisation, associated as it was with clandestine labour opposition during the dictatorship. Yet exclusion of the largest party from the political process would weaken the legitimacy and credibility of the reform process. The compromise was to open a dialogue with the party's moderate wing, which included such figures as Tamames and the leader Santiago Carrillo, so that the party could be deradicalised. The party was eventually granted legal status in return for abandonment of a number of ideological priorities, such as demands for retribution on the old regime and its traditional anti monarchism. Carrillo became the friendly face of Spanish constitutional communism, making well-publicised criticisms of the Soviet Union for its totalitarianism that appealed both conservatives and reformists alike.¹¹⁷ Nevertheless, to many Francoist stalwarts, legalisation of the Communist Party represented:

“...a disgraceful decision, through which 40 years of history have been reversed, the pacification of Spain ruined and the army angered... exposing the future of the next generation to great uncertainty.”¹¹⁸

Therefore, in a shrewd move intended to offset the possibility of hot-headed reaction by the military, Suarez ensured the announcement was broadcast during the 1977 Easter weekend when most senior officers were holidaying away from their posts.

The rival party on the left of the political spectrum was the PSOE led by Felipe González whose election to the leadership in April 1977 had itself marked his party's moderation. González's main criticism of his rival for the workers' vote was that “the Communists have never yet respected the rules of democracy when in power.” He was nevertheless supportive of the initiative to include them in the political process as a “realistic” measure.¹¹⁹

On the right of the political spectrum was an alliance of parties dominated by an older generation of ex ideologues and *Opus Dei* members from the old regime who sought “Francoism after Franco” and as much political continuity as possible across the transition. The leader of the Popular Alliance was Manuel Fraga Iribarne, a Francoist stalwart and former Minister of Information and Tourism in the early 1960s. Fraga was credited with presiding over Spain's tourist boom but had an authoritarian record.¹²⁰ An associate in the Popular Alliance was fellow *Opus Dei* ex minister Laureano López Rodó, architect of the Development Plans of the previous decade who was also involved in implementation the 1959 Stabilisation Plan (see previous chapter). Thus Spain's Francoist political Right was associating itself with the country's economic miracle though

¹¹⁷ The Economist, April 2 1977, Survey on Spain, p.22

¹¹⁸ Fraga Iribarne, M. former Francoist minister to Leopoldo Calvo Sotelo on the announcement that the Communist Party was to be legalised. Quoted in Calvo Sotelo, *Memoria de la transición*, Barcelona, 1990, p.19.

¹¹⁹ *Ibid.* p.19

¹²⁰ Preston, 2001. p.10

the undemocratic credentials of its figureheads tempered their pro-growth appeal to Spain's ascendant middle classes.

The political centre ground was dominated by two multi party alliances: the Christian Democratic Alliance and the slightly further to the Right, the Democratic Centre. What distinguished the former was that it had rightist sympathies but studiously distanced itself from the Franco regime and excluded veterans of the *Movimiento* from its ranks. Although it seemed a natural organisation for Suarez to associate himself with as a candidate for elections he had scheduled for June 1977, he remained unaffiliated. The union then renamed itself Centre Democratic Union (UCD) and appointed a Suarez protégé Leopoldo Calvo Sotelo as leader. Another conspicuous presence on the transitional political landscape were the Basque and Catalan regional parties, many of which were founded around the principle of regional autonomy. Yet these were also made to temper their demands for devolution until after the elections to avoid excessive antagonising of the conservatives.

Finally, Suarez drafted an electoral law to create a system whereby the two largest parties would be disproportionately represented in parliament and thus avoid an unworkably fragmented lower house.¹²¹ The conservatives agreed to this on the assumption that they would benefit but in the event, the political Right was eclipsed by UCD centrism. The elections which took place on 15 June 1977 gave the UCD 34.7 per cent of the vote and 47 per cent of the seats in Parliament. The PSOE gained 29 per cent of the vote and 34 per cent of seats. The Communists, meanwhile, were awarded 6 per cent of seats on 9 per cent of the vote while the Popular Alliance followed with 8 per cent of the vote and 5 per cent of seats.¹²² While the electoral law minimised party fragmentation and facilitated the formation of stable governments, the extent to which all interest groups were represented in the political process was limited. Minority parties were given a voice but their power was out of proportion to their popular support. In a political environment of negotiation and constitutional transition set in the context of growing economic imbalances, this seriously debilitates groups with an interest in policy design. On the other hand, it facilitates the passage of reforms through the legislature by limiting the extent to which political groups representing specific regional or social factions of society can exercise the power of veto.

The negotiations over economic reform thus represented a pact between political elites acting through large parties rather than interest groups whose representation at the negotiating table or in parliament was limited and indirect. The voice of the partisan forces in Spanish society, Labour, the anti-democratic Francoist elites and the military, and regional separatists, were captured by nascent parties. Labour unions, for example, were not included in the Moncloa negotiations over

¹²¹ Real Decreto-Ley 20/1977

¹²² Lieberman, 1995, p.177.

wage policy on the pretext that they were adequately represented by the leftist parties, namely the PCE and the PSOE. Business interests were similarly forced to make do with a political party to represent their interests. In a sense, therefore, the negotiations over economic policy and crisis management in the new democratic Spain, were less inclusive and more corporatist than the process leading up to the 1959 Stabilisation Plan which had involved a consultation sent to interest groups such as chambers of commerce and banking organisations.

The negotiations are perhaps best understood, therefore, as an emergency measure to preempt a renewed political crisis that imperilled democratic reform and as such their value is more symbolic than as a real economic policy model. To Paul Preston, the events present a paradox. While the pacts indicate “a remarkable spirit of cooperation and sacrifice among the main political parties”, and were signed by 31 representatives of all legal parties, there were limitations to their success.¹²³ This moment in Spanish history reflected the culmination of strategies of moderation and self-sacrifice pursued by the political opposition during the dictatorship which sought a transition to pluralism. As such, like the 1959 Stabilisation Plan described in the previous snapshot, the Moncloa accord represented a war of attrition between factions within a ruling political elite, both of which were acutely aware that the political transformation they cherished could at any moment be put into reverse. All sides in the negotiations would have ideally liked to take economic reform further in their respective ideological directions. But the left accepted wage ceilings of 20 to 22 per cent when inflation was running at close to 30 per cent, as well as monetarist measures to restrict credit and public spending. In return, the government made promises of major structural reforms in agriculture and a more progressive tax system as well as a pledge to bring inflation back below the wage ceiling.

There is evidence to suggest, meanwhile, that the government was telling the negotiators in private that the economic crisis was in fact deeper than the public understood, presenting a scenario of impending disaster to the Left that Tamames and others may have acknowledged. Jordi Pujol, who represented the Catalan nationalists at the negotiations, relates that when he expressed concern to the Economics Minister Fuentes Quintana about the rate of inflation, he was told the situation was far worse than he knew.

Pujol claims that Fuentes Quintana confessed: “We have the feeling that we are very close to reaching what could be a South American scenario, very difficult to control in terms of both economic and social issues, and seriously dangerous politically.”¹²⁴

¹²³ Preston, 2001. p.137.

¹²⁴ Pujol, J, *Mis experiencias de gobierno*, Speech given to the Real Academia de la Historia, Madrid, 4 April 2001.

Pujol also suggests that the headline inflation rate of 26 per cent was kept from the public who were informed in official communiqués that the rate was 22 per cent, in line with the agreed wage ceiling:

“In July 1977 the president of my party, Trias Fargas, and I went to visit the deputy president of the government, Fuentes-Quintana and said to him: ‘we are concerned. We have the impression that inflation has reached 22 per cent’ ... He replied: ‘No, in truth its even worse...’¹²⁵

The true extent of the crisis was downplayed to the public, therefore, as higher rates of inflation would have led to increased wage demands by a labour force that was making frequent use of strike action. Indeed, in March 1977, Ricardo Torrón, director of the Instituto Nacional de Estadística (INE) resigned over the government’s refusal to implement a new cost of living index on the grounds that it would boost wage pressures. The old index covered 244 products, comprising food, drink, housing, utilities and clothing. The replacement was designed to reflect the new living styles of an urbanised, industrial economy, covering a more broad based 369 items including many of the trappings of modernity, such as furnishings, medical expenses, leisure, transport and communications. The founding principles of the new index were inspired by survey data that showed Spaniards, as they prospered, spent a diminishing proportion of their income on food. So the weighting given over to this category by the new index was 41 per cent compared to the previous 49 per cent. It was realised that the new measurements would reveal inflation to be significantly higher than was publicly acknowledged.¹²⁶

Fuentes Quintana’s idea of fundamental economic restructuring as a long-term solution to the inflationary problem did not find a sympathetic audience at the negotiations from either Left or Right. The position of the rightist Alianza Popular was that the government should take long-overdue action to exert its authority against the determination of the Left to undermine state power in a “rupture” with the past. Thus the party called for “an equitably shared austerity” and the assertion of authority in the face of the inevitable protests. Though the AP did not articulate a specific economic plan for stabilisation, it revealed enough to show the nature of the proposed austerity differed from the economics ministers’ view. The AP pursued the quick fix Fuentes-Quintana sought to avoid and suggested frozen wages, adjusted prices, an overhaul of tax collection and the productive system, the restriction of certain goods.¹²⁷ Rhetorically, the AP affirmed its status as the heir to Francoism in a democratic Spain, with absolute faith in the importance of social order as a foundation to “progress”. Any economic or political adjustment needed to be constructed

¹²⁵ *Ibid.*

¹²⁶ The Economist, April 2 1977, p.88 *Costa Living*.

¹²⁷ Interview with Cruz Martínez Esteruelas, former Minister of Planning (1973) and Education (1974-75), founding member of Alianza Popular party, published in: Villacastín, R. *Alianza Popular: España, lo unico importante*, Madrid, 1977. pp.27-28

around social stability and should not jeopardise order.¹²⁸ The party line was to hail the achievements of the previous 40 years, particularly the “regeneration of national life” achieved under the dictatorship. The ideological priority, therefore, was nationalist continuity and minimal “rupture” with the past.¹²⁹ Of the principal participants in the Moncloa negotiations, the AP was arguably least enthusiastic about the eventual pact. Nevertheless, after stubborn abstention from the agreement throughout the talks, Fraga Iribarne and Laureano López Rodó emerged from the Moncloa Palace to announce they had signed the agreement on behalf of the party. They downplayed the importance of the pact, however, and insisted that it did not represent “an unconditional endorsement of the government so much as “statement of intent”.”¹³⁰

On the left, the Communist Party’s principal objection to economic policy was that steps to tackle inflation had focused on salary restraint, at the expense of workers, rather than “democratic” use of economic resources. The party’s stated policy aims on entering the negotiations were more progressive taxation, protection of the purchasing power of workers’ wages and salary increases for the lowest paid, a reduction in unemployment, greater benefits to small businesses, greater investment in agriculture and economic reform that put an end to the existing “oligarchic” model of development.¹³¹ A press release issued during the Moncloa negotiations by Ramón Tamames and Tomás García, his deputy in the PCE, lambasted Fuentes Quintana’s economic package for what it excluded. There was no mention, the Communists said, of the agricultural sector which had suffered as much as any other from rising prices, particularly of land, with serious repercussions for hundreds of thousands of rural families. Neither was there any mention of the question of energy nor a plan for more effective harnessing of national resources by a reorganised public sector in areas such as hydroelectric power. The most vocal objection made by Tamames and García, was lack of progress on new legislation regarding workers’ rights and the devolution by the state with its vertical syndicate, of powers of representation to unions. The party’s most emphatic demand was that a new corporatism be instituted whereby “social forces”, namely labour, be represented in the management of economic institutions such as the INI and the Central Bank.¹³² The party leader stated:

“The democratic State, in order to become just that must accept the right of representatives of workers, professionals, small and medium-sized business and the citizens’ movement to occupy the political space they deserve.”¹³³

¹²⁸ Interview with Manuel Fraga Iribarne, leader of Alianza Popular, published in: *Partidos Políticos* series, Bilbao, 1977 p.69

¹²⁹ Fraga Iribarne, M. *Palabras de Clausura, 1er Congreso de la Alianza Popular* 5-6 March 1977.

¹³⁰ El País 11 October 1977 *Optimismo del Gobierno y el PCE sobre el acuerdo de la Moncloa.*

¹³¹ Santiago Carillo, portavoz del grupo parlamentario Comunista, speech in Cortes, *Diario de Sesiones del Congreso*, 5-7 July 1977.

¹³² Partido Comunista de España, Comunicado de Prensa, *El Pacto de la Moncloa*, 12 July 1977. p.29

¹³³ Partido Comunista de España, Comunicado de Prensa, *El Pacto de la Moncloa*, 12 July 1977 p.30

The Communists, on gaining some concessions from the government such as the pledge to allow full autonomy and the right to independent representation for labour unions, signed the pact in spite of serious reservations about much of its content. The main reason for this acquiescence was the necessity to act in the interests of “saving democracy.” The document, Santiago Carrillo stated before Congress on 27 October 1977, comprised austerity and sacrifices to be suffered by all social sectors. Nevertheless, he continued, for the first time in Spanish history, those sacrifices would not fall exclusively on the shoulders of workers. He emphasised, meanwhile, that Spaniards should not consider Moncloa to be a social pact.

“Social pacts are established generally between unions, employers and governments... This was a political and economic pact elaborated by political parties which will presently be presented for consideration to the unions and employers but what is most clear is its political character.”¹³⁴ The rival party on the Left of the political spectrum the Socialist PSOE also took a reticent stand regarding the Moncloa accords, warning of tough times ahead. Like his counterparts at the AP, the Socialist Party’s secretary general Felipe González insisted that the pacts were merely a building block rather than an end in themselves. The principal priority for the PSOE was to prevent the burden of economic austerity falling disproportionately on the labour force and to ensure real wages did not decline. A further point of contention was an end to political and legal delays to the calling of the first truly autonomous union elections since before the Civil War.¹³⁵ The Socialists also suggested that associational representatives from both business groups and unions should have a say in the negotiations on the basis that it would lend greater legitimacy to the final agreement. The party also stressed a more coherent plan should be put in place by the government to generate employment.¹³⁶

Labour, business and the armed forces.

The coherence of Labour during the transition was limited in that the institutional structure of the unions was in transition from the ‘vertical’ representation of the official syndicates of the Franco regime. Following their legalisation in April 1977, the unions and workers commissions which had acted clandestinely or in exile until the dictator’s death were as varied and numerous as the political parties¹³⁷. The most influential were the three ‘general’ unions, namely the CCOO, the UGT and the Workers Syndicalist Union (USO). These bodies’ levels of influence varied by region and economic sectors and in spite of some examples of coordinated protest, most notably a general strike in

¹³⁴ Santiago Carrillo, *Discurso en el Pleno del Congreso*, 27 October 1977; El País 11 October 1977 *Optimismo del Gobierno y el PCE sobre el acuerdo de la Moncloa*.

¹³⁵ El País 18 October 1977 *Suárez y Felipe González se reunieron el Domingo durante tres horas sin llegar a ningún acuerdo*.

¹³⁶ El País 19 October 1977 *El PSOE pide la discusión del programa económico con centrales y patronales*

¹³⁷ Real Decreto-Ley 19/1977

November 1976, they were a fractious trio. Other more specialist unions included the National Workers' Commission (CNT) which drew most of its membership from the teaching profession and the service sector but was irredeemably split between generations over attempts to deradicalise policy. Furthermore, given Spain's regionalism, some unions were defined by their Basque, Catalan or Galician identities while others were specific to sectors such as the Agricultural Workers' Union (SOC), which was strongest in the southern province of Andalusia. Therefore, the level of coordination between the myriad organisations was low and many were preoccupied by internal rivalries, particularly between the older generation of people exiled or imprisoned by the Franco regime, and the younger, less intransigent newcomers.

Furthermore, though the principal general unions, the UGT and CCOO were associated with the Socialist and Communist parties respectively, no single workers' party could claim to be the legitimate voice of labour. Suárez toyed with the idea of incorporating an affiliated union into the UCD, wary that the PSOE and PCE possessed in their respective unions an effective tool for rallying support.¹³⁸ Ultimately, however, Suárez pushed for inclusion of the Communist Party in the political process to add legitimacy to the reforms among the populace by giving labour a conspicuous nominal voice but subject to a party. However, the PCE could not boast a clearly defined support base in the union movement beyond the CCOO. Furthermore, the degree to which unions were truly representative of the Spanish labour force is debatable as they largely maintained their pre-Civil War structures and hierarchies. Small firms with less than six employees were excluded from union election rights and in an economy characterised by the rise of an entrepreneurial class and a thriving informal sector this represents a significant proportion of the workforce. In addition, since the 1930s new sectors such as the tourist industry had emerged in the Spanish economy that accounted for increasing proportions of national income and employment. But while such non-traditional sectors were not represented by a coherent union, declining sectors such as mining were. Finally, an increasingly important component of the labour force; women, were also excluded from the movement. These factors meant that Spain's rate of union membership was among the lowest in Europe at just 11 per cent of the workforce compared with 43 per cent in West Germany, 45 per cent in Italy and 46 per cent in the United Kingdom.¹³⁹

But though the unions were not as effective as their counterparts in Argentina at organising coordinated dissent as an economic weapon to protest policy, they achieved enough to persuade parties to heed their interests in any economic reform. A survey by Europa Press in July 1977 of union views on the Suarez government's earliest steps to combat the economic crisis revealed cross-

¹³⁸ El País 3 Aug. 1977 *Unión de Centro Democrático crea su propia central sindical*

¹³⁹ Figures for 1986, taken from Miguélez Lobo, F. 'Los Organizaciones Sindicales' in Miguélez and Carlos Prieto, *Las Relaciones Laborales en España*, Madrid, 1991, p.220.

factional consensus that policy focused on forcing labour to shoulder the burden of economic reform. Statements by Nicolas Redondo, secretary general of the UGT, and Marcelino Camacho of the CCOO acknowledged that a stabilisation plan of some description was inevitable but criticised the lack of effective effort to address high unemployment and declining real wages.¹⁴⁰

The public response of unions to the Moncloa accords depended on the political affiliations of the respective movements. The CCOO, for example, came out broadly in support of its parent party, the PCE, with an official statement of approval “with reservations”. The union called for greater attention to issues such as unemployment benefit and criticised the accords’ vagueness over how unemployment would be addressed. It also stated that even a 20 per cent wage increase was inadequate when inflation for the year was likely to reach 30 per cent.¹⁴¹

Though the unions found themselves frozen out of the Moncloa negotiations, there were concessions to organised labour both included in the reforms and presented alongside them. In particular, a new law enshrined the right of workers to appoint their preferred negotiators in disputes with employers. This was designed as a compromise between the dual hegemonies of the UGT and CCOO.¹⁴² In effect, the unions were expected to tolerate wage austerity in return for more permissive labour legislation that provided for the right to strike and allowed workers to join their union of choice or remain unaffiliated if they so chose. In truth, labour was absorbed in more parochial concerns and did not possess the unity or coordination to effectively oppose macroeconomic policy. Most strikes and demonstrations were related to issues such as regional autonomy for Catalans and Basques and though they complicated the government’s situation regarding the economy, did not pose a real threat to central policy.¹⁴³

But if the voice of labour suffered from a lack of coordination, so did its counterbalance from the business class. A new employers’ association, the Spanish Confederation of Business Organisations (CEOE) was formed in June 1977 but with 800,000 member firms, its centralisation was deceptive. In the late 1970s it was a disorganised institution, rendered ineffective by infighting and the fractious relations between its members.¹⁴⁴ While the reluctant verdict on the 22 per cent wage ceiling negotiated as part of the Moncloa pact announced to the public was supportive, the objections of members who thought the figure excessive were numerous. The organisation also failed to issue an official response to the reform package beyond pronouncements by a spokesman

¹⁴⁰ El País 26 July 1977 *Las centrales sindicales contra el plan económico*

¹⁴¹ El País 12 October 1977 *Comisiones Obreras apoya, con reservas, el acuerdo de la Moncloa*

¹⁴² El País 11 October 1977 *Los trabajadores decidirán quién negocia en la empresa*; 20 October 1977 *La regulación de las elecciones sindicales, ultimada.*

¹⁴³ See Lieberman, S. *Growth and Crisis in the Spanish Economy*, London, 1995

¹⁴⁴ Pardo Avellaneda, R. y Fernández Castro, J. ‘Las Organizaciones Empresariales y la Configuración del Sistema de Relaciones Industriales de la España Democrática.’ In Miguélez and Prieto, 1991, p. 156.

that the pact was received with ‘distaste’ by members who considered it riddled with contradictions and resented the absence of any suggestions made by the CEOE.¹⁴⁵

“Brief in its positive aspects and excessive in the negative ones”, read one such statement.¹⁴⁶

When the political talks concluded, the government emphatically turned to the associations, representing both business and labour, and staged a high-profile meeting to discuss the plan. The highest ranking members of the cabinet were present, including Suárez and Fuentes-Quintana, as were representatives of the CCOO, UGT and CEOE. However, this was not a further stage in the negotiations as the accords were already finalised between the political party. The meeting was conceived as an “informative” event for the benefit of the unions and employers’ groups. Smaller union organisations and associational groups representing such interests as small businesses were not invited to the event on the basis that they were not sufficiently “representative”.¹⁴⁷

Thus the negotiations for economic reform that took place in 1977 to belatedly address the crisis associated with the first oil shock represented a continuation of the ‘top down’ style preferred by the dictatorship. The Franco regime had operated as a corporatist state with structures of command emanating downwards from the supreme ruler through the civil (and military) administration. The new democratic system had nominally dismantled the dictatorship but the central administration continued the practice of internalised decision making. Negotiations in 1977 were between factions of the political elite which indirectly represented varying factions of society. Civil society was otherwise weak and easy to exclude from the political process. Compromises were made whereby reforms were implemented that were less far reaching than was economically optimal for the sake of social stability. Yet to claim that this reflected a broad consensus is an exaggeration.

How much of a threat were the military at the time of the negotiations? Though steps were being taken to curb the forces’ impunity, they continued to be considered a latent threat. The police services and associated intelligence agencies such as the Military Investigation Service (SIM) still pervaded civil life and remained political in their outlook. Meanwhile, the upper echelons of the army during the transition were dominated by Civil War veterans, most of whom came from elite families. Officers who had entered military academies after the 1940s could only have reached as far as the rank of Lieutenant Colonel by the time of the democratic transition.¹⁴⁸ The navy and air force were not such gerontocracies because of their need for technological

¹⁴⁵ El País 12 October 1977 *Comisiones Obreras apoya, con reservas el acuerdo de la Moncloa.*

¹⁴⁶ El País 25 October 1977 *El programa económico presentado a trabajadores y empresarios en una reunión de trámite*

¹⁴⁷ El País 25 October 1977 *El programa económico presentado a trabajadores y empresarios en una reunión de trámite*

¹⁴⁸ Preston, P. *The Politics of Revenge: Fascism and the Military in 20th Century Spain*, London 2001 p.181

expertise among officers. It was specifically the army, therefore, that remained a bastion of Francoist reaction during the transition period. While the navy and air force were active participants in the Nato defence hierarchy, army officers continued to perceive their role as internal, rather than, international, as guardians of Spanish stability and values.

Prime minister Suárez actively sought to divorce the armed forces from civil society and end anachronistic vestiges of military rule such as the practice of putting civilians on trial in military courts for political crimes. Indeed, the trial and execution of Salvador Puig Antich, a Catalan anarchist on 2 March 1974 resulted in intense international condemnation and threatened the reformers' achievements in reintegrating the country with the outside world.¹⁴⁹ Suárez's boldest engagement with the hard liners was to substitute the old military ministries of the Franco-era state with a new cabinet position of Vice President for Defence.¹⁵⁰ The first defence minister, lieutenant general Manuel Gutiérrez Mellado, used this post to lead the campaign to transform the armed forces into an apolitical professional force, which earned him much villification among his former colleagues in uniform.¹⁵¹

A particular irritant to the army hard liners was legalisation of the Communist Party in April 1977, perceived as a betrayal of the cause for which the Civil War was fought and won. The army publicly condemned the act and also made veiled threats to stage a coup in a statement reiterating the force's "undeniable obligation to defend the unity and flag of the nation, the integrity of monarchical institutions and the good name of the armed forces".¹⁵² Indeed, the indignation of the hardliners boiled over on 17 November 1978 with the so-called *Operación Galaxia*, a coup which involved an attempt to seize Suarez and his entire cabinet at the Moncloa Palace. Fortunately, the plan was leaked to the government at the eleventh hour and preventative action was taken, including the arrest of the chief plotters.¹⁵³ Another failed coup orchestrated by Lieutenant Colonel Antonio Tejero Molina on 23 February 1981 showed reactionary elements in the armed forces remained a credible political threat half a decade after Franco's death. Appeasement was the tactic adopted by the supporters of democratisation. The king Juan Carlos was at pains to stress his military connections and ensure the services' loyalty to his authority.¹⁵⁴ While as a concession to leftist demands the Moncloa accords included an annexe in which the government pledged to modernise and trim the autonomy and legal jurisdiction of the armed forces, Suarez never pursued the commitments he made for fear of antagonising reactionary officers.¹⁵⁵

¹⁴⁹ Preston, P. *The Politics of Revenge...* pp.181-2

¹⁵⁰ Lieberman, S. *Growth and Crisis in the Spanish Economy 1940-93*, London, 1993 p.177

¹⁵¹ El País 8 February 1977, *Próxima disposición sobre la neutralidad política de los Ejércitos*

¹⁵² El País 15 April 1977, *Repulsa general en todas las unidades por la legalización del PCE.*

¹⁵³ El País 19 November 1978, *El teniente Gómez de Salazar llevó a cabo las investigaciones*

¹⁵⁴ The Economist, April 2 1977, Survey on Spain p.20: 'The Men with the Guns'.

¹⁵⁵ Acuerdo Sobre el Programa de Saneamiento y Reforma de la Economía: Criterios previos aprobados el día 9 de Octubre de 1977. Artículo 2:VII and IX. See also Maravall and Santamaria, 1986.p.90

The measures, when implemented following the Moncloa accords made an important contribution to the restoration of overall financial equilibrium. On the other hand, fiscal policy remained subordinated to the political necessity of softening the impact on workers and avoid social unrest. An objective stated in the government budget for 1978 was to lessen the effect of stabilisation measures on rates of employment.¹⁵⁶ The principal instrument of this policy was the INI, charged during the transition to boost employment by bolstering loss-making public enterprises, their profits decimated by high energy prices, and absorbing private firms that would otherwise become insolvent. In short, the agency became a “hospital” for failing companies during the transition period.¹⁵⁷ So the restriction of fiscal reform in the face of the crisis bought the government some more time to consolidate the democratic transition. The directors of the INI publicly endorsed the Moncloa accord, although they had played no role in the negotiations, content with the continuity of their role as an instrument of central economic or industrial policy.¹⁵⁸ The accord’s ‘Statute on Public Companies’ had pledged to liberalise the economy enough to allow fair competition between the private and public sector and had also made assurances that greater industrial efficiency was a long-term priority. However, the use of the INI as a cushion against restrictive monetary policy, essentially as a bolster for employment meant that little was done in the immediate term by the INI to achieve these aims. Fuentes-Quintana frequently stated his desire to “increase the external liberalisation of the economy as a source of pressure for greater efficiency of resources and employment”, a view he had expressed since the 1950s.¹⁵⁹ Yet he found his ability to fulfill this ambition constrained by the political priorities to which he was subordinated.

There were crucial concessions to the Left regarding the right to organise and the dismantling of the corporatist vertical syndicalism of the Franco era. A jubilant Ramón Tamames, while announcing the Communist Party’s decision to sign the pacts reassured his labour support base that:

“In no way have they interfered in the autonomy of the unions or business associations or their ability to engage in negotiations at all levels to maintain their own independent discourse with the government.”¹⁶⁰

¹⁵⁶ Maravall, J.M. and Santamaria, J. ‘Political Change in Spain and the Prospects for Democracy’ in O’Donnell, G, Schmitter and Whitehead, L. *Transitions From Authoritarian Rule: Southern Europe*, (London 1986) p.73

¹⁵⁷ Comín and Aceña, *INI: 50 años de industrialización en España*, Madrid 1991, p.476.

¹⁵⁸ Instituto Nacional de Industria, *Memoria: 1977*, Vol. 1, p17.

¹⁵⁹ Fuentes-Quintana, *Papeles de Economía Española: Fondon para la investigación económica*, Suplemento no.1. Madrid, 1980 p.4

¹⁶⁰ Santiago Carrillo, *Discurso ante el Pleno del Congreso 27 October 1977*

To summarise economic policy in the transition era as articulated in the Moncloa accord, public investment was to be increased in order to stimulate activity and curb unemployment growth. Inflation was to be addressed through wage restraint, higher productivity and restrictions on the money supply. What was unforeseen at the time of the pacts, however, was the second oil shock of 1979 which exacerbated the crisis and deepened the climate of political uncertainty. However, the Moncloa accord is frequently hailed as the symbol of Spain's negotiated and pacted transition, where concessions were made by all sides of the political spectrum and demands were tempered for the sake of long-term gain and consolidation of the democratic project. It is crucial to remember, however, that the success of these negotiations and the ability to achieve a compromise depended on the continuation of limited social representation. The corporatist tradition of internalisation of inter-elite negotiation over matters of economic policy was very much alive in the period immediately after the democratic transition and the general election of 1977.

The economic adjustment was a de facto authoritarian policy because of its top-down administration, as well as the threat of violence that elites and negotiators were only too aware of. The trade-off between restrictive monetary policy and generous fiscal policy, to improve the balance of payments and temper demand while softening the austerity as far as possible in order to buy time, shares many parallels with the Stabilisation Plan of the previous section. The policy compromise was reached through a war of attrition between groups at the negotiating table. The desire to liberalise, increase competition and restructure the industrial base needed to be constrained by the realities that a conservative military might have been prepared to renege on their tolerance of democratisation. These political realities meant that the political elite monopolised interest group representation, which was made easier by the weakness of civil society following 38 years of authoritarian rule. It also meant that economic policy was heterodox, in that it comprised a mix of orthodox monetarism with high expenditure to offset the effects on wage earning industrial workers. While the political goals were achieved in many respects and democracy survived, the crisis deepened and painful decisions were taken during the 1980s and the socialist administration of Felipe González. What the Moncloa accords illustrate, therefore, is the continued top-down administration of Spain's political economy, the influence on decision-making of a latent threat of violence and the weakness of civil society and interest group representation in spite of a large urban proletariat and burgeoning industrial bourgeoisie.

Conclusions

This snapshot addresses parallel attempts to address economic crises through radical overhaul of the national capitalism and change the rules of the game so that a definitive end was put to the tradition of state-led assisted capitalism. In both cases, political circumstances dictated that the architects of the reforms, economics ministers who believed in unrestricted markets, saw their plans tempered. But the process by which the reforms were stifled was distinct in each case and reflected the state of state-society relations in Argentina and Spain. In the former, Martínez de Hoz sought to address the issue of interest group interference in, or at least influence over, economic decision making in the government through a concerted attack on union power. His approach to business was less bellicose but he anticipated a benign attitude from capitalist organisations related to a belief that the new policy would be in their interests. But his implicit alliance with business and agriculture was counterbalanced by other sectors of government continuing to engage with labour. This, in a sense, resembles the Spanish model identified in this thesis as more capable of ensuring the pure public good of political stability because different economic factions had links with distinct branches of the armed forces and were therefore represented within the junta. There are two crucial distinctions, however. First, the head of the junta had a short-term and precarious hold on power and the period saw a significant degree of infighting. General Viola, for example, was deposed by hardliners. The authority of an arbitrating executive of the kind seen in the Spanish case was not in evidence, therefore. The second distinction is that the factions of the military communicating with associations representing economic interests did not themselves claim to be the official representation of those groups. They ensured a line of communication between the government and elements such as labour or business, but they were instruments of the “zero sum game” system, whereby the executive negotiates directly with non state actors. Even if it had gone some way towards securing a broad, if uneven and unofficial, system of representation and thus helping to underpin some degree of political order, certain factions chose to opt out of the hierarchy. Labour was the junior partner and engaged with the government through aggressive industrial action, while business and landed elites used their connections to gain direct access to the executive and the Junta, bypassing the economics ministry. The struggle for control of policy, therefore, remained beyond the structure of the state, unlike in Spain. The end result was a renewed web of alliances between different factions of government and varying sectors of society. This proved unsustainable and represented a further failure of Argentine reformers to break away from the allegiance-based approach to economic policy.

In Spain, Fuentes Quintana may well have aspired to sweep away the remnants of the Franco-era statism but the fragility of the political transition meant the government’s priorities restricted his ability to do so. The result was a negotiated settlement which excluded associations

but included the newly legal parties. This simultaneously strengthened the former, and consolidated the new pluralism, while it contributed to the weakening of the latter. This thesis does not suggest that civil strife ended in one stroke in late 1977 as strikes and labour unrest continued while there were elements in society that were less than content with the Moncloa accords. However, the events illustrate the dynamics of the Spanish polity that have allowed it to diverge from its Argentine counterpart in securing political stability through a neo-corporatist process of representation, now in the form of political pluralism but still highly centralised. Indeed, given the political precariousness in which the Moncloa accords were formulated, the incident represents an endorsement of the system's ability to create a perception of inclusion at a uniquely challenging moment in history. While the dictatorship was nominally dismantled, and a new Constitution enshrined to mark a symbolic point of departure from the old system, the central administration continued to operate within a system of internalised and tightly disciplined decision making where factions within the party or government claimed a virtual monopoly of representation for their respective constituencies and negotiated policy before the arbitrating head of state whose authority was not questioned by the protagonists. This virtual facsimile of the Franco state continued to ensure political stability as a pure public good, minimising the challenge from economic interests by weakening their non state representatives.

Chapter 5:
The Push for International Integration.
Argentina 1989-1996, Spain 1982-1989

The third and final historical episode of the thesis differs from the previous two in that the comparison does not address concurrent reforms. The focus remains, however, events in each case that are comparable in their aims and methods, namely a conscious effort to dismantle the legacy of “protectionist” economic policy through liberalisation of markets and a concerted privatisation of the old state enterprises. In Spain, this process occurred in earnest during the mid 1980s under the Socialist government of Felipe González who came to power in 1982. This is contrasted with Argentina’s equivalent experience, during the Peronist presidency of Carlos Saul Menem and his technocratic economy minister Domingo Cavallo in the early 1990s. Both reform programmes were hailed for achieving stability and economic growth. But far reaching economic restructuring and the associated successes came at the cost of mass unemployment, critics point out. Mass unemployment helps justify the choice of case studies for this section if it is understood to evidence a shift in paradigm, away from protectionist, state-assisted model which prioritised full employment. Both instances are commonly regarded as a structural turning point, whereby irreversible changes were forced on economy and society when crisis was addressed with construction of a “new macroeconomy”.¹

A further distinction from the previous two sections is that in this instance, both reforming governments were democratically elected, and subsequently re-elected for consecutive terms as shown in figure 5.0.

Figure 5.0: Electoral success of González and Menem compared.²

Argentina			Spain:		
Menem :	% of vote	% of legislature	González (PSOE) :	% of vote	% of legislature
1989	44.6	50*	1982	48.3	57
1995	49.9	52**	1986	44.1	52
			1989	39.6	50

*Frente Justicialista Popular electoral alliance, includes Partido Justicialista, Partido Intransigente and Movimiento para la Integración y Desarrollo (MID) led by Arturo Frondizi.

**Partido Justicialista.

¹ Comín, F. and Díaz Fuentes, D. *La empresa pública en Europa*, Madrid 2004 p.253; Gerchunoff, P. and Llach, L. *El ciclo de la ilusión y el desencanto: Un siglo de políticas económicas argentinas*. Buenos Aires 2003 p. 429

² Sources: Economist Intelligence Unit, *Argentina Country Report*, London No.3, 1989; *Spain Country Report*, London No.2 1989

Though electoral support in Spain for the González government diminished gradually at each election, it retained a comfortable parliamentary majority throughout the period in which the most profound reforms were implemented. In Argentina, where the president is elected separately to the legislature, Menem actually increased the parliamentary majority of his party, or in the first instance, electoral alliance, and the proportion of the electorate voting for his presidency. This is perhaps surprising given the rise in unemployment associated with both regimes and given the depth of the economic reforms applied in each case. But this comparison reflects a difference between the two types of parliamentary system. Argentine votes for Menem's party were distinct from election of the president himself as many deputies in the legislature from the Justicialist party retained a traditional Peronist ideology and were opposed to the reform programme. Indeed, the first time Menem was elected he represented an electoral alliance including his own Peronist party but also the *Movimiento para Integración y Desarrollo*, headed by the developmentalist former president Arturo Frondizi. Argentine political discourse characteristically bypasses a weak Congress as will be shown in this section and highlighted in the two previous chapters. The vote for Menem himself as head of state reflects his ability to win support by making promises to voters he did not necessarily keep when in office, a similarity with Frondizi's presidency described in chapter 3. The Spanish system is a vote for the Socialist Party and there is no presidential election though the party leader, in this case Felipe González, rules as the ultimate authority in a tightly disciplined state once in power, effectively as an elected dictatorship. However, this chapter is not arguing for the advantages of a parliamentary system over presidentialism so much as suggesting the Spanish model traces its ancestry to the pyramidal, vertical hierarchies of the corporatist state established in the 1940s.

Furthermore, in a crony capitalist system, economic interests can be persuaded to support reforms even though they signify a drop in the amount of rents received in the short term if there is a sense of crisis and the looming possibility that an alternative to reform would mean a much greater loss in the longer term. In the absence of perceived crisis, economic interests find the short term diversion of resources involved in the relinquishing of privileges too costly.³ Crisis provokes reform but it also increases the tolerance of social actors faced with declining rents

³ Tornell, A. 'Economic Crises and Reform in Mexico', in Haber, S (ed.) *Crony Capitalism and Economic Growth in Latin America*, Stanford, 2002, p.130.

and privileges. In Argentina at the time of Menem's election, the economy was facing a profound economic crisis the most conspicuous features of which were public indebtedness and hyperinflation. Spain during the 1980s, meanwhile, was also dominated by a sense of crisis but also had the motive of imminent acceptance into the European Economic Community which may have provided an incentive because of the promise of benefits once membership was assured. Both cases were less than a decade after their respective democratisations which may also have added impetus for ensuring popular order over social conflict.

Nevertheless, the manner in which the reforms were applied in these cases conforms to the model elaborated in this thesis. Clientelistic relationships are present in each and both economies retain elements of oligopoly in spite of claims by each system to be representative of all social groups and economic interests and aiming at competitive market structures. Carlos Menem, who oversaw the Argentine reforms of the early 1990s, was of the Peronist Justicialist party and was elected on a traditionalist, redistributive platform. Spanish prime minister Felipe González, who presided over a programme of "industrial reorganisation" in the mid 1980s was of the socialist PSOE, like Argentina's Justicialist party, closely affiliated to the trade union confederation. But both premiers quickly abandoned their popular agendas and introduced reforms which earned the respect of traditional targets for their more vitriolic rhetoric, such as business groups and foreign capital.

The argument employed in this chapter, therefore, is that the Spanish case represents a process of successful vertical representation through a pyramid shaped political hierarchy inherited from a more complete corporatist model than its Argentine equivalent. In short, crony capitalism with a broader spread of cronies who accept subordination to the state's authority. The case of Argentina, meanwhile, illustrates aggressive economic liberalisation achieved through presidential decree and the exploitation of judicial authority rather than due political process. It also displays signs of confrontation with certain economic interests most likely to disrupt the reforms, while simultaneously seeking the support of others.

In this way, both cases in this chapter conform to the "crony capitalism" model elaborated by Stephen Haber.⁴ It is a system in which those close to political authorities receive favours that allow them to earn rents above those that would

⁴ Haber, S. *Crony Capitalism and Economic Growth in Latin America. Theory and Evidency*. Stanford, 2002.

prevail in an economy in which the factors of production were priced by the market. Spain in the 1980s and Argentina in the 1990s, evidence complicity of certain groups in the reform processes whose support was sought in the form of capital or political support. But like the examples in previous chapters, the Spanish example suggests such negotiations were more successfully internalised by a centralised state, occupied at the time by a tightly disciplined party which purported to represent a very broad variety of economic interests. The Argentine example is a case where the executive, either confronts or solicits support from non state actors and asset holders directly, with less recourse to institutional and political structures. Conventional wisdom has it that Menem, in implementing neo-liberal reforms finally broke the back of union power and curbed the ability of labour to mount effective opposition to economic policies that do not favour the interests of wage earners. In fact, as this chapter argues, he perpetuated a system whereby established, economically powerful and well organised interest groups have to be engaged in order to seek their support, if not the unions specifically.

The differing outcomes of programmes to privatise inefficient state enterprises, often one time beacons of the old populist expansionism, illustrate the distinction between the two cases. In the Argentine example, dozens of state concerns were privatised rapidly and, at times, chaotically leading to an internationalisation of the Argentine economy. If the government retained minority stakes in the concerns, it was not in a very strong position relative to the private, usually foreign, interests that had acquired the majority of the shares. Manufacturing industries, transportation networks and utilities, once the instruments of economic nationalism, became subsidiaries of multinational corporations.

The Spanish equivalent process of the 1980s, however, was more tightly controlled by the government. The state retained sometimes small, stakes in the privatised concerns but continued to exercise boardroom power out of proportion to its shareholdings. Chief executives of former state monopolies continued to be political appointees, in spite of the fact that the companies were no longer state-owned, and the government maintained very close relationships with the banking sector. Private companies continued to exercise a role as instruments of Spanish economic policy and in return for their cooperation, were awarded subsidies and implicit protectionism against foreign competition in the Spanish market. But unlike the Argentine, case, foreign capital, was very much the junior partner in a relationship

with the Spanish state. In spite of the much heralded liberalisation of the economy, the Socialist government consolidated a highly centralised model of policymaking. The executive retained direct linkages with specific sectors of the economy and presided over a secular weakening of labour associations so that engagement over wage policy was conducted in an increasingly paternalistic manner.

This chapter proceeds as follows. The next section reviews the literature on each case to place this study in its analytical context. Next, is a narrative overview of policy reform in each case followed by a comparison of how the state engaged with economic interests in Spain and Argentina. A final section outlines the conclusions drawn from the study.

The Conventional Wisdom

Literature on each case of reform addresses the liberal, in the case of Argentina neo-liberal nature of the reforms and contextualises them with debates about the extent to which they were responses to international intellectual currents or home grown impulses. In the case of Spain, the liberalisation of the 1980s has also provoked a discourse about the extent to which reforms were indeed liberal, or a local peculiarity masquerading as economically orthodox for the sake of appearance, perhaps offering an alternative model.

Starting with Argentina, some authors argue Menem's government succumbed to the temptations of intellectual currents dominating debate at the international level. Argentine neo-liberalism was not Menemism so much as one example among many of orthodox stabilisations and structural adjustments around the developing world at the time.⁵ The ideological impulse, therefore, came from outside the country. In addition, given the "conditionality" attached to financial rescue packages and loans from multilateral organisations such as the International Monetary Fund, the policies were also imposed from abroad. It was lenders, in the wake of the Latin American debt crisis of the 1980s, who were overseeing the dismantling of the economic and social structures of the traditional Latin American State, including its "populist"

⁵ Stallings, B. 'International Influence on Economic Policy: Debt, Stabilisation and Structural Reform' and Haggard, S and Kaufman, R. 'The Political Economy of Inflation and Stabilisation in Middle Income Countries' and Kahler, M. 'External Influence, Conditionality and the Politics of Adjustment' in Haggard and Kaufman, *The Politics of Economic Adjustment*, Princeton, 1992

institutions, while constructing its successor, namely a modern, efficient, administrative state⁶.

The identification of the reforms with the architect of the Convertibility Plan, Domingo Cavallo, who was economy minister from 1991 to 1996, has led to their adoption by the supporters of the notion of “technopols” in economic decision making. Whereas a “technocrat” is typically foreign educated with a puritanical belief in orthodox economics and a contempt for political, or even democratic institutions, a “technopol” is able to act within the existing polity.⁷ The “Chicago Boys” who shaped Chilean economic policy under the patronage of authoritarian rule in the 1970s, were therefore technocrats. Cavallo, however, though foreign educated, and a believer in the market as the optimal distributor of resources, engaged democratic institutions, involved the Congress, parties, elected officials, popular sectors and elites in his unprecedented effort to reform the state. By successfully manoeuvring through Argentine political realities, unlike his predecessors, Cavallo served longer than any prior economy minister and “in the 1990s was the bridge that brought to Argentina the 1980s international consensus in favour of economic liberalisation”.⁸

A less flattering view of the phenomenon identifies the international consensus regarding neo-liberalism as a tool hijacked by privileged groups in Argentina to further their own interests. The period associated with the Convertibility Plan, a fixed exchange rate achieved through a currency board which eliminated hyperinflation, was one marked by a free market “despotism”. An institutional shift occurred, therefore, “which abruptly imposed the dogmas of aggressive competitiveness from the conventional wisdom”.⁹ The ideological insistence on rolling back the state from economic life, and wholesale deregulation of markets, was a form of “commercial anarchy” that empowered elites at the expense of equitable distribution.

A related school in the literature presents the Menem-Cavallo reforms as a continuation of a process of concentration of ownership that started during the military government of the late 1970s. The period was not a departure from history, so much as acceleration and deepening of a long-term process of “centralisation of

⁶ Burki, S and Edwards, S. ‘Dismantling the Populist State: The Unfinished Revolution in Latin America and the Caribbean’ World Bank Latin American Studies, Washington DC 1996.

⁷ Dominguez, J. *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, Pennsylvania 1997; Williamson, J ‘In Search of a Manual for Technopols’ in: Williamson J. (ed.) *The Political Economy of Policy Reform*, Washington DC 1994.

⁸ Corrales, J ‘Why Argentines Followed Cavallo’ in Dominguez, 1997, p.50

⁹ Lo Vuolo, *Alternativas: La Economía como Cuestión Social*, Buenos Aires. 2001, p.456

capital, production and income.”¹⁰ This argument, that highlights a regressive trend in Argentine distribution of income, is championed by leading figures in the Buenos Aires branch of the Latin American Faculty of Social Sciences (FLACSO)¹¹ What distinguishes the 1990s, is the substitution of traditional struggles between capital and wage earners typical of the import substitution era, for a new battle between local capital and foreign creditors. Wage earners and the state were by this time, already subordinated to capital. Privatisation of state enterprises weakened the state as an economic actor, while labour reform enfeebled labour as an influential voice in debate over policymaking.¹² Menem and Cavallo presided over a final flourish in the oligopolisation of the economy, therefore, and the association of local economic elites with foreign capital at the expense of progress in social equity.¹³

Another argument treats the policies of Menem’s government as a return to the orthodox ideas of the *Proceso* in the late 1970s, following a heterodox interlude during the 1980s when economic policy was subordinated to political struggle. Menem learned from the hyperinflation of the late 1980s that economic stability was required for successful implementation of any policy. The new policies were revolutionary, therefore, and comprised a concerted effort to dismantle the core of the corporatist system, through privatisation of state enterprises and confrontation with and neutralisation of economic interest groups.¹⁴

But whether the period represents continuity or return to previous ideas, few commentators disagree that fundamental changes took place in the structure of the Argentine economy and that gains were unevenly distributed.¹⁵ While during the 1990s, the Argentine economy appeared to display a new dynamism, and long elusive monetary stability, some sectors thrived more than others. High growth, low inflation and increased investment came alongside higher rates of unemployment. New

¹⁰ Basualdo, E. *Concentración y centralización del capital en la Argentina durante la década del noventa*, Buenos Aires 2000 p.11; See also Aspiazu, D. and Vispo, A. ‘Some Lessons of the Argentine Privatisation Process’ *CEPAL Review* Vol.54 December 1994; Aspiazu, D. *La concentración en la industria argentina a mediados de los años noventa*, Buenos Aires 1998

¹¹ In Spanish: *Facultad Latinoamericana de Ciencias Sociales*.

¹² Basualdo, 2000 p.17

¹³ Aspiazu and Vispo 1994. p.138

¹⁴ Canitrot, A. ‘Crisis and Transformation of the Argentine State’ and Acuña C. ‘Politics and Economics in the Argentina of the Nineties (Or why the future no longer is what it used to be)’ in: Smith, WC, Acuña and Gamarra, A. (eds.) *Democracy, Markets and Structural Reform in Latin America*, Miami, 1996

¹⁵ An exception – Schvarzer, J. *Implantación de un modelo económico: La experiencia argentina entre 1975-2000*. Buenos Aires 1998. suggests the fundamental changes occurred in the 1970s under Martínez de Hoz.

economic actors emerged, namely foreign corporations, following the privatisation of almost all the state sector. Established economic actors changed their behaviour in response to constraints of the new economic discipline.¹⁶

The approach employed in this section acknowledges these arguments that much was altered, possibly permanently, about the Argentine political economy but its point of departure is to highlight the continuity of the established political dynamic of direct negotiation over policy between the executive and economic interests. Some interest group associations were weakened, principally through privatisation of the largest employers such as the railway network which altered the terms of negotiation for unions. The appearance for the first time of mass unemployment also debilitated the bargaining power of organised labour. In this respect, Menem's Argentina of the 1990s resembles González's Spain of the 1980s, except the old corporatist entities were not substituted by an effective political party system that purported to incorporate the entire spectrum of economic interests. The new economic model did not spread the perception of "credible commitment" widely enough.

Furthermore, as Daniel Heymann argues, new economic actors were introduced into the dynamic, or at least became more powerful. In this case, it was foreign capital that became the senior partner in a relationship with the executive, to the exclusion of local entrepreneurial capital. Aggressive privatisation turned Argentine industries into subsidiaries of foreign multinationals except that unlike the Spanish equivalent, the state did not retain an element of control whereby they could continue to be used as instruments of policy under the implicit authority of the government. Instead, the Argentine state became the less powerful member of the relationship and a vested interest that was relatively subdued throughout the second half of the twentieth century was suddenly permitted a renaissance. Argentina post Menem therefore resembles the model elaborated by Gary Gereffi and Peter Evans of a triple alliance of state, local capital and foreign corporations collaborating to subdue popular sector interests with the multinational as the most powerful element.¹⁷

¹⁶ Heymann, D. 'Políticas de reforma y comportamiento macroeconómica: La Argentina en los noventa.' In: Heymann and Kosacoff B. (eds.) *La Argentina de los Noventa. Desempeño Económico en un Contexto de Reformas*. Buenos Aires: EUDEBA, Naciones Unidas, CEPAL.

¹⁷ Gereffi, G. and Evans, P. 'Transnational Corporations, Dependent Development and State Policy in the Semiperiphery: A Comparison of Brazil and Mexico' *Latin American Research Review*, Vol.16 (3) 1981.

A further distinction between this study and other analyses of the period is the use of the comparison with Spain in the 1980s to put the era into a bilateral context as opposed to addressing it either as part of a broader developing world swing from state-led to market oriented policies conforming to the “Washington Consensus” of neo-liberal policy,¹⁸ or of an exclusively Argentine phenomenon. It addresses broadly similar reforms of liberalisation, ostensibly at the expense of particular economic interests but highlights the continuity of both political dynamics that shaped distinct political and economic outcomes.

In terms of the Spanish case, the literature on the period presided over by the Socialist governments of Felipe Gonzalez (1982-96) falls into two broad categories. The first identifies it as characterised by a neo-liberal approach to economic policymaking.¹⁹ The second highlights the continuation of the corporatist tradition, pointing to periodic adjustments to wages, prices and employment law through social concertation and a top down approach to policymaking.²⁰ As such, the Spanish model in the 1980s is portrayed as a mixed approach extracting elements of both the protectionist and neo-liberal traditions to produce a moderate alternative to the market oriented strategy.²¹ There are also those who identify the period as predominantly neo-liberal with a number of limitations but stop short of using this to argue for the Spanish model as an alternative middle way.²²

The main thrust of the neo-liberal interpretation is that the Socialist government took power in 1982 implemented a policy about face to embrace supply side adjustment strategies. The historical episode can therefore be taken as a stage in

¹⁸ Gore, C. ‘The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries’ *World Development* Vol.28 (5), 2000 p.799; Reinhardt, N and Peres, W. ‘Latin America’s New Economic Model: Micro Responses and Economic Restructuring,’ *World Development*, Vol.28, No.9, September 2000, pp.1543-1566

¹⁹ See Wozniak, L ‘The Dissolution of Party-Union Relationships in Spain’, *International Journal of Political Economy*, Vol.22 (4) Winter 1992-93 ; Petras, J. ‘Spanish Socialism: The Politics of Neo-Liberalism’ in: Kurth W. and Petras (eds.) *Mediterranean Paradoxes*, Oxford 1993

²⁰ Pérez-Díaz, V. *The Return to Civil Society*, London, 1993;

²¹ Echemendy, S. ‘Revamping the Weak, Protecting the Strong and Managing Privatisation Governing Globalisation in the Spanish Takeoff’, *Comparative Political Studies* Vol. 37 (6) August 2004

²² Dehesa, de la, G. ‘Spain’, in Williamson, J. (ed.) *The Political Economy of Economic Policy Reform*, Washington 1994

the accumulative conversion of the Spanish model to one that uses the market as the primary distributor of resources and the retreat of the state.²³

Though the PSOE government came to power in 1982 having made an electoral commitment to improve the standard of living for its working class constituency, it never implemented the promised expansionist, job creating policies of its electoral platform. Instead, the neo-liberal camp notes, it chose a growth path that depended on internationalisation of the economy and labour market flexibility.²⁴ The period was also characterised by economic austerity and a decline in solidaristic ties between the PSOE and the union movement.²⁵

Scholars who identify the PSOE mandate as neo-liberal are divided between approvers and critics of the policy. The former point to consolidation of the Spanish economy's modernisation and integration into the international system, particularly with accession to the European Economic Community in 1986.²⁶ The latter group, while underscoring the neo-liberal nature of policy, are more critical, particularly of the PSOE's dismal record on unemployment.²⁷

Sofia Pérez uses the Spanish case to argue against the 'conventional wisdom' that liberal economies lead to higher rates of employment. The assumption among orthodox economists, she states, is that though European governments have gone far in integrating and liberalising their financial systems, adjustment has been retarded by resistance to the liberalisation of labour markets. This renders European economies inflation prone and limits the willingness of entrepreneurs to invest in domestic job creation. However, the PSOE served an exceptionally long term of office and used their parliamentary majority to implement a stringent adjustment programme yet failed to reverse the high rate of unemployment.²⁸

Paradoxically, the high unemployment that characterised the Spanish economy is used by others to argue the Socialists did not, or at least could not, implement meaningful liberalisation and adjustment. Samuel Bentolila and Oliver Blanchard

²³ González Temprano, A. 'La modernización del sistema productivo y la apertura al exterior' *Política y Sociedad*, 1998, Vol.29

²⁴ Wozniak 1992, p.80

²⁵ Heywood, P. *The Government and Politics of Spain*, London 1995. p.226

²⁶ Gonzalez Temprano, 1998.

²⁷ Recio, A. and Roca, J. 'The Spanish Socialists in Power: Thirteen Years of Economic Policy', *Oxford Review of Economic Policy*, 1998 Vol. 14 (1); Pérez, S. 'From Labour to Finance: Understanding the Failure of Socialist Economic Policies in Spain', *Comparative Political Studies* Vol.32 (6) September 1999.

²⁸ Pérez, 1999, p.660. See also Rand Smith, W. 'Industrial Crisis and the Left: Adjustment Strategies in Socialist France and Spain' *Comparative Politics* Vol.28 (1) October 1995

profess that the specificity of the Spanish experience, high inflation in the 1970s and mass joblessness in the 1980s that surpassed European Averages, comes from “the Franco legacy”. Spain retained an “archaic system of labour relations and a thoroughly inadequate production structure” which explains both the high inflation of the 1970s and unemployment of the 1980s.²⁹

Another problem for the neo-liberal interpretation is the fact that the Spanish state continued to play a central role in management of the economy and wielded considerable influence in sectors identified as strategic. What was presented as a policy of industrial reorganisation which involved selected privatisations and restructuring of antiquated state industries, was in practice a policy of selective protectionism.³⁰ Thus alongside the much touted liberalisation of the Spanish economy, certain companies and sectors enjoyed continued protection from foreign competition in spite of the requirements of European Community membership, a process termed “protectionist liberalisation”.³¹ A related “rational choice” approach interprets the exclusion of certain elites, the privatisation of some industries alongside the protection and nurturing of others, as steps by the government to exclude oligarchs associated with previous regimes.³²

The thrust of this interpretation is to emphasise the importance of certain policy elites where actors such as an industrial bourgeoisie dictated the policies of the government. It is to this school that the study presented here attempts to contribute, arguing that in the early 1980s, Spain continued to operate as a crony capitalist economy, favouring certain economic interests when formulating policy. However, as will be outlined in subsequent sub sections, while some economic interests may have enjoyed more privileged access to policymakers than others, the party leadership also maintained links to other groups who were given a semblance of participation. No doubt, the PSOE nurtured contacts with certain elite sectors more enthusiastically than others. It was repeatedly accused while in office of exchanging political favours for party funding though the party remained heavily in debt.³³ But the Echemendy

²⁹ Bentolila, S and Blanchard, O. ‘Spanish Unemployment’, *Economic Policy* Vol.5 (10) April 1990 p.234

³⁰ Salmon, K. *The Modern Spanish Economy: Transformation and Integration into Europe*, London 1995 p.11

³¹ Echemendy, 2004 p.625

³² Geddes, B. ‘Challenging the Conventional Wisdom’, in: Frieden, J, Pastor, M. and Tomz, M. *Modern Political Economy and Latin America: Theory and Policy*, Oxford, 2000, p.245.

³³ Newton 1997, p.220

interpretation of PSOE relations with particular sectors of capital, to the exclusion of others does not give due regard to the fact that support came from a great variety of economic interests and social groups. The argument presented here holds that the PSOE governments of the 1980s and 1990s represented a continuation of highly centralised policymaking where all interests were given at least a semblance of participation in the political process, thus creating a sense of ‘credible commitment’ to a broader variety of people. In a sense, a full decade after the death of Franco, the Spanish political economy was ‘neo-Francoist’ in its “vertical” networks of representation.³⁴ This in turn ensured political stability to which the party’s electoral endurance testifies.

Structures of policymaking and hierarchies of power

This sub section outlines the framework for understanding each case and the dynamics of representation in their respective reform programmes. The Argentine reforms of the early 1990s were hailed by many contemporary observers and scholars as a likely turning point in Argentine economic history, a point at which what had once been the western hemisphere’s most promising economy would recapture its natural destiny.³⁵ The reforms also elicited praise from multilateral institutions such as the World Bank. One report summarised:

“Argentina has had one of the most successful of recent stabilisation and reform efforts. From one of the most extreme hyperinflations by historical standards in 1989, it moved relatively quickly by 1994 to an annual inflation rate of 3.9 per cent. Output and productivity growth have been remarkable... there is growing evidence that Argentina underwent an important adjustment in response to the radical restructuring and liberalisation of its economy.”³⁶

This chapter does not dispute the idea that certain aspects of the Argentine political economy changed permanently and beyond recognition. An important legacy, and indeed tool of the Peronist state has gone for ever, namely the once monolithic state enterprises, used as much as instruments of labour policy as of industrial policy. Almost all were privatised under Menem, in an aggressive campaign

³⁴ El Pais, 7 September 1985, *Apuntes para una teoría del felipismo*.

³⁵ See for example, the cautiously optimistic preface in Lewis, P.W *The Crisis of Argentine Capitalism*, Chapel Hill, 1990

³⁶ World Bank Report No. 15402-AR *Argentina: The Convertibility Plan, Assessment and Potential* July 12 1996. p.i

to scale down the role of the state in the Argentine economy and strike at the core of the corporatist system³⁷. Second, associational power, especially in the case of the unions diminished sharply during the period both through a direct assault from the government and an increase in unemployment which reduced labour bargaining power. But Menem's government failed to alter the system in a number of important ways. Firstly, Argentine policymaking continued to operate through bilateral negotiations with economic interests, in this case, local financial capital and foreign multinationals. In the case of the latter, the rush to privatise and open the economy to foreign investment empowered foreign capital as perhaps the most influential interest in the Argentine economy. Multinational corporations that bought up majority stakes in the privatised concerns acquired a direct contact with executive power but while they were able to influence policymaking, the Argentine government is less able than its Spanish counterpart to continue to use the former state enterprises as instruments of economic policy post privatisation. Foreign capital is not such a junior partner in its alliance with the Argentine state, therefore.

Menem and his economics minister Domingo Cavallo launched an assault on associations early in their tenure, particularly against non compliant unions and successfully stripped them of their power. This comprised an institutional shock and reconfiguration of the economic structure, society and the state, dismantling the institutions that had acted as providers of services and bastions of associational influence³⁸. This was welcomed both nationally and internationally, by business interest as well as to a great extent by popular sectors. Indeed, significant factions of the union movement, as well as affiliated Peronist political elements were reluctant to join hard line peers in direct confrontation with the new policies. These elements hoped they stood to gain from privileged access to the state given the fact that Menem was of the Peronist party with which they too were associated. Menem proved adept at exploiting this dynamic through a carrot and stick approach to engaging social groups.³⁹ However, Menem failed to take advantage of these achievements and

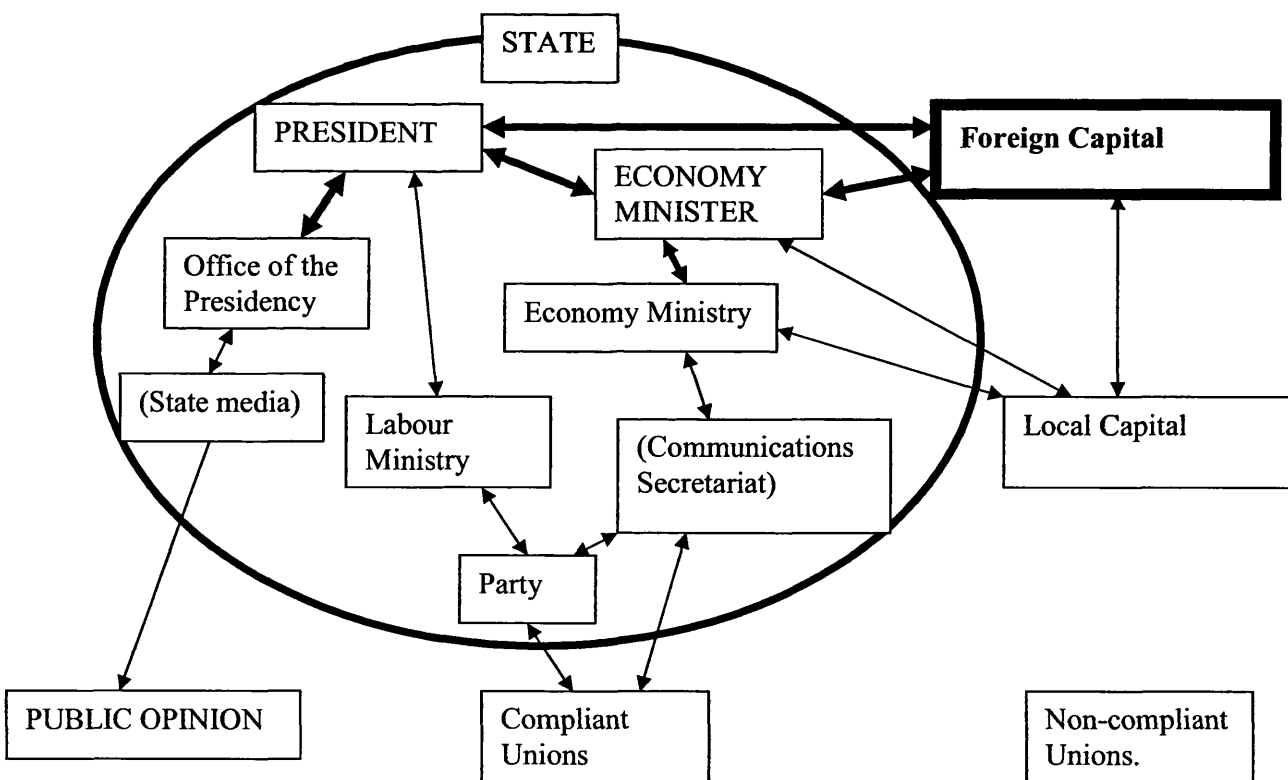
³⁷ Canitrot, A. 'Crisis and Transformation of the Argentine State' in: Smith, WC, Acuña and Gamarra, A. (eds.) *Democracy, Markets and Structural Reform in Latin America*, Miami, 1996

³⁸ Azpiazu, D. *La concentración en la industria argentina a mediados de los años noventa*, Buenos Aires 1998, p.13, Heymann, D. and Kosacoff, B. 'Comentarios generales sobre el comportamiento de la economía y temas abiertas al finalizar los noventa', in: Heymann and Kosacoff, (eds.) *La Argentina en los noventa*, Buenos Aires, 2000, p.13

³⁹ Gerchunoff, P and Torre, JC. 'La política de liberalización económica en la administración de Menem' *Desarrollo Económico*, Vol 36, (143) Oct-Dic 1996 p.735

construct, or at least enforce a disciplined political party system. In fact, a policymaking style of rule by decree, frequently bypassing Congress in favour of nurturing clientelistic relationships to ensure support for policy initiatives arguably debilitated the institutions of state further.⁴⁰ Furthermore, because of the nature of Argentine state-society relations, there were constraints to the government's power to "deregulate" and liberalise the economy. The state can deregulate only what it has itself regulated. Many of Argentina's restrictions on economic activity were by private agreement, not by state decree. For example, though capital markets may have been liberalised, the government was not able to prevent the practice whereby banks would open accounts only for people who owned property.⁴¹ This means, lobbying and negotiation continued to involve direct engagement with economic or social interests and the state's "credible commitment" to protect property rights, is not regarded necessarily as universal. Menem failed, therefore, to restore faith in the state.

Figure 5.1: Hierarchy of power in establishing the new economic model in Argentina, 1990-1995.



⁴⁰ Mustapic, AM 'Oscillating Relations: President and Congress in Argentina' in: Morgenstern, S. and Nacif, B. *Legislative Politics in Latin America*, Cambridge 2002, p.31.

⁴¹ The Economist, November 9, 1991, *Argentina, The Starting Gun*

The principal arguments are outlined in the diagram 5.1 which displays the structure of representation in economic policymaking in Argentina during the early 1990s. At the top is the president, who is senior partner to but in a mutually dependent relationship with the Economics Minister. Each of these figures presides over a team running disproportionately powerful super ministries, the Office of the Presidency and the Economy Ministry. The links between the two individuals are strong during the early stage of the period examined here, though in later years the relationship broke down, in part because Menem feared Cavallo could become a potential rival for the role of head of state.⁴² They jointly or individually maintained alliances with economic interests directly through departments of state they had either “colonised” or indeed created. Menem was the acceptable public face of “Menemism”, and took the role of presenting policy to the general public, while Cavallo was the friend of business, both local and international. Subordinates in the economics ministry also engaged with labour factions though early on in the period, potentially unsupportive associations were attacked with vigour, their powers curbed and influence decimated. The Menem-Cavallo partnership, meanwhile, curbed the power of public administration in the name of neo-liberal ideology, cutting budgets, dismissing public servants by the thousand, cancelling subsidies, shrinking ministries, and privatising state industry. So the “state” represented in the diagram, is in fact a stronghold within the state. The Labour Ministry, is ostensibly charged with managing labour relations, and on the occasions when the government came into confrontation with unions, for example, would implement government policy. It became increasingly marginalised, however, as time progressed.

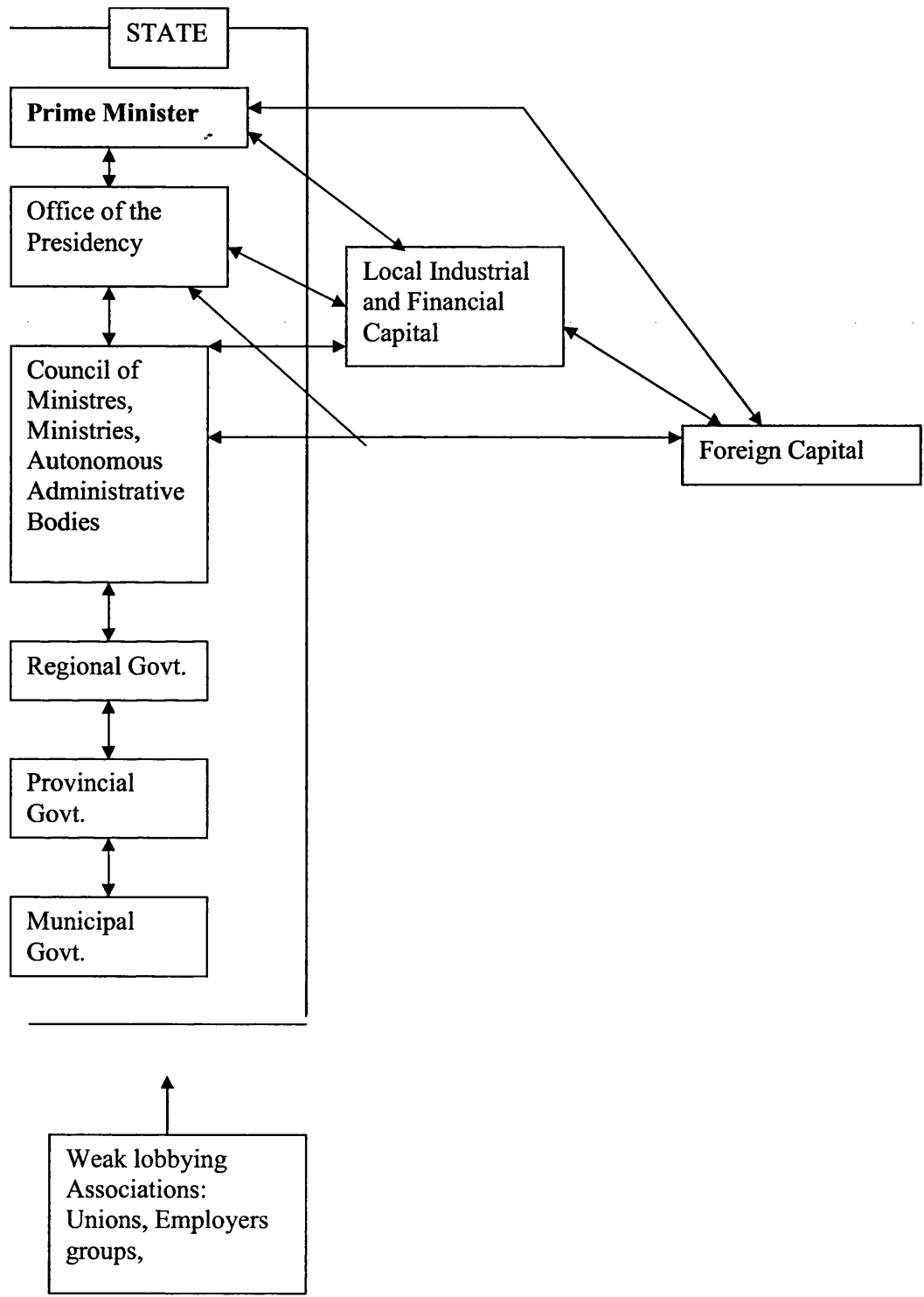
The most important feature of the diagram is the link with foreign capital. The argument on which this section hinges is that while the government successfully curbed associational power in its traditional territories, namely the labour market and business interests, it created a dynamic where a new economic interest, foreign capital, acquired significant bargaining power. This meant that though public opinion favoured Menem and Cavallo for a time, the reforms were not far reaching enough to broaden the scope of the state’s “credible commitment”. In spite of all the reforms, there remained an obviously favoured asset holder which the government prioritised in making assurances in return for financial support. This, as argued in the early

⁴² Financial Times, May 14 1992 *Survey of Argentina*

chapters of this thesis, does not further the pure public good of long term political stability or state credibility.

Trade liberalisation and allowing foreign capital unhindered access to Argentine markets reduced the ability of bourgeois elements to challenge new policy, while unemployment and the divorce of the state from the traditional industries that dated from as early as the 1940s limited the bargaining power of labour. In addition, the discrediting of the armed forces following defeat in an ill advised war with Britain and the economic collapse of the early 1980s meant Menem had little to fear from the military.

Figure 5.2: Structure of hierarchies of representation in Spain during the 1980s



The hierarchy of decision making in the Spanish case is outlined in figure 5.2, a variation of figure 1.5 in the introduction of this thesis. The structure retains the basic features of the examples analysed in previous chapters of the thesis, whereby power is concentrated in the hands of the executive whose authority is not effectively questioned. All economic and social interests are represented within the state and the vertical hierarchy of command runs from the prime minister and party leader, down to local committees at community level. Central to understanding the success of the PSOE government in implementing tough economic reforms was the endurance of party discipline within the structure outlined earlier in this thesis. Other factors contributed to the failure of opponents to the reforms to prevent their implementation, most notably the weakness of the political opposition during Felipe González's tenure. The centrist UCD had ceased to operate as a political force in Spain while the conservative right was ideologically in agreement with most PSOE economic policies including labour market reforms. Furthermore, led by Manuel Fraga Ibarne who was minister of Information in the 1960s during the *Opus Dei* period of the dictatorship, the main rightist opposition party was too associated with the old order to be palatable to anything but a hard core of nostalgic, reactionary voters.⁴³ A potential bastion of dissent was the Communist Left, the Socialists' traditional competitor for the working class vote yet the PCE found itself too preoccupied with internal squabbling to mount an effective challenge to the PSOE's policies.⁴⁴

Neither was there effective dissent from within the Socialist party itself as PSOE deputies were repeatedly threatened with expulsion if they dared vote against government policies.⁴⁵ The roots of this dynamic were established at the PSOE's 'Extraordinary Congress' in 1979, at which the party made a tepid assertion of its enduring belief in Marxist values and rejected a "drift to the right" yet established a set of rules bolstering the authority of the party leader that ensured unchallenged policymaking when in government three years later.⁴⁶ In addition to party discipline, the electoral system for political candidates within the party was structured to ensure loyalists remained dominant. Candidate lists at all levels, from local elections to central government were compiled by a "closed" non transparent process, presided

⁴³ Financial Times 13 December 1984 *Gonzalez Popularity Survives the U Turns*.

⁴⁴ Wozniak, 1992 p.82

⁴⁵ *Ibid.* p.82

⁴⁶ El País 30 September 1979 *El Congreso aprobó una resolución de izquierda y eligió una ejecutiva moderada*

over by hand picked committees led by a “general vice secretary” who expressed the voice of the party leadership. The chosen candidate would be required to promote the policies of the central administration and would lose his place in the party if he expressed dissent.

To the intellectual social commentator and Andalusian regionalist José Aumente, Felipe González’s rule represented “a despotism of manipulation”, whereby Francoist methods of government were applied within the context of representative parliamentary democracy in a subtle form of authoritarianism.⁴⁷

But like the vertical representation of the Franco regime established after the Civil War, this despotism of manipulation could claim legitimacy when implementing policy through the apparent ubiquity of its constituency. By the late 1970s the PSOE had affirmed itself as a “mass” party, thus turning its back on the idea of a predominantly working class support base.⁴⁸ Indeed, the breakdown of delegates, elected as representatives at the 1979 conference by provincial congresses of the party by proportional representation challenges the idea of a principally working class constituency.⁴⁹ Public sector workers accounted for 23 per cent of members, while 8 per cent were “salaried professionals”. Skilled workers comprised 7 per cent and unskilled labourers 1 per cent. Agricultural labourers accounted for 0.3 per cent while the remainder were students, retirees, housewives and other minority groups.⁵⁰ The Socialist party’s traditional constituency, therefore did not represent a majority of members at the 1979 conference which suggests it had already captured the bourgeois vote even prior to the reforms seen as pro business, not implemented until after 1982. That is not to say, however, that Felipe Gonzalez in particular did not recognise the importance of labour support, particularly while electioneering after the conference but also during his government. His rhetoric eulogised labour as frequently as it did entrepreneurs.⁵¹

Thus the party could claim to be truly representative of all the principal economic interests in Spain and was not associated with a particular group such as labour as it had been in the past, which served to bestow legitimacy on tough economic policies. While Falangist ideologues in the 1940s had rejected “unnatural”

⁴⁷ El País 7 September 1985 *Apuntes para una teoría del felipismo*

⁴⁸ El País 30 September 1979 *Felipe González recobra el control del Partido Socialista*

⁴⁹ Newton, M. *Institutions of Modern Spain: A Political and Economic Guide*, Cambridge, 1997 p.192

⁵⁰ El País 30 September 1979 *El Congreso aprobó una resolución de izquierda y eligió una ejecutiva moderada*

⁵¹ El País 30 September 1979 *Felipe González recobra el control del Partido Socialista*

units of representation such as labour unions, the PSOE of the 1980s viewed itself as having transcended class based politics and had itself become the governing class.⁵²

A further aid to the success of tough policies and the apparent lack of opposition was the issue of cronyism whereby the PSOE leadership populated the public administration with supporters. By the mid 1980s, up to 40,000 civil servants were also members of the PSOE.⁵³ At the party's 1984 extraordinary congress to mark two years in power, up to 30 per cent of delegates held top administrative posts in the civil service.⁵⁴ There is an obvious parallel here with the flaw identified in the Argentine political economy in earlier chapters of this thesis. But the PSOE government ruled for 14 years and represented a continuation of the political stability imposed by force after 1939 and by the will of the populace thereafter. So while in Spain as in Argentina, important public posts including the boards of state enterprises and credit institutions were populated by cronies and political appointees, the continuity of the government and absence of political crisis in Spain prevented a fragmentation of policy of the kind characteristic of Argentina. Indeed, Felipe Gonzalez was confident in the early 1980s that his government would enjoy considerable longevity and spoke in terms of a "25 year governing project".⁵⁵ At the heart of the González regime's priorities lay the fact that it valued political stability over all else.⁵⁶

Finally, there were participants in the process which were nominally external to the hierarchy of power described here, namely capital both domestic and foreign. In terms of the former, Spain operated as a form of oligarchy whereby certain groups supported the government and acted as tools of economic reform. The clearest example of this is when privatised former state concerns retained their monopolies, received protection from foreign competition and received considerable subsidies in return for supporting the government. The example of Telefónica de España is outlined below, which though fully privatised by this period, played a key role in pursuing a government ambition to nurture Spanish high technology. Financial capital was also a favoured group in Gonzalez's Spain, whereby leading banks would provide financial support for government conceived projects in return for tax breaks and

⁵² Financial Times 13 December 1984 *Gonzalez Popularity Survives the U Turns*.

⁵³ El País 7 September 1985 *Apuntes para una teoría del felipismo*

⁵⁴ Financial Times 13 December 1984 *Gonzalez Popularity Survives the U Turns*.

⁵⁵ *Ibid.*

⁵⁶ Petras, 1993. pp.97-98

continued protection⁵⁷. Foreign capital, meanwhile, was a lobbying force in the sense that investment was encouraged but, was not an equal partner in negotiations with the Spanish state in the same way that it became in Argentina in the 1990s. As mentioned, a pertinent illustration of this is the ability of the Spanish government to retain control over privatised enterprises through retention of the right to appoint senior management to firms in “strategic” sectors. Thus there were limits to the ability of foreign bidders in privatisations of state concerns in particular industrial sectors, to influence the processes of the boardroom.

To highlight the fundamental difference between the two cases as portrayed in the two diagrams, both centralised forms of economic decision making centred on a powerful executive. Both “presidents” negotiated to a greater or lesser extent with non state interests, such as capital and labour. Both systems also relied heavily on technocratic economics ministers as architects of economic reform. But, the Spanish prime minister retained greater control over the hierarchy he headed and all parties were junior in relation to his authority. The Argentine case is marked by the inability to fully subordinate non state actors, particularly foreign capital. The following section, a narrative account of the period in the context of the hierarchies and relationships spelt out here, seeks to illustrate this point further with historical evidence taken from archives and contemporary media sources.

Neo-liberal reform in Argentina

Argentina’s presidential elections at the end of 1989 were won by the opposition candidate, Carlos Menem of the Peronist Partido Justicialista. His populist campaign had been true to the political traditions of his party and the new regime’s initial attempts at stabilisation had a predictably heterodox nature.

“When Carlos Saul Menem of the Peronist Party was elected President in 1989, Argentines and the international business community prepared for the worst,” wrote Gary Becker, 1992 Nobel Laureate.⁵⁸ Indeed, the Justicialist party had blocked most of the reforms attempted by the previous administration with awkward voting strategies in Congress and organisation of strikes through mass mobilisation of Peronist unions. It was an unlikely start, therefore, to a period that fundamentally

⁵⁷ Echemendy, 2004, p.625

⁵⁸ Becker, G. ‘Argentina’s Welcome Turn Toward the Open Road’, *Business Week*, No.3319, May 17 1993, p.22

transformed the structure of the Argentine economy, breaking with many decades of tradition in ways that not even the most zealous economic liberals of the late 1970s had dared to attempt.

Menem then pledged to implement reform based on a new economic ideology at odds with his party's statist heritage. The state was to go into retreat from the economy by way of a thorough programme of privatisation. Fiscal policy was to be overhauled and tax collection bolstered, while protectionism was to be all but abandoned in an effort to make Argentina more market friendly. The legal foundation to the new order was the *Ley de Reforma del Estado*, which declared all state institutions to be in 'a state of emergency'. This included public services, the public administration, state-owned enterprises, public limited companies with majority state ownership, publicly owned banks and other financial institutions.⁵⁹ The legislation authorised the executive to intervene in any such organisation and prepare it for imminent privatisation. The only state entities exempted were the national universities.⁶⁰ Thus, an appointed trustee was empowered to restructure the state institution by splitting it into divisions for sale, merging it with other firms or in less promising cases, liquidation.⁶¹ In order to proceed, the law stipulated that the firms must first be declared "subject to privatisation" by the executive and approved as such by Congress. Meddling with the sacred cows of Argentine statism and national ownership had inauspicious historical precedents which posed serious challenges to presidents such as Frondizi. Thus as a sweetener, and as a means to neutralise any potential labour opposition, the law included a 'Participatory Ownership Programme' whereby employees of the privatised concerns were to be granted special corporate bonds yielding a share of company profits. Individual entitlement to these bonds was determined by such factors as age and length of service.⁶² Meanwhile, the law included a clause on job protection and assured that employees' pension plans would not be affected.

There was no shortage of ideological justification for this move. Menem subscribed to the argument gaining international popularity at the time, the so called Washington Consensus that government should desist from meddling in a country's production and price structure so that the benign effects of market competitiveness

⁵⁹ Ley 23,696, *De la Emergencia Administrativa*, Artículo 1°

⁶⁰ *Ibid*, Artículo 2°

⁶¹ *Ibid*, Artículo 7°

⁶² *Ibid*, Artículo 29

can work their magic.⁶³ This should mould a new industrial structure that runs efficiently and produces competitively priced and high quality goods and services while posting ever increasing profits. In the words of Domingo Cavallo, the best known of the four economics ministers to serve under Menem, the transfer of entrepreneurial activity from the public to the private sector would increase efficiency. It would be a new industrial policy that represented a 'change in the rules of the game' whereby Argentina's abundant resources would be mobilised and the economy would be opened to deeper partnership with neighbouring Brazil and the wider world.⁶⁴

However, while this type of market-oriented argument was being taken seriously across Latin America and elsewhere, what distinguished the Argentine experience as overseen by Menem was its rapidity and the extent to which it was applied.⁶⁵ Under the new legislation, roughly 90 per cent of Argentina's state-owned enterprises were nominated as targets for privatisation. This did not just include public services and the state industries, but also significant parts of the financial sector in which the government had a long standing stake.⁶⁶ The first wave of privatisations from 1990 to 1991 covered the telecommunications industry, air transport, the state's share holdings in the petrochemical industry, much of the oil industry, 30 per cent of the government's share in the national highways and 5000km of national railways. A second wave between 1992 and 1993 included the energy sector and the generation and distribution of electrical power, the transport and distribution of natural gas, the national water and sanitation company, the two state-owned steel giants, SOMISA and Altos Hornos Zapla, and much of what remained of the oil industry including refineries, pipelines and the tanker fleet. The long standing pillar of statist oil policy, YPF was itself partly privatised.

Therein lies another motivation behind the totality of the privatisation policy that is more pragmatic than ideological. By selling off such politically sensitive 'strategic' sectors as telecommunications, electrical power, public transport and the oil industry, Menem was sending a 'loud' signal to potential foreign investors and creditors that they were serious about economic reform. Selling off such sensitive

⁶³ Williamson J. 'Democracy and the Washington Consensus' *World Development* Vol.21 (8), 1993

⁶⁴ Cavallo, D. *Volver a Crecer*, Buenos Aires, 1991.

⁶⁵ See: Azpiazu and Vispo, 'Some Lessons of the Argentine Privatisation Process', *CEPAL Review*, Vol.54, Dec. 1994.

⁶⁶ Ley 23,696, Anexo 1

industries as banks, transport, electricity and other utilities would demonstrate this commitment. “In short, governments used privatisation quite successfully to bolster their short run cash flows and to gain credibility for their new economic strategies,” writes one commentator.⁶⁷

Not surprisingly, such a far reaching sale of government assets will have a positive impact on the state’s balance sheet and Argentina’s accounts looked healthier than they had since the export boom of the early 20th Century. Clearly the motives for the sell-off went beyond ideology and reflected the urgency of resolving a profound macroeconomic crisis. Privatisation was thus a quick way to raise money in the face of excessive public debt while eliminating transfers of funds from the Treasury to cumbersome, loss-making enterprises. Furthermore, foreign interest in the sell-offs reversed a trend that had lasted for two decades, namely the net transfer of capital out of Argentina.⁶⁸ However, this was necessarily a one off fiscal impact and while Menem might have been the toast of free market economists around the world in the early 1990s, a dependency on windfalls is not evidence of long-term stability.

Nevertheless, the windfall was enough to create the fiscal stability necessary for the second pillar of the new order, namely the Convertibility Plan designed by the new economics minister, Domingo Cavallo and launched in June 1991.⁶⁹ Under the new policy, the Central Bank was obliged to back up a fixed exchange rate by agreeing to use it in converting national currency into foreign currency, while calibrating the monetary base to the level of foreign currency assets. For every peso in circulation, there had to be a dollar in reserve. As dollars and pesos were interchangeable, this was effectively a dual currency.

“We followed the typical rules of a currency board but did not make the use of the currency compulsory, nor did we make it exclusive. Instead, we made it compete with other currencies.” Cavallo wrote.⁷⁰

This use of a dual currency, Cavallo argued, meant Argentines (and investors) could be sure that the state would never print money in order to benefit from an inflation tax because, should this occur, investors could shift to the other currency.

⁶⁷ Ramamurti, R ‘*The New Frontier of Privatisation*’ in: Ravi Ramamurti (ed.) ‘*Privatising Monopolies: Lessons from the Telecommunications and Transport Sectors in Latin America*’, Baltimore, 1996, p.1

⁶⁸ Azpiazu and Vispo, 1994, p.132

⁶⁹ See: Ley 23,928/1991, *Ley de Desindexación y Convertibilidad del Austral*

⁷⁰ Cavallo, D. ‘Policymakers Roundtable’, *Journal of Banking and Finance*, Vol.23, 1999, p.1537

While a currency board is not strictly speaking a currency peg, the relationship to the dollar under the Convertibility Plan meant the credibility of the dollar was reflected in greater credibility for the peso. This assumption, of course, rested on faith that the currency board would not be dismantled by a disgruntled later regime.

A further tranche of the new regime was the most concerted attempt yet to dismantle Argentina's system of economic protectionism. A new Decree, was issued to complement the existing legislation implemented by Martinez de Hoz two decades earlier.⁷¹ Foreign investors were to enjoy the same constitutional rights as national investors and all barriers to repatriation of profits and revenues were lifted.⁷²

Ostensibly, the new order was a success and in the eyes of many, Argentina had finally and irreversibly turned a corner. Inflation, which had run at an annual rate of 5000 per cent in 1989⁷³ fell to less than 4 per cent by 1994.⁷⁴ This much touted defeat of hyperinflation persuaded foreign investors, and indeed Argentine capitalists who had spirited their funds elsewhere, that the economy was suitably stable and net capital inflows reached US\$30 billion between 1991 and 1993.⁷⁵ The economy also started to grow at impressive rates with GDP increasing by an average of 6 per cent per annum between 1991 and 1998. But the greatest vindication for Menem, Cavallo and their *tecnicos* was the apparent dynamism displayed by the newly privatised enterprises. Levels of production by the infrastructural utilities, namely electricity, gas, water, transport and communications grew at an average annual rate of 7 per cent between 1990 and 1998, one percentage point faster than GDP growth.⁷⁶

“We have found the way to cure the disease that afflicted our country for decades: the persistent high inflation that finally led us into hyperinflation,” wrote Domingo Cavallo in 1999.⁷⁷

But this cure for inflation came at a cost. Firstly, the rate of inflation was still higher than that in most developed countries which in the early 1990s were mired in recession. Thus the peso was effectively overvalued compared with the dollar,

⁷¹ Decreto 1853/1993

⁷² *Ibid*, Articulo 5.

⁷³ Pastor, M and Wise, C. ‘Stabilisation and its Discontents’, *World Development*, Vol.27, No.3, 1999, p.487

⁷⁴ *Ibid*. p.479.

⁷⁵ Chisari, O. Fanelli, J and Frenkel, R, ‘Argentina: Growth, Resumption, Sustainability and Environment’, *World Development*, Vol24, No.2, 1996

⁷⁶ See Heyman, D. *Políticas de Reforma y Comportamiento Macroeconomico*, in: Heyman and Kosacoff, (eds.) *La Argentina de los Noventa*, CEPAL, 2000, p.59

⁷⁷ Cavallo, 1999, p.1535

harming the trade balance. In effect, this proved to be a catch 22 whereby Cavallo's pivotal convertibility depended on a slowing flow of foreign reserves. Unfortunately, the available policy instruments were limited since a devaluation would have undermined the still fragile credibility of Cavallo and his policies. In 1997, Jeffrey Sachs, Harvard economist and veteran adviser to Latin American governments warned Argentine bankers that Argentina's recovery was not sustainable without a higher rate of export growth.

"If I were an official in a country so dependent on foreign capital I should be worrying night and day about this," he said.⁷⁸

Effectively, the hard won macroeconomic stability associated with the Convertibility Plan was threatened by a lack of foreign exchange. The privatisation programme brought in large quantities of new reserves, as described above, but this was a finite source, and towards the end of the decade concerns were raised about the imminence of speculative attack on the currency and whether the regime was sustainable.

The most stinging criticism of the New Economic Model in Argentina was that hyperinflation had been replaced with hyperunemployment as a consequence of the substitution under the new regime of labour for capital.⁷⁹ The initial economic success following implementation of the Convertibility Plan was accompanied by employment growth but unemployment subsequently rose sharply to reach 18.6 per cent of the workforce by May 1995. This was all the more pronounced in an economy that until 1990 had not exceeded an unemployment rate of 7 per cent.⁸⁰ It was blamed in part by the World Bank on the failure of wages to adjust to labour market conditions on account of "institutional constraints". In particular, restrictions on temporary or fixed term contracts, excessive severance payments, centralised collective bargaining and agreements negotiated under previous governments "embedded in legislation" that discouraged renegotiation of collective bargaining agreements.⁸¹ The World Bank and others called for greater labour flexibility on the

⁷⁸ Quoted in the *Financial Times*, July 4, 1997, p.5, 'Export Boost Urged on Argentina',

⁷⁹ See: Altimir and Beccaria, *El Mercado de Trabajo Bajo el Nuevo Régimen Económico en Argentina*, in Heyman and Kosacoff, 2000, pp.335-8; I Pastor and Wise, 'Stabilisation and its Discontents', *World Development*, Vol.27, No.3, 1999; Lo Vuolo, R. *Alternativas. La economía como cuestión social*, Buenos Aires 2001 pp.37-40

⁸⁰ Pessino, C. CEMA Buenos Aires 'The Labor Market during the Transition in Argentina' paper presented at *Conferencia sobre mercados de trabajo en America Latina* 6-7 July 1995

⁸¹ International Bank for Reconstruction and Development Report no. 15402-AR *Argentina, the Convertibility Plan: Assessment and Potential Prospects*. July 12 1996 p.54

basis that mobility of workers was hampered because of high hiring costs and severance payments. The proposed solution was labour reform to remove restrictions on setting wages for employers.⁸²

The government's relationship with labour was largely defined by unemployment but also with an assault on union power early in Menem's first term of office. Menem ordered military communications experts to man telephone exchanges when striking employees threatened to block the sale of public telecom monopoly. Perhaps more symbolic of the assault on union power was the government's heavy handed and determined response to a rail workers' strike in February 1991 in protest at a proposed privatisation of the network which paralysed services for more than a month. The railwaymen, were demanding in addition, a 200 per cent pay increase at state-owned Ferrocarriles Argentinos.⁸³ Cavallo, meanwhile, claimed the railways were running a US\$40 million deficit per month of which US\$30 million comprised the wage bill.⁸⁴

The government used a law limiting the right to strike against a public utility immediately to declare the strike illegal.⁸⁵

"I believe the railway workers are employed with a public service and the entire community is dependent on its services for which reason we are unfortunately going to have to take tough action", Cavallo pronounced to the press.⁸⁶

The government then intervened in the main railroad union *La Fraternidad* following the methods of the *Proceso* government by charging the Labour Ministry to appoint an intervenor. The union leadership reacted to this by refusing to allow the government appointee access to its headquarters, forcing him to meet trade unionists in a neighbouring (union-owned) hotel.⁸⁷ Menem said the union had to be suppressed because it was displaying contempt for the law and the Constitution.⁸⁸ Menem also ordered police to accompany conductors who ignored the strike, authorized military vehicles and the presidential jet Tango 1 to bring thousands of Buenos Aires' residents

⁸² Pessino, 1995; IBRD Report No. 15402-AR *Argentina: The Convertibility Plan, Assessment and Potential* July 12 1996 p.56

⁸³ Financial Times, February 20 1991, *Menem aids victims of railway strike.*

⁸⁴ La Nación March 5 1991 *Una empresa con déficit crónico*

⁸⁵ Acuña, 1996 p.45

⁸⁶ La Nación 2 March 1991, *Virtual intervención al gremio La Fraternidad.*

⁸⁷ *Ibid.*

⁸⁸ *Ibid.*

home from summer vacation spots along the Atlantic coast.⁸⁹ In addition, the government contracted five private bus companies to run a service between Buenos Aires and the city of Córdoba at a reduced fare, ostensibly rallying public sympathy.⁹⁰ The stoppage was the first serious challenge to Menem's invocation of the anti-strike law. He even threatened to use military force to break the strike.

Menem and Cavallo were acting against the ideals of the ruling Peronist party and drew strong criticism from traditional factions in the Congress but all the politicians were able to do was call for the government to negotiate compromise.⁹¹ Indeed, Menem made a point of bypassing Congress as much as possible by legislating through presidential decree, specifically on account of the opposition he was likely to meet.⁹² Thus Menem reformed through a judicialisation of political process, evidenced both through his rule by decree and use of legal means to declare opposition illegal and have enterprises slated for privatisation declared in a state of "emergency."⁹³

An ultimate climbdown by the rail union was an important boost to the government's power to confront not only other unions, but all economic interest associations that threatened to hinder policy reform. Shortly after the railway dispute, haulage drivers struck against a plan to privatise trunk roads and install pay tolls. The government dismantled the existing system whereby the state roads agency, *Unidad Nacional*, had given over income from fuel tax to help cover the deficits of the national oil monopoly YPF, sanitary works and the railways through the Treasury. The government in late 1990 carried out a survey of the transport system that revealed a road network that was crumbling and in need of urgent renovation. It then hired various private construction firms to improve roads in exchange for an ongoing share of pay toll revenues. Traditionally, such an overhaul of financing arrangements would have been carried out in consultation with the relevant union, in this case the Federation of National Road Transport Workers. On this occasion, the union leadership was consulted once "after everything was already cooked up", provoking

⁸⁹ Associated Press, March 5 1991, *Workers Vow to Continue Strike*

⁹⁰ La Nación March 5 1991, *Una empresa con déficit crónico*.

⁹¹ La Nación March 5 1991, *Opiniones críticas en el ámbito político*

⁹² Mustapic, AM. 'Oscillating Relations: President and Congress in Argentina', in Morgenstern, S. and Nacif, B. *Legislative Politics in Latin America*, Cambridge 2002 p.29, Gerchunoff and Torre, JC 'La política de liberalización económica en la administración de Menem, *Desarrollo Económico* Vol.36 (143) Oct-Dic 1996.

⁹³ The Economist November 9 1991, *Argentina, the Starting Gun*.

the strike that involved road blockades and numerous statements of refusal to pay the new tolls.⁹⁴ Again, after Menem successfully harnessed public opinion in his favour, arguing the truck drivers were acting in their own selfish interests and forcing Argentines to live with underfinanced, inadequate roads, the government was victorious.⁹⁵

Continuing the government's campaign against union power, the Labour Ministry ruled that wage indexation was illegal while Menem ordered independent audits of corrupt union welfare organisations.⁹⁶ There was an attempt in July 1991 to confront the government by veteran trade unionists, angered by the president's departure from Peronist ideals. The three leaders, Luis Barrionuevo, Saul Ubaldini and Lorenzo Miguel, buried their differences to form an anti-government alliance and tried to reconstitute *Los 62*, the Peronist union grouping that had mounted effective opposition to assaults on associational power in the past. Barrionuevo was head of ANSSAL, a government-run union welfare organisation, and a fervent supporter of Menem until he was fired after a bitter round of government infighting. He then became a vitriolic critic of the government. Ubaldini, who headed a dissident union umbrella organisation, attacked government policies from the outset, but was forced onto the defensive after Menem successfully drew a number of unions away from his organisation to a pro-government grouping. Miguel, leader of the powerful UOM metalworkers' union, had sought accommodation with Menem but became a critic following the government's plan to privatise SOMISA, the giant loss-making steel mill. He also attracted the support of the oilworkers' union which was campaigning against the privatisation of YPF, the government oil company.⁹⁷ However, the veteran activists were not able to gather enough support to mount a serious challenge to the government and remained a marginal force, chiefly because Menem was so adept at a strategy of divide and rule in nurturing allies.⁹⁸

If organised labour as a long established and highly organised economic interest with a history of disruptive action came under early attack from a reforming government, other local interests did not find themselves favoured. Rural and business elites also eventually engaged in direct confrontation with the Menem-Cavallo

⁹⁴ Clarín April 14 1991, *Que se mueva detrás del peaje*.

⁹⁵ Clarín April 14 1991 *Menem: ¡Paguén!*

⁹⁶ The Economist November 9, 1991, *Argentina, the Starting Gun*

⁹⁷ Financial Times July 4 1991, *Argentina's trade union leaders break with Menem government*.

⁹⁸ Gerchunoff and Torre, 1996, pp.754-756

government. There was support from entrepreneurial and land based elites for measures that weakened unions, rolled back the state and introduced private enterprise as an important economic variable. But Cavallo's overhaul of the fiscal system, the introduction of new taxes including VAT in addition to trade liberalisation was met with elite opposition. Agricultural elites found themselves subject to progressive taxation, industrial sectors had to address the challenge of foreign competition in their long protected domestic market.⁹⁹ But successful and high profile neutralisation of union power in the transportation sector which was a traditional stronghold of syndical power, was a boon to confrontation of other economic associations. A threatened action by agricultural producers in protest at tax rates drew stern rhetoric from the government. Cavallo explicitly stated on one occasion that a blockade or strike by rural producers would elicit a "similar" response from the government as the railway strike, potentially involving mobilisation of the military to ensure delivery of food supplies.

"We are all going to have to get used to paying our taxes", Cavallo said.¹⁰⁰ Business groups, who also found much to cheer about the new regime, similarly realised it involved mixed blessings. The attack on corporate subsidies as manifestations of the old interventionism, and parallel assaults on tax evasion, inefficiency and rent seeking earned Cavallo as many elite enemies as it did friends.¹⁰¹ Ideologically, organisations such as the UIA which traditionally represents externally integrated industries, expressed public approval of Cavallo's policies. Nevertheless, the association questioned the need for the government to liberalise trade to quite the extent that it did, pointing out that Argentina had become one of the world's least restrictive economies while developed nations in Western Europe and North America maintained a degree of tariff and other controls on imports.¹⁰² It also objected to a tightening of corporation tax rules and a hiking of the rate to 30 per cent.¹⁰³ Later, it became a vocal critic of delays to the promised labour market liberalisation, which was blocked by concessions to Peronist elements in the administration.

The government had a more stable relationship with banking interests for whom the euphoria associated with the economy's new found stability took a long

⁹⁹ Acuña, 1996 p.52

¹⁰⁰ La Nación March 13 1991 *Cavallo: Habrá firmeza frente a un paro rural*

¹⁰¹ Corrales, J. 'Why Argentines Followed Cavallo' in Domínguez, J. *Technopols*. 1997, p.79

¹⁰² Unión Industrial Argentina, *Memoria y Balance* 1991, Buenos Aires 1992, p.6

¹⁰³ *Ibid.* P.7

time to fade. Menem pursued an alliance with Argentine bankers as financiers but also collaborators in the campaign to stamp out tax evasion and nurturers of private initiative.¹⁰⁴

But the issue that united bankers, farmers, industrialists and entrepreneurs and strained their relationship with the government was the high cost of credit in the early 1990s. High interest rates were discouraging investment at a time when continued expansion depended heavily on investment and Cavallo was seeking the support of private capital. From one perspective, interest rates had fallen significantly as inflation subsided, capital flooded into the country and Argentines regained confidence in their currency following the successful implementation of the Convertibility Plan. Deposits at Argentine banks multiplied throughout Cavallo's time at the Economy Ministry as depositors became increasingly willing to leave their money in the bank. Businesses made huge savings as their financial costs shrank and the risk of devaluation receded. Interest rates fell to 8 per cent a year by mid 1992, compared with 17.5 per cent at the beginning of the year and financial overheads for medium sized enterprises halved. Companies were also able to raise money on the local and international capital markets with increasing ease and banks were able to raise capital at ever declining rates, allowing them to lower interest rates further.¹⁰⁵ But the benefits were unevenly distributed. Despite the declining cost of credit, smaller companies and those based outside greater Buenos Aires, remained saddled with higher interest charges because of banks' aversion to risk given persistently high reserve requirements and the aforementioned conservatism regarding attitudes to clients who did not own land or property.

After the initial shock of the Convertibility Plan, by 1992 Cavallo had to work increasingly hard to convince public opinion that his policies were in the wider interest. The more progress made in stabilising the economy, the less prepared people were to continue to accept the need for austerity. One distributive impact that the government hoped to achieve through privatisation of utilities was a flow of investment towards outdated public services hitherto restricted by the financial limitations of belonging to the state sector. The result should have been, greater efficiency and lower prices for the customer. In practice however, a broad reduction

¹⁰⁴ Menem, C. 'Mensaje del presidente de la nación', in: Asociación de Bancos de la Republica Argentina, *Jornadas Bancarias de la Republica Argentina*, 6-7 Julio 1993.

¹⁰⁵ Financial Times May 14 1992, *Survey of Argentina*

in rates for gas, electricity and so on favoured the wholesale consumer rather than the domestic user. So the advantage was weighted heavily in favour of the industrialist rather than the urban citizen.¹⁰⁶

Cavallo's response starting in 1992, approximately a year after the Convertibility Plan was launched, was to engage in a charm offensive with representatives of different interests. This so-called "triangular" campaign targeted three social sectors, the elites, the general public and the Peronist rank and file. He and his closest advisors in the economy ministry took charge of relations with Argentina's elite through appearances in public forums explaining the new policies. Menem, the charismatic public figure, took charge of relations with the wider public. In this, he was evidently successful as "Menemism" had acquired an appeal to the Argentine public to which provincial election results bore testament.¹⁰⁷ The weight of the president's charisma and public support was not lost on his political opponents in Congress and allowed him to ignore their objections to his policies. A telling example of using his popularity as a political tool against those that might attempt to hinder his work with Congressional or Constitutional norms, was his threat to put his proposals before plebiscites.¹⁰⁸ A third front, comprised relations with the old guard of Peronists in Congress as the rank and file of Menem's Justicialist party. Though Congress had been repeatedly sidelined, Cavallo offered certain contentious policies as carrots to potentially awkward political forces. One such overture was to allow labour liberalisation to progress through the legislature, resulting in a serious flaw in Cavallo's economic track record in the eyes of the World Bank: foot dragging over promised labour market flexibility.¹⁰⁹ Cavallo also established the Secretaría de Relaciones Institucionales, a branch within the Ministry of Economy entrusted with conducting the minister's public relations with other branches of government. Populated with Peronist civil servants, the secretariat achieved widespread endorsement of the reforms though by this stage, unions were considerably weaker following the progression of the privatisation programme and the failed strikes of the previous year.

¹⁰⁶ Heyman, 2000, p.55

¹⁰⁷ Financial Times October 29 1991, *Argentine Voters Back Menemism*

¹⁰⁸ Financial Times May 20 1992 *Plebiscite May Break Logjam over Second Term for Menem.*

¹⁰⁹ Corrales, J 'Why Argentines followed Cavallo' in Domínguez J. (ed.) *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, Pennsylvania 1997; pp.72-73

Cavallo's establishment of a new secretariat of the Economy Ministry to conduct his public relations with other, selected branches of public administration was part of a broader process of concentration of administrative power. If the Argentine civil service was traditionally a battle ground for different factions of civil society, with individual economic vested interests "colonising" particular departments to capture policy, the Menem-Cavallo partnership sought to wipe out bastions of opposition.

Menem took over an insolvent state in 1989 and quickly enacted a series of structural reforms that progressively recast the foundations of public finance and resulted in concentration of power with the presidency. Privatisation of state enterprises was a part of this process. But a parallel reform took place in the centralisation of administrative and ministerial power. There was, for example, an effort to ease the fiscal deficit by curbing subsidies to industries wishing to locate outside the region of Buenos Aires. Industrial promotion of the interior was a policy started in earnest during the first Perón presidency. Subsequent regimes continued the initiative with their own programmes offering tax breaks and subsidies to industrialists willing to open factories away from the capital. By the time Menem was elected to office in 1989, there were dozens of such schemes in operation, putting a severe strain on government finances and the new president quickly suspended subsidy payments. At the same time the provinces lost their tax subsidies. In effect, the federal government curbed the powers of provincial authorities to allocate subsidies and tax breaks, slowing the rate of approval for new projects to a trickle. While this put in order a chaotic system where corruption was endemic and wastage rife, it also marked a departure from a long standing commitment to industrialise the interior.¹¹⁰

A report produced by the Economy Ministry's "Subsecretariat of Administrative and Technical Coordination" in 1990 identified thorough reform of the state as crucial for the recovery of economic growth in Argentina. Its recommendations for the short term were a substantial cut in spending, rationalisation and simplifications of state structures and dismantling institutions linked to interventionist policies of the past. It also sought the strengthening of revenue-raising branches of state such as the tax authorities and the customs service. The central

¹¹⁰ See: Sawers, L. and Massacane, R. 'Structural Reform and Industrial Promotion in Argentina, *Journal of Latin American Studies*, No.1, Vol.33, Feb. 2001

administration and government ministries were to be subjected to a significant efficiency drive, reducing bureaucracy, installing new technology and embarking on more meritocratic recruitment practices. The report forecast a reduction in public sector employment of approximately 122,000 jobs, including 46,500 from the central administration.¹¹¹

But though this was recommended in the name of an ideology of limiting the role of the state, particularly in the economic sphere, the reality was a strengthening of executive power relative to other departments of government. The presidency evolved into the principal spender of state money, accounting for 14 per cent of the national budget. While ministries saw their budgets and powers cut, the Presidency continued to bestow ministerial rank to its own secretariats. The World Bank, while repeatedly praising Menem and Cavallo's economic record in government, grew concerned at the centralisation of power.

"Since the Presidency is the jurisdiction that most needs reform, the government should apply the same principles of downsizing to the Presidency that were applied throughout the rest of the public sector", the Bank said in a 1993 study.¹¹²

The empowerment of secretariats within the presidency to equivalent of ministerial level concerned the Bank because it appeared to be flouting constitutional law in order to establish a substitute, directly controlled public administration, while apparently allowing the formal bureaucracy to wither in the name of neo-liberal retreat of the state. The Argentine Constitution mandates the existence of no more than 8 ministries, a limit reinforced by the administrative reforms of the early Menem presidency. But Menem's government was establishing de facto ministries within the Presidency, as was Cavallo within the Economy Ministry.

In evidence, therefore, is a concentration of both economic and political, administrative power to favoured sectors, at the expense of popular sectors that conforms to previous historical episodes highlighted in some of the "dependency" literature. The charm offensive and establishment of secretariats to engage specific interests over economic policy also illustrates a continued bilateral alliance-based

¹¹¹ Subsecretaria de Coordinación Administrativa y Técnica del Ministerio de Economía. *Hacia un estado moderno: un programa para la reforma administrativa*, 26 October 1990, Second draft. pp.5-7.

¹¹² International Bank for Reconstruction and Development, *Argentina: From Insolvency to Growth*, Country Study, Washington DC, August 1993 p.xxi

emphasis to policymaking, depending on simultaneous alliances with different interests.

Protectionist Liberalisation in Spain

In Spain, on taking power in 1982, the PSOE and its new economy minister Miguel Boyer faced a formidable task in revitalising a drifting economy and preparing the economy for its long coveted accession to the European Community.

Unemployment stood at 16 per cent of the workforce while the current account deficit was close to 6 per cent of Gross National Product. An attempted coup in 1981 by reactionary Civil Guard officers had rattled investors and led to rapid capital flight and depleted foreign exchange reserves in spite of a healthy tourist sector.¹¹³ The country's industrial infrastructure reflected the strategic priorities of the dictatorship rather than economic reality and would enjoy scant competitive advantage in open competition with other European rivals. In particular, the energy sector was in crisis with the main firms heavily indebted by protectionist legislation that had prevented their passing on higher energy costs related to the oil shocks of the 1970s to the consumer.

Other major industries in such sectors as steel and shipbuilding were mostly close to bankruptcy and large firms such as Aluminio Español and Rio Tinto Explosives, the country's leading chemicals group, had defaulted on debts. This in turn weakened the banking sector, already reeling from mounting bad debt following liberal lending to Latin America in previous decades.¹¹⁴

In opposition the Socialists had gained much political capital out of railing against the ruling UCD for failing to implement progressive, socially minded policy yet within two years, were openly rejecting any idea of putting social priorities ahead of economic ones. At the opening in Madrid of the party's first congress since taking power two years earlier prime minister Felipe Gonzalez told delegates that economic reform had to take precedence over social policy.

"Without a sound economic policy there cannot be a serious social programme. We were not called on to govern in order to distribute scarcity and hunger," the Prime Minister said.¹¹⁵

¹¹³ de la Dehesa, G. 1994 p.130

¹¹⁴ Le Monde 27 March 1983 *Spanish Socialists Aim to Catch 1984 Recovery Bus*

¹¹⁵ Financial Times December 14, 1984 *Gonzalez defends Spain's 'vital' austerity policy*

When he came to office in 1982, the Spanish electorate understood González's plans to involve a "policy of expansion" placing employment creation as an urgent priority to be achieved through government investment which was to be treated as the motor of the economy.¹¹⁶

"In the struggle against unemployment we will employ all the methods available to us, all our efforts from job creating investment to the modification and reduction of working hours and the reform of techniques and sectors and public support for contracts for sectors which find themselves in the most difficulty in finding employment", González said at his inaugural speech to parliament in November 1982.¹¹⁷

But that is not to say González masqueraded as a traditional leftist ideologue and made no secret of his rejection of Socialist, particularly Marxist values as a viable solution for the imbalances in the Spanish economy. Miguel Boyer was explicit from his first weeks in office that monetary policy was to be restrictive and earlier electoral pledges to prioritise expansion over adjustment had been abandoned.¹¹⁸ Meanwhile, in the same speech at the opening of his administration González highlighted the issue of inflation as an equally urgent economic problem.

"We recognise the harmful repercussions of inflation on savings, investment, on the balance of payments or on the value of the currency... Therefore, it is clear that inflation requires a policy as firm and energetic as the struggle against unemployment, to combat it through the application of a rigorous monetary policy as well as employing other available methods, among which, and highly important, responsible agreements between the social interests which (in the past) have proved indispensable.", he said.¹¹⁹

In short, González heralded a restrictive monetary policy, and thus stated an assault on wage growth, but also pledged to persist with the methods of the previous administration, namely, wage and price adjustment by agreement with the relevant associations. Riding a tide of popularity and public euphoria following his election, and the fact that the PSOE drew as much support from business as it did from labour,

¹¹⁶ Recio and Roca 1998 p.140.

¹¹⁷ González, F. Congreso de los Diputados, 30 noviembre de 1982. http://www.la-moncloa.es/recursos/la_moncloa/

¹¹⁸ El País 24 November 1982 *Miguel Boyer anuncia una política de sacrificios y de ajuste de los desequilibrios económicos.*

¹¹⁹ González, Congreso de los Diputados, 30 noviembre de 1982. http://www.la-moncloa.es/recursos/la_moncloa/

he could be confident that he would be in a strong bargaining position. At this early stage of his administration, the main labour union federation, the UGT was still affiliated with the party.¹²⁰ But though the government was initially in favour of a policy of centralised social agreements, taking advantage of the willingness of the unions at the time, the real influence of economic interests on the eventual policy was negligible.

The most significant such '*concertación*' to illustrate this point was the Economic and Social Pact, signed by the unions and the CEOE employers' association. This was the fruit of prolonged negotiation between the government and relevant vested interests representing capital and labour and resulted in a Moncloa style agreement on wage and price restrictions in addition to greater flexibility in hiring arrangements. It represented a crucial step in labour market liberalisation as it allowed for the first time hiring contracts of limited duration and permitted employers to hire workers on a part time basis. The unions settled, meanwhile, with the establishment of a minimum wage for workers under the age of 18 and believed they had protected the restrictions on employers' ability to dismiss workers. The agreement called for below inflation wage increases in 1985 of between 5.5 per cent and 7.5 per cent. The CEOE had pressed hard for labour reforms that made it easier to lay off workers and had threatened to walk out of the negotiations.¹²¹ The government gave generous tax advantages to employers and additional social benefits to workers. Retirement benefits were raised and unemployment insurance pay was increased to 48 per cent of the daily wage.¹²²

Though it appeared that all sides had won at least some ground in the wording of the final agreement, the government remained the senior partner in the negotiations. Crucially, though it had made some concessions to the employers' and labour associations, it reserved the right to modify the agreements by parliamentary, legislative process.¹²³ Legislative institutions and processes were clearly more important to the government than social concertation, presumably because the parliamentary majority held by the PSOE gave the executive tighter control over

¹²⁰ Recio and Roca 1998 p.145

¹²¹ El País 4 October 1984, *La exigencia de la CEOE de un mayor facilidad de despido coloca el acuerdo social al borde de la ruptura.*

¹²² Ministerio de Trabajo y Seguridad Social *Acuerdo Economico y Social 1985-1986* Madrid 1985; El País 1 October 1984 *El gobierno se reserva la comunicación de los presupuestos con enmiendas parlamentarias, para facilitar el AES*

¹²³ El País 1 October 1984 *El gobierno....*

policy. This contrasts with the aforementioned Argentine system employed by Menem whereby inherently weak political institutions such as the Congress were bypassed or ignored in favour of direct negotiations with groups to ensure their support for new policy. The PSOE policy of industrial reform also illustrates the extent to which the government exercised control throughout its tenure, though the period is often identified as one in which the state stepped back from involvement in the economy. In fact the PSOE spoke in terms of “regenerating the state in order to modernise”.¹²⁴

Felipe González put industrial “reconversion” at the heart of the PSOE’s economic policy during the 1980s.¹²⁵ The government believed the Spanish economy had never responded appropriately to the international crises of the 1970s and adjustment was long overdue. Spanish competitiveness had suffered as a result so the government resolved to take affirmative action against inefficient industries to reduce budget deficits, rectify imbalances and bring Spain into line with the rest of Europe.¹²⁶ The Medium Term Economic Programme for 1983 to 1986 identified an excessive rise of real industrial wages, uncontrolled growth of public social spending, and an ill advised practice by the Bank of Spain to finance budget deficits. It proposed, therefore, to reform domestic economic institutions to facilitate the implementation of economic adjustment processes and to improve the functioning of markets. The PSOE’s adjustment policy was arguably “the strongest and most sustained effort to restore basic equilibrium in the economy any Spanish government had made since the beginning of the economic crisis in the (early) 1970s”.¹²⁷ The industrial reconversion “plan” of June 1983, enacted into law in July 1984 targeted 11 sectors for restructuring, including steel, shipbuilding, textiles and auto parts. In its projected modernisation of sectors with “potential”, it proposed the elimination of nearly 70,000 jobs from the public industries. The measures were explained to the public in terms of a need to adapt industry to the changing economic environment with the basic objective of increasing competitiveness. This centred on a wholesale streamlining of

¹²⁴ El País 21 July 1985 *Sobre la modernización de España* Editorial written by Jose María Benegas, PSOE member of parliament for Vizcaya.

¹²⁵ Comín and Díaz Fuentes *La Empresa Pública en Europa*, Madrid 2004 p.253

¹²⁶ Ministerio de Economía y Hacienda. Secretaría General de Economía y Planificación, *Programa Económico a Medio Plazo 1983-1986*. Madrid, 1983. p.22

¹²⁷ Liebermann, S. *Growth and Crisis in the Spanish Economy*, London 1995, p.257

Spanish industry that focused on the rejuvenation of certain sectors through policy favouritism as opposed to outright protectionism, and the disposal from the state sector of loss makers. The aspiration was a more orderly pattern of industrial activity than would have resulted from market forces alone.¹²⁸

Central to the streamlining was the INI which González stated had to relinquish its past role as “a cemetery for white elephants”.¹²⁹ Thus a new chairman of the INI was appointed in 1983, Luis Carlos Crossier, a career PSOE member who immediately implemented an aggressive cost cutting campaign of forced redundancies and sell-offs of loss making concerns. This included the sale of the flagship car company SEAT to Volkswagen. Simultaneously, steps were taken to cushion traditional industries such as energy and steel from the full impact of market forces. The INI also played a key leverage role backing the government’s budget planning, in terms of managing state spending but particularly in the arena of wage policy. Salary ceilings of between one and two points below inflation set during the AES negotiations were applied primarily in INI firms and this in turn “buttressed” the private sector by driving down overall labour costs.¹³⁰

Out of the PSOE’s policy of industrial favouritism came the creation of “national champions”, large firms in the private sector that prioritised the national interest, predominantly in the fields of energy, including utilities and petroleum, telecommunications and banking. Some of these organisations were “mixed” in that privatised former state monopolies, such as Telefónica were strictly speaking majority private owned but effectively managed by the state. National champions were essentially a new generation of firms identified for favoured treatment by an interventionist government in what was termed under the dictatorship as “strategic” sectors. Telefónica was majority controlled by 700,000 private shareholders and therefore not part of the public sector but held a monopoly over the Spanish telecommunications network. The government retained a 47 per cent stake through direct and indirect shareholdings and placed representatives on the board. The chairmanship was a political appointment, and after 1982 held by Luis Solana, brother of the Culture Minister, and compared to his predecessors an exception in not being a

¹²⁸ Salmon, K. *The Modern Spanish Economy: Transformation and Integration into Europe*, London 1995.p.11; Echemendy, 2004

¹²⁹ Financial Times 20 February 1985 *Crossier Starts Getting to Grips with Spain’s Public Sector Giant*

¹³⁰ *Ibid.*

former Minister himself.

Solana's strategy was to reinforce Telefonica's role as an instrument of industrial policy. Legally the company was not bound by clear obligations to the state other than to provide telephone services and pay taxes. Under the appointee Solana, however, the company became an instrument of protectionist industrial policy, referred to by the government as "an authentic locomotive" for industry. What this meant was that Telefonica became a state subsidised monopsony, obliged to purchase Spanish made technology and equipment and consequently an effective non tariff barrier to foreign competition. This insistence on home produced supplies often meant Spain held on to old technology longer than necessary but the PSOE priority was to build up advanced technology sectors geared to export in cases where the national market was too small to justify the outlay. During the 1980s, Telefonica took over a number of Spanish companies in the technology-telecommunications sector, such as Amper, and undertook joint ventures with foreign companies or bought minority stakes in subsidiaries of foreign companies operating in Spain. Though strictly speaking a private concern, therefore, Telefonica was a direct instrument of government policy to nurture Spanish technology, and became an enforcer of protectionism by dominating the market and purchasing equipment made in Spain.¹³¹

The government also retained and in large part nurtured the state sector. At the start of the PSOE's first term of office in 1982, three state companies ranked among the top 15 non financial firms in terms of profits. Paradoxically, this number had increased to seven state firms by 1992. Meanwhile, in spite of pledges to enact wholesale privatisation, by the same year only two firms, Endesa and Repsol had floated small percentages of their share capital. This means that the empowerment of certain firms took place while they were still state-owned.¹³² This was achieved in part through promotion by asset expansion – the compulsory state acquisition of private firms in the same sector – and the imposition of regulatory obstacles to foreign competitors attempting to acquire Spanish firms. A further method was government patronage of strategic sector consolidation to create giants as a defence against possible foreign interest. Early in the 1990s, for example, the government oversaw creation of the country's largest bank by pooling all the state's financial institutions

¹³¹ Financial Times 24 October 1983 *Chosen Instrument in Technology Drive*

¹³² Echemendy 2004 p.637.

under a new holding company.¹³³ Plans to “streamline” the electricity sector also involved the creation of giants either through conventional sector mergers, or by way of establishing holding companies, particularly in advance of the creation of the European single market in 1992. Though the Maastricht treaty did not involve energy market harmonisation across the European Community, the Spanish market feared liberalisation of the sector would leave their own market open to foreign domination.¹³⁴

“Two thirds of the country’s power is supplied by private companies and the government, which controls the price of electricity, knows if it loses its tight grip on the industry now it may never recover it,” the Financial Times commented at the time, citing Claudio Aranzadi, minister of Industry and Energy.

The PSOE’s principal economic achievement, therefore, is an improvement in the national accounts through reduction of financial commitments by privatisation of enterprises it considered expendable.¹³⁵ But by reducing its financial commitment to former state owned enterprises, it did not relinquish total control over key Spanish companies and continued to play an active role and influence the management of firms from sectors that broadly corresponded with the Franco regime’s list of ‘strategic’ interests such as transportation, energy and finance.

This policy of favouritist protectionism has been labelled elitist, the result of networks of influence between the highest political authority and powerful sectors of the bourgeoisie representing financial capital and energy interests in particular. The neglect of manufacturing, consequently implies a relative weakness of capitalists associated with this particular sector of the economy, hence the sale of the former national champion in automobiles, Seat, to Volkswagen of Germany.¹³⁶ This begs the question, therefore, of whether the PSOE government alienated broader business interests in its selective favouritism.

The PSOE government’s economic strategy is commonly perceived as characterised by an emphasis on rapid economic growth over distribution of social benefits that pleased business executives more than workers. An unemployment rate in excess of 20 per cent is the most compelling evidence to support this view. Indeed

¹³³ Financial Times, 26 April 1991, *Spain Poised to Establish Leading Bank*.

¹³⁴ Financial Times 24 April 1991, *Spanish Utilities Propose \$5 bln Power Merger*

¹³⁵ Comín and Díaz Fuentes, *La empresa pública en Europa*, Madrid 2004 p.254

¹³⁶ Echemendy 2004; Petras 1993.

the view that the government's policy emphasis was fundamentally pro business and anti labour presented the PSOE's opponents with considerable political capital and aided a regrouping of the left throughout the 1980s, with the United Left/Izquierda Unida coalition permitting the Communist Party to present a new face by incorporating disenchanted Socialists. The conservative Popular Party, which for years laboured with the difficulty of having a former Franco minister as its figurehead, under the direction of a new leader Jose Maria Aznar, was able to capture an increasing proportion of the middle class vote during the second half of the 1980s.¹³⁷ The decimation of the PSOE's electoral majority in parliament appears to track a disillusionment of the middle class. In 1982, the party won 202 seats in parliament. Following elections in 1986, this was reduced to 184. In 1989, this declined further to 176 seats, the minimum necessary to control the 350 member Parliament.¹³⁸ But does this reflect the loss of entrepreneurial support for a government that neglected its constituencies in favour of clientelist links with specific elites? The view expressed here is that business remained supportive of the PSOE because of a persistence of belief that the party represented its best interests, in part because of an absence of alternatives, but also because of an illusion of incorporation of entrepreneurial interests in policymaking. The most important employers' association, the CEOE was a participant in negotiations over wage and price policy during the early period of the Felipe González government and used these talks to press for more flexible labour laws. But employers' real power and influence was limited and the government's priority was industrial reform in specific sectors and it pursued an oligarchic style of governance. Thus the experience fits neatly into the "crony capitalism" model elaborated by Stephen Haber.¹³⁹

The Spanish political elite of the time did indeed appear to pursue an oligarchic structure to the political economy and even established overtly nepotistic relations with certain sectors. By the late 1980s, for example, selected families had come to dominate both the central administration while simultaneously boasting dynastic ties with certain enterprises closely tied to economic policy. Among the best known such families at the time were the Solanas, virtually a national institution in itself. Javier Solana, later to become director general of Nato and European

¹³⁷ New York Times 31 October 1989, *The Spanish Victory. A Mandate for the Socialists*

¹³⁸ New York Times 31 October 1989, *The Spanish Victory. A Mandate for the Socialists*

¹³⁹ Haber, S. *The Political Economy of Crony Capitalism*, Stanford, 1999.

Commissioner, was education minister under Felipe González while his brother Luis, as mentioned above, was chairman of Telefónica. Luis' wife Leonor Pérez, meanwhile, was a senior board member of Mercado Puerta de Toledo SA which operated the most important wholesale food markets in Madrid under contract from the government. Another Solana brother was managing director of Recintos Feriales de Madrid which operated trade fairs and conferences under contract from the city authorities. Other dynasties of blue blooded PSOE pedigree included the Yáñez-Barnuevo and Fernández Ordóñez families, who boasted cabinet ministers senior legal officials as well as influential industrialists among their members.¹⁴⁰

Such oligarchs cannot be taken as representative of the role of broader concepts such as a bourgeoisie or business interests. For the CEOE, the principal policy issue in the early years of the PSOE period was labour reform, particularly regarding ease of dismissal. In this area, employers saw eye to eye with the government which was set upon labour market liberalisation as a form of structural adjustment which would strike at the heart of an economic crisis blamed on rigidities inherited from misguided past regimes.¹⁴¹ The planners at the economy ministry regarded a low level of business confidence and a historic Spanish scarcity of capital as symptoms of a structural malaise. But at the same time, entrepreneurs and employers were not favoured by the government which sought to prevent employers raising prices in response to higher wage demands.¹⁴² The AES pact of 1983-1984 gave the impression of a CEOE actively involved in the formulation of policies achieved by *Concertación*. Indeed, the most fundamental disagreements in the negotiations were predictably between the CEOE and the UGT socialist union over labour and wage policy. This had the effect of portraying Felipe González as an arbitrator between opposing interests and gave the impression to the public that the government had achieved a compromise between self interested groups for the benefit of the wider society.¹⁴³

¹⁴⁰ El País 17 October 1988 *Uno más no importa*.

¹⁴¹ Bilbao, A. 'Trabajadores, gestión económica y crisis sindical' in: Miguélez and Prieto, *Las relaciones laborales en España*.

¹⁴² Ministerio de Economía y Hacienda. Secretaria General de Economía y Planificación, *Programa Económico a Medio Plazo 1983-6, Tomo O: Escenarios Macroeconómicos para la Economía Española*. Madrid 1983 p.21

¹⁴³ El País 5 October 1984 *Felipe González consiguió ayer que CEOE y UGT llegaran a un acuerdo social para el resto de la legislatura*.

It became clear, however, that the extent to which the government considered itself constrained by the pact was limited. By late 1985, a year after the pact was signed, the government had unilaterally adjusted policies in a way that represented an abandonment of its commitments under the AES which was most damaging to the CEOE. Of particular irritation to the employers' association was adjustment of economic growth targets 3 per cent for 1985 and 3.5 per cent in 1986, and for an inflation rate of 7 per cent and 6 per cent. The government revised these objectives to 1.9 per cent growth and 7.9 per cent inflation for 1985 without consulting the associations and the CEOE subsequently threatened to pull out of its commitments on investment incentives, public spending, youth and part time employment, training and the setting up of a solidarity fund for jobs made as part of the AES pact.¹⁴⁴

The CEOE was unsuccessful in gaining greater labour flexibility that would be to the benefit of small and medium sized employers. In spite of pledges by the government, it remained in practice virtually impossible to enforce redundancies without reaching an agreement with the union confederations. In its wrangling over ease of dismissal, the CEOE failed to co-opt the government as an effective ally. Labour law inflexibility was far more of a hindrance to smaller scale operations because state enterprises in the process of partial or full privatisation were better able to absorb the expense of the existing system.

The procedure for redundancies, excepting the case of bankruptcy, was that the company presented an *Expediente de Regulación de Empleo*¹⁴⁵ document to workers' representatives and sent a copy to The Labour Ministry. The company and unions then had 30 days to negotiate. If they reached agreement, they informed the Labour Ministry, which had 15 days to reply. If it did not reply, the agreement would stand. On the other hand, if there is no agreement, the company could not go ahead without the authorities' express approval. The authorities were supposed to decide within 30 days but in practice rarely did.

The government, in pursuit of its Industrial Reconversion programme, adopted the practice of suspending workers' contracts instead of terminating them. As the employer had to continue paying social security charges for the workers concerned, this loophole was beyond the means of all but the largest firms but not enough of a

¹⁴⁴ Financial Times 1 August 1985 *Spain's Employers Threaten to Quit Economic Pact.*

¹⁴⁵ Employment Adjustment File

barrier to the government's industrial reform programme to prevent a steady acceleration of plant closures and redundancies.¹⁴⁶

It is misleading, therefore, to characterise the PSOE governments of the 1980s as pro business in the broad sense because the entrepreneurial class did not enjoy favourable treatment or disproportionate influence on the policymaking process. A common complaint expressed by the CEOE was that the private sector was in fact suffering discrimination in the distribution of capital while the state sector, and the privatised concerns, enjoyed the lion's share. New finance for the private sector from all sources between mid 1983 and mid 1984 was more than 40 per cent down on the previous 12 months. This fall was accompanied by a rise of more than 100 per cent in new finance to the public sector.¹⁴⁷

It appears the groups to benefit most from economic policy and wield the most influence on policy were industrial and financial capital, to the exclusion of manufacturing capital, as observed by Echemendy, and private enterprise. But though the CEOE frequently aired their frustrations at capital scarcity, delays in labour reform, restrictions on price rises and union power, the PSOE continued to attract a considerable degree of support from the entrepreneurial class as indicated in the composition of delegates at the party's annual congresses. Much of the CEOE's frustration was directed at the unions, allowing the government, particularly Felipe González who took a personal, active role in wage and price negotiations, to present itself as the arbitrator.

The relationship with labour, however, was yet more complex because of the corporatist legacy of a socialist trade union confederation affiliated with the PSOE, the UGT, alongside a rival, communist collective, the CCOO. Based on this dynamic, the PSOE was initially in favour of engaging labour over wage policy through the methods of concertation employed by the UCD in the late 1970s, continuing the tradition of the Moncloa pacts. However, when agreement was not reached, the government continued to influence wage negotiations in other ways. Civil servants' salaries and the minimum wage, for example, were fixed unilaterally and the government instituted campaigns in the media before collective bargaining began in

¹⁴⁶ Financial Times 20 January 1986 *Lack of Flexibility Proves Expensive*

¹⁴⁷ Financial Times 17 August 1984, *State Sector Hungry for New Cash*

earnest. The executive would leak to the press the acceptable wage rises, threatening to institute more restrictive monetary policy if its advice was not followed, so that by the time negotiations started, labour representatives were intimidated into conceding much that the government wanted.¹⁴⁸

However, as the 1980s progressed, the UGT leadership increasingly perceived the party as not seriously committed to a corporatist strategy of centralised agreements with the union through a negotiation of equals. The dynamic of negotiations for accords such as the AES was that the union was invited to support measures previously decided by the government. If the support was not given, the government would accuse the union of defending selfish interests, the interests of employed workers against the interests of unemployed people.¹⁴⁹ This strategy is reminiscent of the Falange's assertion during the 1940s that class based associations are "unnatural" because of their narrow scope of representation according to specific economic interests. This was used to justify the establishment of "vertical" corporatist entities affiliated with the state. Whereas the Franco administration had demonised unions as harmful to the social order, the PSOE government of Felipe Gonzalez demonised them as harmful to the economic order.¹⁵⁰

The position of the unions during the PSOE era, therefore, was that they retained their legal status but found themselves increasingly marginalised with the government implicitly blaming them for economic crisis. Intransigence on the part of the syndicates, the government argued, had resulted in "inappropriate" real wage growth since the 1970s. Wage policy, because of the "selfish" demands of the unions, had not been addressed which had a highly negative effect on competitiveness of Spanish goods and services. Unions' refusal to allow workers to assume a loss of income associated with rising inflation, and therefore maintaining wage demands, was at the heart of wage-price spirals.¹⁵¹ Attention had focused on wages when it should have concentrated on savings rates and investment which were low because of a lack of business confidence related to high inflation. Investment was dependent on profit which in turn relied on lower wage costs. The unions, therefore, were at the root of Spanish economic difficulties and preventing its march forward to modernisation and

¹⁴⁸ Recio and Roca 1998 p.145

¹⁴⁹ *Ibid.*

¹⁵⁰ Bilbao, A. 'Trabajadores, gestión económico y crisis sindical' in: Miguelez and Prieto, 'Las relaciones laborales en España', Madrid, 1991 p.256

¹⁵¹ Ministerio de Economía y Hacienda, Secretaría General de Economía y Planificación. *Programa económico a medio plazo 1983-6*

membership of the European Community.¹⁵² The PSOE's economic team maintained an unswerving belief that wages were the primary factor driving inflation and that the demands of unions represented the central threat to the success of its economic programme.¹⁵³

The UGT was the more tolerant of the two principal union confederations towards the government's distancing of itself from organised labour. In the signing of the AES, for example, the heads of particular unions within the UGT, such as construction workers, expressed disquiet about the uneven way in which the agreement was negotiated, giving too much ground to the government. Objections were strongest regarding the government's attempts to allow freedom of dismissal to employers, more than limits on wage rises. But though senior members of the federation openly expressed disquiet, they never suggested they would not sign the agreement.¹⁵⁴

The CCOO was less compliant with its secretary general Marcelino Camacho dismissing aspects of the agreement as "unconstitutional" and refusing to sign.¹⁵⁵ Yet within the overall decline of union power throughout the period, the diminishing of the CCOO's influence had been yet more acute. By the beginning of the 1980s, it had already become a relative irrelevance as a credible representative force and had seen itself eclipsed by the UGT.

But as the government's first term of office progressed, the UGT also started to engage the PSOE economic policies with greater vigour and led to the abandonment of even a façade of consensual wage and price setting. Having agreed to cumulative real wage losses of more than 1 per cent in 1985 and 1986 by linking wage agreements to government inflation targets that were overshoot, the UGT in negotiations in 1987 insisted on an upper wage range limit two points above the government's conservative inflation calculation. The UGT leadership was also disillusioned by the fact that the government refused to comply with a 1984 promise to expand the unemployment coverage rate from 32 per cent to 48 per cent of registered unemployed and to the fact that employers had failed to on earlier

¹⁵² Bilbao, A. 'Trabajadores, gestión económico y crisis sindical' in: Migueles and Prieto, *Las relaciones laborales en España*, 1991, p.256

¹⁵³ Pérez, S. 'From Labour to Finance. Understanding the Failure of Socialist Economic Policies in Spain', *Comparative Political Studies*, Vol 32 (6), September 1999 p.673

¹⁵⁴ El País 7 October 1984 *El comité confederal de la UGT asume casi por unanimidad el Acuerdo Económico y Social para 1985 y 1986.*

¹⁵⁵ *Ibid.*

negotiated commitments to raise wages in line with increasing productivity at firms.¹⁵⁶ The government was not prepared to concede to any of the more aggressive demands and walked away from the negotiations without an accord.¹⁵⁷

The UGT's leader Nicolás Redondo finally resigned his seat in Parliament in 1987, having been the only PSOE deputy to defy the party whip since the 1982 elections, marking the final divorce of union confederation and socialist party that had existed since the Nineteenth Century. In fact, Redondo's dissent was a rare example of PSOE disunity in an era characterised by high levels of centralised discipline.

Shortly afterwards came a rare moment of Spanish union unity, when the CCOO and UGT collaborated to organise a successful general strike on 14 December 1988 and gained some minor concessions on employment law. But the incident was an exception, and most strikers and protesters during the strike were not in fact union members but members of the public who felt compelled to stage a protest against high unemployment and other economic issues. The extent of unity both between the two union confederations and within them is also deceptive, as many senior UGT members were opposed to the strike. On 1 December, the UGT suspended eight senior representatives of the agricultural workers' union and a day later, nine executives from the chemical workers' union for publicly stating opposition to the strike. Organisers of the strike accused the government of attempting to undermine the UGT by encouraging its senior members to express their opposition to the action and highlight support for the government.¹⁵⁸

An accepted view is that the institutional dependence of the UGT on the PSOE led the government to default repeatedly on promises made to the union in its zeal to implement neo liberal reform. The breakdown in their relationship ultimately doomed the success of PSOE policies. Since the government's economic strategy hinged on the cooperation of the unions, this breakdown led to the ultimate discrediting of the PSOE's economic record, most conspicuously in its record of high unemployment, and electoral defeat in 1996.¹⁵⁹ The PSOE's split from its former labour union affiliate

¹⁵⁶ Pérez, S. 1999, p.672

¹⁵⁷ Roca, J. *Pactos sociales y políticas de rentas*, Madrid 1993 p.216

¹⁵⁸ El País 3 December 1988 *UGT acusa al gobierno y al PSOE de intentar desestabilizar el sindicato*

¹⁵⁹ Royo, S. *From Social Democracy to Neoliberalism. The consequences of Party Hegemony in Spain*, New York 2000

and ally is thus presented as a lesson for other social democratic parties with their origins in syndicalist movements. In fact, the PSOE retained working class support to a greater extent than it is credited with and its 13 years in power are testament to this. Support was channelled through the party system rather than through the more archaic network of labour syndicates and this reflects the consolidation of a neo corporatist party and the continued weakness of interest groups in Spain. The government insisted throughout the industrial reconversion programme, that its policies had halted the rise in unemployment if not reversed the trend, and made repeated pledges to reduce the figures, holding up evidence of economic recovery such as falling inflation or rising GDP as proof of imminent increases in employment.¹⁶⁰

Electoral support for the PSOE among workers, as opposed to entrepreneurial groups, remained relatively robust throughout the 1980s, and was weaker among the middle classes. The Socialist vote among blue collar workers in industry and services dropped from 50 per cent in 1982 to 40 per cent in 1993, but rose from 26 per cent to 29 per cent among small farmers and from 41 to 43 per cent among agricultural labourers. The middle class vote simultaneously dropped from 42 per cent in 1982 to 17 per cent in 1993. This suggests that the image of the PSOE as an example of socialism without workers is not accurate.¹⁶¹

Unions remained inherently weak in relation to established political parties in Spain and had little real influence over economic policy. The tradition of negotiated settlement dated from the mid 1970s when they were used as a tool for political rather than directly economic strategy, to safeguard democracy at a time of political and economic instability. While the CCOO had existed as an effective opposition force during the Franco dictatorship that had harnessed the institutional structure of the corporatist state, and the UGT had existed, legally or clandestinely since the nineteenth century, neither could boast deeply ingrained institutional traditions in the 1980s.¹⁶² They had only a short history of democratic participation and were eclipsed by the success of a mass party to define itself as a legitimate representative of social interests in pursuit of the wider benefit of Spain.

¹⁶⁰ PSOE, Equipo de Documentación Político. *Un año para la esperanza. 365 días de gobierno socialista*, Madrid 1983. p.43

¹⁶¹ Javier Astudillo Ruiz, 'Without Unions, but Socialist: the Spanish Socialist Party and its Divorce from its Union Confederation 1982-1996', *Politics and Society* Vol.29 (2) June 2001, p.278

¹⁶² Hamman, K. 'Spanish Unions: Institutional Legacy and Responsiveness to Economic and Industrial Change' *Industrial and Labor Relations Review* Vol.51 (3) April 1998 p.440

CONCLUSION

To summarise both experiences, therefore, though they were concerned with similar goals, namely reforming a statist economic model regarded as archaic and at the root of recurrent crises, there was a profound difference in structures of decision making. Though, arguably, both examples were characterised by confrontation with certain interests and favouring of others, the Spanish case is marked by a more successful attempt to portray itself as in the broadest possible interest. Both sets of reforms are frequently criticised for their record on mass unemployment, concentration of wealth and perpetuation of oligarchic networks. They are both repeatedly applied the label “neo-liberal” to summarise their priorities and reasoning. But the Spanish case, evidences a continuation of the centralised, disciplined hierarchy of decision making illustrated in the two previous parts of this thesis as during the period under scrutiny here. Furthermore, the Spanish government consolidated the model further through the continued weakening of labour as an influential associational interest.

In Argentina, Carlos Menem introduced reforms by presidential decree, declaring the situation to be an emergency and resorting to legal means to legitimise some unconstitutional and undemocratic decision making. The early phase of policymaking, that which saw the first wave of mass privatisation, was one of judicialisation of political authority, therefore. Labour disputes were tackled with threats to declare martial law, use the military as muscle and mass sackings. A highly charismatic personalistic leadership embarked on public relations campaigns to marginalise economic interests which did not conform. Cavallo, as architect of the economic programme, as outlined above, also embarked on a charm offensive to woo interest groups and indeed established a secretariat within the economics ministry to liaise with interest groups.

Clearly there was more to the Menem-Cavallo reform package than privatisation, but the selling off of state concerns best illustrates the extent to which the period can be characterised by a distribution of favours through empowerment of a particular interest group. Concentration of wealth and power is well documented in existing literature, as is the empowerment of foreign capital to heights not seen since the early twentieth century. But the decline in popular power through judicial means is less so. Judicial tools were used to neutralise labour opposition and privatisation, effectively by legal decree, destroyed the natural habitat of the union confederations, as workers

now had to engage the management of foreign multinationals rather than representatives of government or the executive itself. While this may be interpreted by some as a victory, or at least a cyclical upturn in the fortunes of capital against labour, the point of this study is to emphasise the continued lack of a credible set of representative state institutions in the Argentine political economy. The system whereby the executive, and sometimes a disproportionately powerful economics minister, negotiates directly with economic interests continues, and the most conspicuous development at the end of the 1990s, was the empowerment of foreign capital as a potent non state influence on policymaking for the future.

In Spain, the PSOE government of the 1980s undertook difficult reforms that in some respects dismantled the Spanish industrial legacy and altered the national capitalism by liberalising labour law and making a concerted attack on real wages and price growth. But the structure of economic policy making retained its core features that are highlighted in the two previous sub sections of this thesis, namely a centralised, highly disciplined state hierarchy, in this case under the guise of a political party system, that claims a monopoly of representation. A rival means of representation, associations to promote the priorities of specific economic interests such as labour unions or employers' associations, acted as little more than ideological think tanks. They were consulted during the early stage of the Socialist tenure of the Spanish economy after 1982 to negotiate wage, price and dismissal policy, but if their co-operation was not forthcoming, the government could ignore them safe in the knowledge that they were powerless to react in a meaningful way. Labour unions in particular were presented implicitly as an archaic blemish on an efficient democratic state that needed to modernise and join the European Community. The PSOE was successful in persuading Spaniards it held their interests at heart and was acting for the greater good. The party remained in power for three terms, while the two main union confederations saw membership decline and their influence wane. The CEOE, also held limited ability to influence policy. The events described in this section are testament to the success of the Spanish party system as a neo-corporatist web of representation, holding mass appeal and convincing the populace of its legitimacy.

Like the Franco regime before it, the party, representing all regions and economic groups, formulated policy with an arbitrating executive whose power was absolute at the pinnacle of the hierarchy, though the head of government was an elected prime minister rather than a dictator. Through a clientelist system of political

appointees, the party wielded influence in the boardrooms of the largest private enterprises and thus kept a tight control over industrial policy. The cabinet, economy ministers and the prime minister himself, was firmly at the controls of industrial reconversion as even the private sector, through the retention of government stakes, was incorporated into the state, inherited until electoral defeat in 1996, by the Socialist party. The party in social democratic Spain, thus retained many of the traditions and methods of dictatorial Spain of the 1940s to the 1970s, monopolising representation and maintaining centralised control of economic policymaking.

Concluding Remarks:

**Different Qualities of Crony Capitalism in Late Industrialising Economies
and Management of Social Conflict.**

Forced industrialisation of the kind economic historians associate with the work of Alexander Gerschenkron, whereby the state makes institutional arrangements to create the conditions for a take-off, can have a cyclical impact. The effect of necessarily high government spending and monetary policies designed to promote and protect new industries is to put inflationary pressure on an economy. But a side effect of the process is that it creates new economic vested interests with a stake in the new order who will struggle to maintain the status quo. Among these are an industrial bourgeoisie. Industrialists associated with internally integrated industries benefit from expansionist monetary policy, including easy access to credit at low rates of interests. As such they will resist attempts to tax them and seek to maintain a regime of economic protectionism. Industrialisation of the type seen in many underdeveloped economies from the mid twentieth century also creates, or at least enriches, an industrial proletariat that eclipses the rural peasantry. This group, if sufficiently organised, will struggle for subsidisation of manufactures and food, because this translates into higher disposable income. On this issue they might be allied with the nationally oriented industrialists who will see such features as a subsidy on labour. Meanwhile, neither group will support trade liberalisation if it threatens greater competition for domestic industries from foreign firms. This will reduce profitability for local firms which in turn depresses wages and may lead to higher unemployment.

These priorities may conflict with those of more traditional interests. If an economy before industrialisation was dependent on extraction and export of commodities, either mineral or agricultural, traditional elites will favour policies that are opposite to those sought by wage earning proletariat or national industrialists. An interest in exporting inclines these elites towards liberal trade policy, with minimal taxes on commerce and low exchange rates to make their products more competitive on an international market.

When fiscal expansionism of the kind associated with state-led industrialisation leads to inflationary crisis, or if the model must be adjusted because of an exogenous shock, not all groups will agree to the need for reform. Some may regard the proposed adjustments as attempts at their expense by other interests to acquire a larger share of national wealth. A macroeconomic stabilisation, for example, designed to address inflation with fiscal and monetary tightening, will be perceived by popular groups as in the interests of exporting elites or international capital and at the expense of their living standards. They may mount an effective campaign to block the reform, either informally through the wielding of economic weapons such as strike action, or exercise a veto in the legislature through a political organisation that represents them. Trade liberalisation and the lifting of tariff barriers to imports as a means to force national industries to become more competitive will be vetoed or resisted by the same groups who will regard it as favouring traditional exporting elites

or foreign capital, again at the expense of full employment, high real wages, subsidised production or privileged access to the domestic market.

Resistance to measures necessary during the cycle of non spontaneous industrialisation threatens political order which is a public good widely assumed to be a pre-requisite for effective encouragement of productive activity. Ability to ensure political order, therefore, will impact economic growth. The ability of a state to keep order depends on the way in which different economic interests interact and influence the formulation of economic policy. It is a widely accepted view, proposed by the 'new institutionalist' economists and economic historians that political order, and by extension the consistency of growth, depends on a state's 'credible commitment' not to act despotically and requisition assets or rents from citizens. If a state makes that credible commitment, by establishing and enforcing limits to its power through a robust set of institutions, then property rights are universally guaranteed. This best of all possible worlds encourages entrepreneurship, investment and productive activity. It is the institutions' ability to enforce that credible commitment and protect property rights that defines an economy's prospects for long term economic growth, differentiating rich country from poor.

But this study focuses on late industrialising economies whereby institutions were flawed and did not guarantee universal rights. In these cases groups conflict with each other to further their own aims and capture as much as possible of national wealth, necessarily at the expense of other groups. It rests on the idea that governments in such circumstances, which will not make the credible commitment to enforce universal property rights can achieve political stability and rapid economic growth by making a selective commitment. By entering an agreement with a specific group, or groups of asset holders in return for support, a weak government can steer an economy towards high growth rates. The type of asset holder courted for support in this way will depend on what sector of society the government chooses as a constituency of support, which in turn will depend on the favoured economic model. Prior to industrialisation, it is usually the landed elite which maintains the closest relationship with government, as the primary earner of export rents in an economy. The balance shifts when industrialisation is put into practice after a state, as in the Gerschenkronian model, decides to pursue industrialisation as a policy priority. This in turn depends on the type of industry prioritised. Typically, an earlier phase of industrialisation focuses on lighter manufacturing to cater for a market of wage earners with the highest possible level of purchasing power. To avoid competition from abroad, protectionism or import substitution is central to the model so the two interests favoured here are logically local capital and the urban proletariat. The least favoured group are the exporting elite whose share of national income is restricted by the anti trade regime while high currency policies intended to aid imports of capital goods for the new industries make their produce less competitive. Exports may also be taxed in

order to finance the national industrial project. If this group was so influential prior to industrialisation, why should they have permitted the process in the first place? Gerschenkron refers to an advantage in economic backwardness in that as industrialisation is delayed, the benefits of the phenomenon are more clearly observable in other countries. Furthermore, technology transfer allows the late industrialiser to take advantage of the fruits of others' earlier experience, which means that when started, the process will occur more rapidly than it did with predecessors. Other theorists point to crisis as providing the incentive for change. A dominant group will unilaterally relinquish some of its privileges and control over national rents by encouraging a redistributive reform if members believe inaction will lead to more serious consequences in the longer term.

The case of Argentina presents a number of problems to this analysis because of the consistency of resistance by groups. A deeper phase of industrialisation, favouring heavier industries with wider Hirschmanian linkages such as steel, chemicals or energy is more capital intensive and less feasible as an autarkic project without a contribution from foreign capital. As a condition, therefore, concessions have to be made to international capital such as the lifting of some import restrictions alongside fiscal and monetary tightening which translates into job losses, declining purchasing power and reduced rents for national manufacturing. The outcome of attempts to pursue industrial deepening alongside economic opening evidently did not include an acknowledgment by vested interests that reform including a loss of benefits was necessary. In Spain, on the other hand, reforms were equally resisted though the economy did not experience the same recurrence of political and economic failure seen in decades immediately preceding the period this thesis addresses. Growth rates, though not always higher in Spain than Argentina, were more consistent and less marked by periodic reversals.

This distinction may have evidenced a more disciplined regime of industrial management as identified in studies of parallel statist industrialisations in the far East by figures such as Amsden. It is the state's ability to exert pressure on its subsidised industries for high standards in return for protection and favouritism that defines the ability to successfully modernise under the model of import substitution. Latin America thus lagged behind East Asia in its import substitution phase because the state itself and the public sector became an arena for interest group rivalry and clientelism rather than meritocratic and dynamic engines of national development. Industrialisation, in a sense, was hijacked by cronies and interest groups, therefore. Does this imply, then, that the Spanish system was a more able disciplinarian in its project of industrialisation than Argentina?

This thesis has attempted to show that it does, though the disciplining role has a far broader reach than merely industrial performance, as it extends to all levels of society and the economy. The narrower the state's focus, the less able it will be to ensure political stability. Returning to the notion of a credible commitment, taking Argentina and Spain as two states that could not convince

their populations that they served the universal best interest in a context of acute social distributional conflict, the distinction between two varying growth records lies in the reach of the disciplinarian state. At first glance, each state had much in common throughout the second half of the twentieth century. They share the same institutional, 'Roman-Iberian' institutional ancestry, as argued by Tortella, and an associated centralist tradition of administration. Under this structure, the government is overwhelmingly dominated by the executive and institutional checks on the figure of the president, dictator or prime minister are limited. This system is susceptible to cronyism because the head of the government has the power to personally appoint associates to important positions of state so the executive can thus be captured by a lobby or interest. With such a powerful executive, interests will be tempted to seek privilege and influence policy through an alliance with the government, which in turn, will expect political and financial support. Interests organised into coherent non state actors, be they industry associations, clubs or unions, will be able to mobilise considerable resources to support a friendly president. But they will also be able to wield organisational power as a potent economic weapon, hijacking an economy either by withholding produce from market or through industrial action and blockades.

If conflicting interests have 'colonised' particular branches of state, as in the model elaborated by O'Donnell, they will cause deadlock in policymaking by vetoing any reform seen as favouring a rival group at their own long term expense. This, in turn, will lead the executive to reinforce and concentrate his power yet further by bypassing institutions of state such as the legislature, enacting laws by decree . This undermines the credible commitment even more and encourages a personalistic presidential system that perpetuates bargaining between executive and asset holders. An alternative is for the president to harness the interests by monopolising their representation within the state and act as an enforcer of the rules of the game rather than the direct designer of policy. This means interests negotiate with each other as much as with the executive, and ideally recognise the legitimacy of the government's authority. If successful, this system offers a hierarchy of representation, legitimising the state by theoretically providing a forum for diverse interests to gain access to policy design. If a variety of interests are incorporated into the system, rather than merely factions of the elite, then the state creates an illusion of a broader spread of credible commitment. It is not an ideal system by any means, and is still defined by clientelist relationships, cronyism and rent seeking, but it can subdue the ability or inclination of interests to disrupt policymaking, legitimise the state and ensure political order.

This model reflects the Spanish state described in the introduction to this thesis and chapter 1, as constructed to ensure social order after the 1936-39 Civil War, an especially violent distributional conflict. The corporatist system established by the Franco regime in the 1940s stifled what Hirschman refers to as the 'ego centred' view of a political economy avoiding the zero sum

dynamic of political discourse. Economic policy in this period was also autarkic and prioritised industrialisation. Organised labour was a force underpinning the losing side in the Civil War and the Franco government sought to dissipate the potential for further conflict by raising living standards, principally through industrial expansion. When this empowered and expanded an urban proletariat, this interest was itself incorporated into the corporatist system of representation through the official syndicate which also accounted for the interests of employers. This does not imply that workers were content under a violent, authoritarian dictatorship, but the state did make a strong claim to represent universal wellbeing even if it was constructed following victory in the distributional Civil War. This system, within a category of institutionally weak economies, represents a better quality of crony capitalism because of its ability to preside over political stability in spite of the weaknesses of state, thereby promoting productive activity. But the continued clientelism, inequality and prevalence of corruption mean Spain has inherited a profound disadvantage that will leave it struggling to achieve convergence with other Western European economies.

Argentina in the late 1940s laid the foundations of a similar system with corporatist entities representing labour and business allocated a privileged status as both mobilisers of support and channels of representation before government. However, the structure was exclusionary and actively discriminated against other interests not nurtured as a support base, particularly landed elites regarded as anti industry. Furthermore, when Perón, the system's architect was deposed in 1955 and sent into exile, the system was decapitated to leave the Argentine political economy with a variety of free standing corporatist entities which commanded huge financial and human resources. Though often fractious, they were capable of mobilising support on a nationwide scale. As such, Argentine governments are forced to negotiate directly with these bodies to gain support.

It is tempting to use the authoritarianism of the Spanish dictatorship and its clear disposition to confront political opposition with violence as explanation for the long term political stability highlighted in this research. Though Argentine society experienced authoritarian episodes, none was so enduring as the Spanish equivalent. Nevertheless, Latin American authoritarianism that started to emerge first in Brazil in 1964, then throughout the southern cone of the continent during the 1970s inspired the dependency theorists. A principal feature of this interpretation of Latin American authoritarianism was that it reflected the tensions associated with industrialisation. As in this thesis, dependency theorists noted industrialisation had empowered an urban proletariat and lent it the resources and organisation to mount a credible challenge to the traditional elites or their allies representing foreign capital. To be sure, Spanish military rule was the product of an elite rebellion against redistributive ideologies in the 1930s, but a heavy handed and brutally repressive government in itself is not sufficient to guarantee political and economic stability over the long term. While it may hinder political opposition, the Argentine experience shows that episodes of

military rule characterised by brutal confrontation with popular groups associated with Perón were not able to stifle the credibility of corporatist entities such as the CGT or the wider Peronist movement. More important than authoritarian rule, it is argued here, is a solid institutional foundation to networks of representation in an imperfect, clientelist state.

Take, for example, the case study from chapter 3. This contrasts the first push in each country during the late 1950s to reform through limited economic opening of their respective autarkic policies prioritising industrialisation. The reforms sought support from foreign capital and sponsorship from the IMF, both as a source of finance but also as a high profile endorsement of economic credentials in order to attract investment. The reformers came to the fore in Argentina and Spain following a period of political upheaval and in a context of evident economic crisis. Vested interests opposed to the proposals were in evidence in both cases and successfully blocked important features of the new model. Except that there were fundamental distinctions in the nature of the political upheaval that brought reformers to power in Spain and Argentina. President Frondizi, who sought to adjust the industrialisation model established under Perón to one favouring heavy industry, opening the economy to foreign investment and imports while introducing criteria of monetary discipline, was elected to power after three years of unconstitutional military rule. Perón was deposed in a military coup and the generals ruled Argentina at the helm of what they claimed to be a 'revolution'.

Spanish reformers in the late 1950s comprised a clique of economically orthodox ministers who ascended to ministerial rank following a cabinet reshuffle instigated by Franco who was concerned about the possibility of disorder as the autarkic model exhausted itself. In strictly legal terms, the upheaval was constitutional and did not form a part of any political rupture. Institutional continuity was the key feature of political reform in Spain, therefore. This argument also applies to the subsequent case studies from the thesis in spite of Spain's ostensible political break with the past through democratisation following Franco's death in 1975. Democracy was restored, and the head of government selected through pluralistic methods, but there was never any fundamental dismantling of the old dynamic. Associational organisations were reintroduced to the Spanish political economy, such as the old labour unions which had been so active as mobilisers of opposition during the dictatorship. Furthermore, an employers' association was established by those concerned about an ascendant organised labour movement. But these were eclipsed by more formal hierarchies of representation dominated by political elites. The democratically elected prime minister was in effect an elected dictator while the multi tiered party occupied much of the structure of the corporatist system imposed during the dictatorship. The final case study of this work, which addresses Spain in the 1980s and attempts to liberalise by the González government also conforms to this idea.

Argentina, in contrast, did not enjoy such institutional or constitutional continuity. What persisted was the ineffective dynamic where associations outside the state bargain with the executive for favours hoping to exclude rival interests. Significantly, these factions do not bargain meaningfully with each other and have difficulty forming alliances. If a group which did not have access to the president's ear was frustrated, it would mount opposition in the form of non cooperation, disruption of economic activity and even engineer a coup. As illustrated in chapter 3, Frondizi found himself making bilateral pacts that contradicted each other to diverse interests to secure support, or at least hold off confrontation in a precarious game of survival politics. He sought the support of foreign capital and traditional elites with promises of monetary discipline and trade liberalisation, while courting labour and the national bourgeoisie with assurances their political party would be legalised and that standards of living and spending power would rise. The result was chameleonic and inconsistent policymaking and complete fulfilment of commitments made to the IMF as conditions for its loans was unrealistic. As far as the Fund was concerned, the Frondizi experience was a worst case scenario. Argentina was granted 'ownership' of the stabilisation package with its associated loans, partly on account of the perceived credibility of Frondizi's claims to prioritise fiscal discipline and the appointment of Alsogaray to head the Economy Ministry. But Alsogaray's ability to implement the plan fully was curtailed by Frondizi's political debts to forces opposed to the measures.

As highlighted in the introductory chapter to this work, there is a contribution to be made by this comparison to the debate on ownership of IMF stabilisation plans whereby the increasingly accepted view is that if the country receiving loans is allowed control and autonomy when designing reforms, they are more likely to succeed. The fact that in each case the IMF's prescriptions were only implemented partially suggests that ownership was granted to the receiving governments but the power of the Fund to impose conditionality was limited. Spain was fortunate enough to accumulate enough foreign exchange receipts not to have to take the loans, as much because of emigrant remittances and tourist spending as a consequence of the reforms. Argentina took its loans but was no more compliant to the pledges the government had made when negotiating its terms. This suggests that the IMF endorsed Alsogaray, a vocal critic of centrally planned industrialisation underpinned by state interventionism, and of Frondizi's strategies of alliance building which he referred to as "demagogic promises." But the Fund also overestimated the minister's autonomy and underestimated the ease with which he could be replaced by an idiosyncratic executive. The Spanish stabilisation, applied against the backdrop of conflict between factions within the state also seems to have been agreed on the basis that the IMF approved of the credentials of technocratic Opus Dei ministers. It also underestimated their ability to implement the conditions to its satisfaction, however.

There is a case to be made that the consultation carried out by the Spanish reformers on economic opening is an example of the kind of alliance building with non state actors this thesis associates with the Argentine political economy. However, the scheme represented a public relations exercise to demonstrate the workability of the proposals to an executive primarily concerned about the possibility of tough proposals fomenting social protest and upsetting the long term improvement in living standards for Spaniards. Therefore a primary purpose of the consultation was to legitimise policy rather than negotiate with the respondents over the terms of their support. But when the reforming government faction were bargaining with other branches of state before the dictator, the responses would have added weight to their arguments and undermined the case of the conservatives who argued that by threatening living standards, they would compromise order.

The episode illustrated institutional continuity underpinning significant shifts in policy emphasis and imposing a system of checks and balances on the ability of factions and interests to capture economic policy and by extension, a greater share of national rents. Though a clique of orthodox economists commonly associated with Opus Dei captured certain departments of government and were influential in the civil service by weight of numbers, they ultimately influenced rather than dictated the eventual policy because of the persistence of other factions in government. Spain, therefore, could boast a clearly defined set of rules of the game to manage a crony capitalist system whereby the executive is the recognised senior partner in the pacts with asset holders while no single faction can claim greater legitimacy than the other. In Argentina, such discipline is absent.

An evident difference between the two case studies, where the Spanish reforms though no more complete than the Argentine equivalent in terms of implementation, were nevertheless embedded and did not contribute to political crisis, is the contrast between weak democracy and authoritarian government. Frondizi's Argentina was a newly restored and tentative democracy while Spain was firmly controlled by a militaristic regime that did not tolerate dissent and was prepared to use violence to suppress signs of social disorder. In which case, chapter 3 could be taken as an anti democratic argument in suggesting what mechanisms work best when adopting tough economic reform in a crony capitalist system with a history of distributional conflict. But the military in Frondizi's Argentina was still prepared to intervene politically, crush uprisings and the government adopted authoritarian methods in controlling sometimes violent strike action and uprisings.

To further the idea that authoritarian government is not in itself a means to ensure political stability through periods of economic turmoil and difficult decision making, Chapter 4 reverses the comparison between fledgling pluralism and heavy handed military dictatorship. During the late 1970s, Argentina was ruled by its armed forces who regarded the country as being in a state of civil

war and proscribed all political activity. Spain, on the other hand was in the midst of a delicate transition following the death of Franco in 1975 which inauspiciously coincided with an economic crisis. The odds were stacked against the survival of democracy with social disorder a real threat and a reactionary military with deep reservations about the entire political project. The section attempts to show that despite a reversal of the two political systems, and apparently fundamental constitutional change, the mechanisms of policy making and negotiation remained unchanged. Argentina, in spite of a determination to do otherwise on the part of senior members of the military junta and the civilian economics minister, remained defined by negotiation directly with non state actors who were the most coherent and powerful representative mechanism for vested interests. In Spain, though it had undergone a political transition and replaced the authoritarian system with European parliamentary democracy, continued to shape policy through negotiation between interests represented within the state by parties who claimed a particular constituency of support. In the case of leftist parties with a working class base, they were affiliated with unions but exercised authority over the two large labour confederations, negotiating before the prime minister on their behalf. Other interests had more elite or conservative parties to represent them and neither their legitimacy of representation nor the legality of previous, pre democratic decisions and institutions was questioned. The new democracy in Spain, therefore, retained its characteristic representation of interests by officially endorsed organisations, in this case parties, before a centralised government and powerful executive. Argentina, meanwhile, though authoritarian in this instance and keen to suppress associations and political groups, continued its tradition of alliances between executive and non state association, even though some of these were ostensibly illegal.

One could argue that the Argentine system during the military regime of the late 1970s resembled that of Spain. It was a pyramid-shaped hierarchy with the dictator at the top, followed by the junta who represented different armed services with varying policy priorities and links with particular economic interests. They shared more or less equal status with the economics minister and thus within the boundaries of state, negotiated new policy directions on behalf of the groups with which they were associated. However, this resemblance with Spain in the early dictatorship is deceptive. Argentina is distinct because of the ability of interests to opt out of the system which suggests it did not enjoy the same perception of legitimacy as its Spanish counterpart. The successful organisation of strike action throughout the period and open defiance of the government is evidence of failure to construct a legitimate system of political and economic representation and the continued strength of interest associations and persistent ability to challenge policies. The zero sum discourse continued, therefore. Furthermore, though there may have been links between the Argentine labour movement and the junta by way of the navy officers who were concerned about disorder and mass political radicalisation, such contacts were unofficial. In Spain, the system was

deeply embedded and legitimate thus weakening attempts by illegal organisations to claim the true voice of labour, for example. Additionally, the executive in Argentina did not enjoy the same authority as Franco or later Spanish prime ministers to act as an adhesive to the system. Only the first dictator, Videla, served out his full term, primarily because he was more successful than his successors in fending off challenges from military factions. There was not even a semblance of political continuity within the relatively brief period of military rule, from 1976 to 1983.

A potential weakness in the use of Spanish political continuity as the backbone for stability and ability to embed policy is the presence during the late 1970s of a number of threats and incentives that may have served to subdue mass disruption and disobedience. Along with a sense of economic crisis was an increase in political crisis with a perception that social peace was under threat from Basque nationalists, extreme groups from Left and Right and the looming presence of the armed forces seen as ready to reverse the democratic transition. Perhaps unpopular wage and price policy in this period was successful because the events comply with the model outlined earlier. One interest, or faction of cronies, relinquishes a degree of privilege because of a realisation that a crisis could lead to much greater sacrifice later and therefore makes concessions to other groups. But though this model may apply, the Spanish state, it is argued here, provided the stable environment for such bargaining to take place in an orderly manner and prevent the dispute spilling out beyond the controlled confines of the negotiating room.

The final case studies in chapter 5 differ from those in previous sections because they do not highlight simultaneous reforms though the thematic aspects are directly related as they comprised a surge in economic liberalisation and an invitation to foreign capital to increase its stake. An important purpose served by chapter 5 is to illustrate that both economies retained their crony capitalism in spite of claims by scholars that fundamental departures from historical institutional traditions were achieved. Starting with Argentina, mass joblessness may have enfeebled the bargaining power of labour. Concentration of wealth and ownership which was started in the late 1970s during the first wave of liberalisation (see chapter 4) may also have altered the relative power of different interests. There was no fundamental break with the existing political economy of bargaining between executive and interest, survival politics and failure of official structures of political representation. Take, for example, the resurgent interest of foreign capital in Argentina. Multinationals which successfully bid for Argentine utilities during the privatisation programme acquired a strong voice in Argentine affairs and their chief executives enjoyed direct access to the highest political authorities. The contrast with similar processes in Spain is telling. Privatisation may also have been a consequence of the state's desire to withdraw from the economy. But there are serious limitations to the extent to which one can claim the Spanish state became non interventionist. Through privatisation the state reduced its financial stake in the economy, but it

retained extensive control through minority stakes in politically sensitive former state enterprises through golden shares or political appointees to the boardroom. Furthermore, the chapter also highlights the continued clientelism of the Spanish political economy, with considerable oligarchic influence on public affairs. But in their relationships with the state, oligarchs were the subordinates and the links were used to the government's advantage. The Spanish state harnessed crony capitalism as a means to enforce its development priorities and maintain a protectionist system rather than the cronies capturing the state.

The inability of the Argentine state under Menem to control economic agents, most notably the privatised concerns, could be interpreted as a healthy sign of non interventionist politics and the emergence of checks and balances. Unfortunately, Argentina is afflicted with weak institutions in terms of solving the commitment problem, and the government is less able to convince citizens of its ability or will to enforce universal property rights. Interests, therefore continue to struggle against one another to dominate rather than influence policy while governments must struggle to manage this conflict, devoting more time to survival than effective policymaking. In this context, a crony capitalist system is best served by an institutional structure that monopolises representation and recognises the legitimacy of the executive. The system such as that which exists in Spain is by no means ideal because it persists with clientelism and encourages oligopolisation of an economy, but it goes a long way towards ensuring the pure public good of political stability in difficult economic circumstances.

The working assumption of this thesis is that the more impressive Spanish economic record over the period occurred in spite of its institutional flaws rather than because it is in a distinct category to Argentina. From a political perspective, both societies have a history of division that has, on occasion, boiled over into conflict and direct confrontation between groups. On the surface, Spain appears to have experienced a successful transition to democracy and moved on from being a conflict society, unlike Argentina. But the methods of economic policymaking employed by Spanish governments continue to operate along the same parameters employed by the early dictatorship which viewed its greatest challenge as keeping order in a divided society. The corporatist system of representation that it constructed, and survives more or less intact to this day, has permitted a steady, if slow and by some measures inadequate, process of economic government.

The Argentine system was not so well constructed and is handicapped by elements that mobilise against the government. The weakness of the state in the face of vested interests is illustrated by the volatility in all economic indicators, including growth or savings but also in the way foreign capital has established itself as a major component of economic life while in Spain it has remained a junior partner along with all other elements, even the oligarchic banking sector.

The greater autonomy enjoyed by the Spanish central government from interest group meddling or disruption, though not ideal from any perspective because of the potency of certain oligarchic groups, makes the Spanish track record of economic discipline look better. But the discipline that implies greater conformity to orthodox prescriptions favoured in Washington falls short of what a true IMF technocrat would approve of throughout the period examined here. Again, as is the case with the state making a closer approximation to a credible commitment to universally protect property rights because of tighter control over a crony capitalist system, a record of fiscal and monetary discipline obscures diluted orthodoxy and continued illiberal beliefs among the highest tiers of government.

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