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Menem's Argentina : economic reform and democracy in the late twentieth century

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

MENEM'S ARGENTINA: ECONOMIC REFORM
AND DEMOCRACY IN THE LATE TWENTIETH CENTURY.

A thesis submitted in partial satisfaction of the
requirements for the degree of

MASTER OF ARTS

IN

INTERNATIONAL STUDIES

by

Mariano J. Beillard

1995

To: Dean Arthur Herriott, Ph.D
College of Arts and Sciences

This thesis, written by Mariano Javier Beillard, and entitled MENEM'S ARGENTINA: ECONOMIC REFORM AND DEMOCRACY IN THE LATE TWENTIETH CENTURY, having been approved in respect to style and intellectual content, is referred to you for judgement.

We have read this thesis and recommended that it be approved.

Mary Vojcansk, Ph.D

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Date of Defense: June 29, 1995

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I dedicate this thesis to Florencia. Without whose patience, understanding, support, and most of all love, the completion of this work would not have been possible.

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ABSTRACT OF THE THESIS

MEMEM'S ARGENTINA: ECONOMIC REFORM AND DEMOCRACY
IN THE LATE TWENTIETH CENTURY

by

Mariano J. Beillard

Florida International University, 1995

Miami, Florida

Professor Dario Moreno, Major Professor

A study of the possible correlation between drastic neo-liberal economic reform and the undermining of democratic mechanisms in late twentieth century Argentina. The adoption of free market mechanisms, within the Modern Political Economy theoretical perspective, may tend to erode the workings of western style democracy leading to a situation of increased domestic sociopolitical and economic tensions in Argentina. The foregoing is especially applicable as the continues to endeavors to maintain its neo-liberal economic reform program on track.

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INTRODUCTION

When Carlos Saúl Menem assumed the Argentine presidency in 1989, he was immediately faced with the necessity of addressing the paramount issues associated with his country's economic stagnation and hyper-inflation. Carlos Menem's electoral success over his party's traditional political rival, the Unión Cívica Radical (UCR), was largely the result of the Argentine electorate's disillusionment with the ineffective economic policies implemented by not only the preceding Radical government of Raúl Alfonsín, but also with the economic development policies of the past fifty years. Interestingly enough with regards to the preceding Carlos Menem ran a traditional populist campaign in order to be elected, but once in office he subsequently changed course in favor of neo-liberal economic policy.¹

1

Recall that Alfonsín's Austral Plan, Latin America's first heterodox attempt to control inflation without economic contraction, collapsed after a year and a half under the pressure of affected interest groups. The Austral Plan included a wage-price freeze, de-indexation of the economy, a new currency, a tough stance with creditors, and commitments to a realistic exchange rate, a reduced budget deficit, and no inflationary financing. Unfortunately for the Alfonsín government economic stagnation in 1985 and a decline in real wages led to insistent demands for relief. By late 1987 the budget deficit was rising and inflation had past 300 percent. This contributed directly to the Radicals midterm election defeat. Presidential elections in October 1988 were won by the Peronist candidate Carlos Menem who took office in December 1988. Yet, once in office Menem reneged on his populist past

Required by political expediency to address these issues, Menem a year and half after his election turned to Domingo Cavallo in the hope of arresting the endemic hemorrhaging of the Argentine national economy. During the greater part of their term in office the Menem/ Cavallo team has been able to successfully implement a series of economic reforms which have reversed the economic decline of the Argentine Republic. The Menem government's hope now is to transform these short-term successes into long-term economic growth and prosperity for Argentina and in the process, assure the current government's political continuity into the next century.

As recently as just five years ago the implementation of drastic economic measures of the likes of those set in motion by the Menem/ Cavallo team would have caused most political analysts and economists to seriously doubt their success. This holds especially true as it relates to the Argentine populace's acquiescence to the government's retreat from an active interventionist role in the nation's economy. In essence, the Menem administration has had the political savvy to convince the Argentine populace of the necessity of confronting the notions associated with economic

and rhetoric in order to initially introduce orthodox stabilization and reform policies. See, Jeffrey A. Frieden, Debt, Development & Democracy: Modern Political Economy and Latin America, 1965-1985. Princeton, NJ: Princeton University Press, 1991, pg. 227.

development in the post-Debt Crisis era and thus has been able to implement the appropriate measures required to seek new sources of financing.²

In implementing Domingo Cavallo's economic reform program, the Menem administration has been able to effectively bring Argentine hyper-inflation down to single digit levels which have not been seen for decades.³ Furthermore, the resulting economic stability has resulted in flooding the Argentine marketplace and industrial park with renewed foreign investment.⁴ The aforesaid is a direct consequence of the international banking community's perception of the Argentine Republic as once again being financially credit worthy. In

2

Namely brought about by the wholesale divestment of the state sector, adoption of free-market strategies, and the pairing of the Argentine Peso to the United States' Dollar (Cavallo's much heralded Convertibility Plan).

3

See, Benjamin Keen, A History of Latin America. Boston, MA: Houghton Mifflin Company, 1992, pg. 319. By May 1989, Argentine economic collapse is made evident by the 12,000 percent annual inflation rate, the fact that prices were rising four times a day, and that in the previous forty-five days real wages had fallen by 35 percent.

4

Recall that in 1989, probably the worst year in recent Argentine economic history, capital exodus was reported at 4.3 billion dollars. Yet by 1990, the preceding figure had dropped to 769 million dollars. As a result of renewed economic stability capital returned to Argentina to take advantage of the wide opportunities for investment. This is made evident by the 1991 figure of 2.4 billion dollars, the 1992 figure of 7.8 billion dollars and the 1993 figure of 5 billion dollars entering the Argentine Republic. See, Argentina: A country for investment and growth - 1994. Buenos Aires, Argentina: Ministerio de Economía, Obras y Servicios Públicos, 1994, pg. 45.

addition renewed economic stability, as well as international financial confidence, has resulted in the repatriation of a substantially large portion of Argentine capital which had fled overseas during the years of sociopolitical and economic instability. In effect the Menem government has achieved sustained recovery through increased private-sector investment by providing the favorable conditions (ie privatization of the state-sector, macro-economic stability, the Convertibility Plan, etc.) for this to come about.

In essence the Menem/ Cavallo neo-liberal reforms have primarily aimed at drastically reducing the state-sector while subsequently replacing the former with free-market mechanisms. Even though these reforms have brought about renewed international confidence in the Argentine economy, there exist certain tendencies that indicate a correlation between successful economic reforms and the propensity for political mischief on the part of the government in office (ie recourse to rule by presidential decree as a means of side stepping congressional opposition). In other words there has developed, as a consequence of the successful implementation of drastic economic reform and the need to continue fueling these, the possibility for undermining the effectiveness of democratic mechanisms in the Argentine Republic.

The issue alluded to above persuades one to question whether the successful implementation of an inflation

controlling economic reform program can dilute some of the Argentine state's recent advances in the field of democratic procedures. Thus, a valid argument can be formulated based on the notion that the Menem administration's, especially Domingo Cavallo's zeal, in implementing a successful economic reform program, may for the sake of political expediency and the reduced perception of country risk, contribute in eroding democracy in the Argentine Republic. As a result of the preceding there exists the possibility of a threat to the workings of the Argentine democratic system by further consolidating the position of a traditionally strong Executive Branch capable of achieving its policy goals with minimal interference from the other two branches of the national government. Thus, the available evidence seems to indicate that certain aspects of Argentine democracy and the workings of its mechanisms may be threatened by the successful implementation of drastic economic reform policy.⁵ This is brought about by the fact that populist and nationalistic inspired State-Centric economic development policies have

5

It should be pointed out that the presidency's power resides in the National Constitution. In effect article n° 86 of the 1853 Constitution states that the president of the country is not only the supreme leader of the country, but is also responsible for issuing instructions and rules necessary for the execution of the country's laws. Furthermore, the president is allowed to participate in the formation of laws, as well as in their sanction and promulgation. Within this particular context Argentina's much heralded privatization program has been implemented.

failed, the issues associated with the reform of the Argentine National Constitution as sponsored by the Menem government, and the need to assure continued economic stability as a means of financing development. Arguably in turn it becomes a situation in which the adoption of neo-liberal economic policy could contribute in allowing Menem to renew himself over and over again as long as the national economy accompanied by at least forty percent of the electorate prospers.

In order to properly address the requirements associated with this particular issue one needs to comprehend the nature of Argentine democracy, as well as that country's particular economy, within a given historical and theoretical framework.⁶ Thus, the Modern Political Economy perspective will be the theoretical approach utilized in this study to view the possible threat to current Argentine democracy vis-à-vis the success of economic reform. This approach is chosen since it is the one which most adequately identifies and explains the tensions generated by the Argentine economy in

⁶

It can be argued that Argentina, like other Latin American countries, has fallen behind with respect to the East Asian economies as a consequence of its greater dependence on commodities as exports. Argentina's more independent inward approach of development, based on the international profitability of its agricultural exports, has caused the country to suffer more from external shocks and has thus compounded its debt problem. See, John D. Macomber, "East Asia's Lessons for Latin American Resurgence" in International Political Economy: Perspectives on Global Power and Wealth. 2nd ed., Jeffrey A. Frieden and David Lake ed. New York, NY: St. Martin's Press, 1991, pg. 386 - 387.

tandem with its politics.

Chapter One will introduce the basic principles associated with Modern Political Economy theory as they relate to the Argentine state and identify the principle tensions within the country. Chapter Two will put into perspective the development of the Argentine state and its propensity for political and economic dependence on external sources. It is worthwhile to point out here that this has come to affect the country's internal political arena in the process. In order to comprehend these particular issues the chapter will review Argentina's recent sociopolitical and economic development, which are key factors that have led to constitutional reform in 1994. Chapter Three will consider the issue of how Argentine democracy may be threatened by economic reform and the adoption of certain aspects of neo-liberalism. This will be undertaken with regards to the issue of development and international competitiveness in light of the failure of previous policies of State-Centric development. Furthermore, this chapter will consider the need for structural adjustment vis-à-vis democracy in the Argentine Republic. Chapter Four collates the issues of the preceding chapters with the statistical results of a sociopolitical and economic questionnaire administered during the October 1993, parliamentary elections (midterm electoral contest). Consequently, this chapter will attempt to verify the nature

of the threat to democratic principles by gauging the tendencies of a particular sector of Argentine society. It should be pointed out that said survey relates to not only the issues of constitutional reform and democracy, but also to national economic development in the post-Debt Crisis era. Lastly Chapter Five will draw together the individual conclusions reached at the end of the preceding chapters and elaborate an overall conclusion of how successful economic reform may come to affect the workings of Argentine democracy in conjunction to recent developments in the Argentine Republic.

CHAPTER ONE
NEO-LIBERALISM & TENSIONS IN ARGENTINA

The Argentine Republic of the 1990s is an interesting case of how the implementation of failed economic-development policies of the past have necessitated the adoption of diametrically opposed methods aimed at arresting and solving economic decline. Unfortunately, as an added consequence of the failure of the policies of State-Centric development, the institutional power of the Executive Branch of the Argentine government has been strengthened during the Menem administration. What is interesting to note is that the consolidation of the institutional strength of the presidency has been carried out by legal constitutional means. It should be pointed out that the issue of the constitutionality of the strengthening of the presidency shall be addressed in chapter II. What is important to recall at this point is that the strengthening of the presidency's position has set in motion the possibility of a gradual deterioration of Argentine democratic mechanisms by widening the gulf of power between the different branches of the government.

The aim here is to explain not only the current state of affairs in the Argentine Republic and the principal tensions which are naturally brought about by the economic

realities of the day, but also to identify how these issues can be addressed within an overall theoretical framework. The purpose here is to identify the implementation of neo-liberal economic policy, and the reforms which it advocates, as being the primary cause of a possible deterioration of Argentine democracy. The preceding is made quite evident when neo-liberal economic policy is reviewed from the perspective of the theory known as Modern Political Economy.¹

In order to make these issues easier to comprehend this work will shortly list the main causes that have led to an erosion of Argentine democracy and explain these within the Modern Political Economy theoretical framework. It needs to be pointed out that the objective of this study is to serve not as a criticism of the Argentine Executive Branch or of President Menem, but rather serve as a guideline as to what measures should be avoided on an institutional level in order to inhibit a gradual deterioration of democracy in the present and a return of authoritarian rule in the future.

I should point out that this study does not claim to provide an all-encompassing explanation of Argentine politics and economics. Nor for that matter does this study seek to explain every detail associated with the events its deals

1

See, Jeffrey A. Frieden, Debt, Development, & Democracy: Modern Political Economy and Latin America, 1965-1985. Princeton, NJ: Princeton University Press, 1991, pg. 15-16, for a detailed account of the theory and its adherents.

with. Rather, what this study does address are those issues associated with the implementation of neo-liberal economic policy and the sociopolitical tensions which these have caused during the Menem administration. It can consequently be held that these tensions have tended to undermine Argentine democracy by consolidating the traditional strength of presidency.

KEY TENSIONS WITHIN THE ARGENTINE SYSTEM

The key tensions within the Argentine body-politic during the Menem administration (1989-1995) can briefly be enumerated as follows:

1) A statistically high increment in the number of unemployed, as well as underemployed. This has largely been brought about by the result of the Menem administration's adoption of neo-liberal economic policies which have been geared towards divesting the state from its inefficient and bloated public enterprises (see table n° 1). In addition the neo-liberal economic measures implemented during Domingo Cavallo's tenure has promoted a contraction of both the national and provincial governments (traditionally government employment has served in Argentina as a form of unemployment

insurance and ballot box support). The reduction in the numbers of public sector employees without a commensurate increase in levels of private sector employment has contributed in increasing sociopolitical tensions, especially evident as the May 1995 presidential elections have drawn nearer.

TABLE N° 1
 ARGENTINE EMPLOYMENT LEVELS
 MAY 1989 TO MAY 1995

(EVOLUTION OF UNEMPLOYMENT & UNDEREMPLOYMENT LEVELS)

<u>PERIOD</u>	<u>UNEMPLOYED</u>	<u>UNDEREMPLOYED</u>	<u>TOTAL PERCENT</u>	<u>TOTAL NUMBER</u>
MAY 1989	8.1	8.6	16.7	1.831.000
OCT 1989	7.1	8.6	15.7	1.699.000
MAY 1990	8.6	9.3	17.9	1.945.000
OCT 1990	6.3	8.9	15.2	1.663.000
JUN 1991	6.9	8.6	15.5	1.734.000
OCT 1991	6.0	7.9	13.9	1.570.000
MAY 1992	6.9	8.3	15.2	1.746.000
OCT 1992	7.0	8.1	15.1	1.768.000
MAY 1993	9.9	8.8	18.7	2.283.000
OCT 1993	9.3	9.3	18.6	2.264.000
MAY 1994	10.8	10.2	21.0	2.587.000
OCT 1994	12.2	10.4	22.6	2.789.000
MAY 1995*	14.5	12.0	26.5	3.270.000

*PRIVATE SECTOR ESTIMATE

SOURCE: Noticias, April 9, 1995, Buenos Aires, Argentina, pg. 63.

2) A major issue of sociopolitical tension in the Argentine case is the resort to rule by presidential decree. Even though such a measure is constitutionally admissible, continued recourse to it, as a means of circumventing congressional opposition to politically troublesome issues, undermines the

role of the National Congress.²

3) The possible transformation of the Argentine economy into primarily an export orientated economy to the disadvantage of the Argentine domestic market, mainly the labor sector and its consumption practices. This situation in the process tends to reduce the relative importance of the domestic market in favor of increased access to the much larger regional markets (ie MERCOSUR and EEC).

In this context it should be pointed out that though Argentina has run a trade deficit in recent years, this has been caused in part by substantial increases during the 1991-1993 period in the importation of capital goods (increased from 18.5 percent to 24.5 percent) and parts/ spares for capital goods (increased from 15.5 percent to 16.7 percent) while registering a drop in the importation of intermediate goods (decreased from 41.3 percent to 30.2 percent). In the

2

On October 31, 1991, Carlos Menem suddenly liberalized a large portion of the Argentine economy via the recourse to presidential decree. This measure is based upon a power granted to the presidency by Argentine jurisprudence. It has been argued that even though the legislative branch can discuss the measure after the fact, effective discussion would tend to be hindered, since it has both been announced by the country's maximum authority and counts in many cases with the support of the majority of the electorate. Thus, it has become a case in which reform is "dictated" by the executive and latter given the stamp of approval by the legislature. See, José Piñera Echeñique, "Chile, el poder de una idea" in El Desafío Neoliberal: El fin del tercermundismo en América Latina. Barry Levine ed. Santa Fé de Bogotá, Colombia: Grupo Editorial Norma, 1992, pg 83.

process in 1993 alone total imports grew by 13 percent while capital goods increased by 33 percent. The total value of such goods imported during 1993 (U\$S 4.1 billion) was roughly equal to the total amount of capital goods imported during the last five years of the 1980s. It is worthwhile to recall that the importation of consumer goods serves in the Argentine case as a measure of the population's buying power. The importation of consumer goods has increased during this same period (gone from 17.2 percent to 21 percent), but has been the result mainly of built-up demand that had been stagnate for years during the 1980s.³ As demand has gone down in accordance with the country's recent economic woes, Argentine exports have commenced to rapidly out-pace imports. This in turn makes both the agro-export and the manufacturing (car and auto-parts) export-sector increasing more important than the contracting domestic consumer-sector.

4) The Argentine Republic's political opposition currently is far too divided for it to pose a significant threat to the Menem presidency's re-election bid (see table n° 2). This should hold true unless the opposition parties can suddenly

³

See, "Projection of the Principal Variables of the Economy" in Argentina: A Growing Nation. Buenos Aires, Argentina: Ministerio de Economía y Obras y Servicios Públicos, 1994, pg. 95-97.

forgo their particular party ideologies and agendas in order for them to present a united front against President Menem's re-election bid. What is interesting to note here is that Argentina's traditional bi-party political system has with the advent of this election become a tri-party struggle for national political dominance. The relevance of this issue is that the Menem government by merely controlling 40 to 45 percent of the national electorate can effectively govern the country on the basis of the opposition's disunity. This allows the Menem administration to impose its policies with far greater ease than would be expected with regards to the size of its current constituency.

TABLE N° 2

POLITICAL PARTIES REGISTERED FOR
THE MAY 1995 PRESIDENTIAL ELECTIONS

1. PARTIDO JUSTICIALISTA (PJ)
2. UNION CIVICA RADICAL (UCR)
3. FRENTE PAIS SOLIDARIO (FREPASO)
4. MOVIMIENTO POR LA DIGNIDAD (MODIN)
5. UNION DEL CENTRO DEMOCRATICO (UCEDE)
6. FRENTE UNIDAD DE TRABAJADORES Y P. OBRERO (ALIANZA FUT-PO)
7. MOVIMIENTO AL SOCIALISMO Y PARTIDO DE LOS TRABAJADORES DEL SOCIALISMO (ALIANZA MAS-PTS)
8. ALIANZA SUR
9. CORRIENTE PATRIA LIBRE
10. FRENTE PARA LA COINCIDENCIA PATRIOTICA (FRECOPA)
11. FUERZA REPUBLICANA
12. MOVIMIENTO POPULAR Y DEMOCRATICO ANTIIMPERIALISTA (MODEPA)
13. MOVIMIENTO SOCIALISTA DE LOS TRABAJADORES (MST)
14. PARTIDO HUMANISTA
15. PARTIDO SOCIALISTA AUTENTICO

MODERN POLITICAL ECONOMY THEORY

Modern Political Economy theory arises as a result of the need to reach some manner of viable conclusions with regards to the issues associated with the devastating depression which struck the Latin American Region during the 1980s. Recall that the Debt-Crisis of the 1980s has led to what Latin Americans have come to refer to as the Lost Decade. During that period Latin America evidenced a drop in output per person of 10 percent. As a result per capita income by the early 1990s had fallen below 1975 levels. This, in turn, has brought both economic instability and political turmoil in the region.

Argentina, like the rest of Latin America, has experienced a troubled history of development and democratization. It has been a case in which economic instability has both led to sociopolitical mobilization and demobilization. Within this context Modern Political Economy theory endeavors to put into context how rational self-interested actors combine within or outside existing institutional settings to affect social outcomes.⁴

This particular theory interestingly enough ties into the current economic and sociopolitical situation, which

⁴

See, Frieden, pg. 16.

the Argentine Republic is going through, in the sense that from a theoretical point of view it illustrates the notion that actors maximize utility and make cost-benefit calculations. Effectively, the Menem government reached the conclusion quite early on that in order for it to stabilize the nation's economic decline it had to adopt a policy which would effectively meet such an objective. In order to accomplish this the government concluded that it needed to maximize income via both privatization and monetary policy reform. This resulted as consequence of the government's realization and acceptance of the fact that the public-sector by 1989 was not only economically inefficient, but also bloated for sociopolitical support.⁵ Factors which became unbearable for the government in light of the 1980s Debt-Crisis realities.

It should be pointed out that the Argentine case

5

An added problem that Argentina, like other Latin American countries, has experienced is the issue of utilizing its exchange rates for social and political goals rather than for to achieve balance-of-payments equilibrium and international competitiveness. In the past these have been utilized in order to control inflation, to maintain the nation's standard of living or to promote national prestige and confidence. Yet, the end result has been that these measures have not worked and thus necessitated that the currency be devalued with an ensuing loss of confidence in policy stability in addition to the government's ability to control the economy. See, John D. Macomber, "East Asia's Lessons for Latin American Resurgence" in International Political Economy: Perspectives on Global Power and Wealth. 2nd ed. Jeffery A. Frieden and David A. Lake ed. New York, NY: St. Martin's Press, 1991, pg. 389.

during 1989/90 period shares significant similarities with the work of Tversky and Kahneman in the sense that the Menem government initially sought to stem the hemorrhaging of the Argentine economy, rather than necessary seeking to make immediate economic gains. In essence the Menem government at first was more immediately concerned with its overall losses than with possible economic advances.⁶ Thus, the Menem government needed economic stability in order to avoid sociopolitical upheavals.

This leads to the question of what manner of rationality has been utilized by the Menem Administration to implement neo-liberal economic reform in light of the tensions that such a policy generates. Briefly stated the Menem government has assumed correctly that the reduction of the public-sector, via privatization accompanied by short-term economic readjustment, will result in the reactivation of the national economy and attract in the process renewed foreign investor confidence in Argentina. The Menem government has logically weighed its options; either it could continue with the policies of the past which favored state intervention in the economy, statism and an alliance with labor, or it could

⁶

See, Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the psychology of Choice," Science 211 (1981): pg. 453-458, as quoted in Jeffrey A. Frieden, Debt, Development and Democracy: Modern Political Economy and Latin America, 1965 - 1985. Princeton, NJ: Princeton University Press, 1991, pg. 17.

attempt to form a coalition with capital. The current situation has shown that Menem has opted to form an alliance with capital.

The preceding has in turn resulted in generating serious sociopolitical tensions which consequently have also come to undermine aspects of Argentine democratic procedure. Namely this has occurred as a result of the Chief Executive's recourse to the presidential decree. This action is constitutionally contemplated as a viable instrument of executive authority, yet continued recourse to it tends to undermine democracy since it side-steps congressional opposition. This has been made especially evident with regards to the entire economic reform of the state-sector, since it has been carried out by decree. Furthermore, it is worthwhile to point out that in forming an alliance of convenience with capital, the Menem government has sacrificed a part of organized labor's political support. Yet, it seems that the previous is outweighed by the benefits associated with the support of both domestic and international capital for the government's economic measures. As a result of such action the Menem administration has been able to divided the political opposition along economic lines and gain in the process the support of sectors of the electorate which before would not

have readily supported the Menem government.⁷

Consequently, in order to put into context Menem's Argentina one must utilize Frieden's strategy in which the first step is to identify the policy preferences of individuals and firms based upon their position in the economy. The second step is to see how these are grouped into politically relevant social forces, on the basis of common economic interest and the ability to coordinate collective action against opponents. The third step is to determine the pressures for institutional change.⁸

As a result the Menem government has identified that there no longer exist easy sources of financing for developing in the post Debt-Crisis world.⁹ It has also reached the

7

It is worthwhile to point out that costs are a function of the resources which a government controls and must expend in order to supply a policy. Costs tend to decline as more resources are made available to the government. This usually occurs as a consequence of a tax increase and the interest rate charged to the government falls. What is interesting to note in the Argentine context is that taxes have increased without a subsequent increase in government spending in services aimed at the general population. Rather, funds obtained via privatization have been utilized to promote economic stability and bolster the national currency's international standing.

8

See, Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965 - 1985. pg. 28.

9

It should be pointed out that once the international financial crisis of the 1980s hit Argentina the government is forced to reevaluate the allocation of its resources. To make matters worse the government is forced to increase the transfer of resources abroad. Consequently, real wages and consumption had to be reduced in order to increase exports and

conclusion that in order to reactivate the nation's economy it must support those sectors of the economy which have the greatest propensity and possibility to profit and increase savings via neo-liberal economic reform, namely domestic and international capital. This means that since the state is no longer able to readily secure sources of development financing it has been obliged to divest itself of the state-sector, as well as stimulate those entities that can invest and develop the country.

With regards to the second step it can be argued that the Menem government and capital have formed a politically relevant social force on the basis of common economic interests and the ability to overcome problems of collective action. In other words the government and capital have combined forces in order to govern jointly. In the process the state has abdicated its economic role to capital and capital in return has supported the Menem government's sociopolitical and economic policies. Additionally, the government has made possible the implementation of measures which favor capital, and consequently itself in this case, primarily via the state's coercive powers.

The third step which relates to pressures for

reduce imports as a means of channeling foreign exchange to foreign creditors. This sort of situation has necessitated the government to increase its revenues and decrease its expenditure in order to free up resources for debt service payments.

institutional change is dealt with by the privatization of the public-sector. It can be said that once the state has abdicated its role as the nation's principal investor to private capital, sociopolitical pressures exerted against the state by organized labor tend to lose a significant degree of relevant strength. This factor is furthered by the state's need to attract new sources of financing which can only be done so by guaranteeing investor confidence in national economic stability and a return on their investments.¹⁰ Labor under such a situation will by necessity be discriminated against on an institutionalized level (ie issues associated with labor reform).¹¹

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It is worthwhile to point out that with regards to this issue the modernization approach has focused on the positive aspects of foreign capital as well as foreign trade. This is characterized by the new resource inflows, employment generation, access to new technologies, and entry into new foreign markets have been emphasized as ways in which foreign capital promotes development. The Menem administration has picked-up on the aforesaid, which incidentally had been relegated to obscurity in Latin America while prospering in East Asia. Consequently, the Menem government has come to accept the notion that international openness in both trade and capital flows is the optimal policy stance for Argentina. See, Barbara Stallings, "The Role of Foreign Capital in Economic Development" in Manufacturing Miracles: Paths to Industrialization in Latin America and East Asia. Gary Gereffi and Donald L. Wyman, ed. Princeton, NJ: Princeton University Press, 1990, pg. 57.

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This sort of situation is made apparent when one takes into consideration the issue of car sales in the Argentine Republic. With the recent pre-electoral instability sales of domestically manufactured automobiles fell by 20 to 50 percent, while the fall in imports was still greater. Reduced sales have led to lay-offs of roughly 25 percent of the work

With regards to the foregoing statements it should be pointed out that a major source of tension in the Argentine political system has arisen as a consequence of the Menem's administration adoption of policy measures promoting the inflow of foreign funds. Yet, unlike past experiences the Menem government has not utilized wholesale foreign funds in the development of the public-sector. Recall that in the past Argentina, much like other developing countries, had become a victim to the inflow of capital. This had traditionally increased the supply of foreign funds in the local economy, while in the process cheapening the price of those monies in the domestic marketplace. As the value of the local currency increased against the foreign currency this resulted in the appreciation of the prices of domestic goods relative to foreign imports. This in turn has resulted in increased imports and reduced exports. Contrary to the past situation the inflow of funds, via the privatization program, has not led to a fiscal expansion. Instead the government has opted to curtail spending, especially for ballot box support, and chosen to utilize these monies to back the national currency

force and a 20 percent reductions in salaries paid. Thus, in order to improve international competitiveness the aforesaid sort of factors may become a norm instead of an exception to the rule, since a precedent has occurred and the government is unwilling to devalue the national coin in order to avoid a return to inflation. See, "Por la caída en las ventas las concesionarias despiden personal y bajan sueldos" in El Cronista: Edición Fax. Buenos Aires, Argentina, March 26, 1995, pg 1.

at parity levels as a means of promoting economic stability and confidence in Argentina. Thus, in Menem's Argentina the funds obtained from privatization have been utilized largely to guarantee Domingo Cavallo's Convertibility Program as a means of inhibiting a return to inflationary tendencies.¹²

AN EXPLANATION OF THE POLITICAL, ECONOMIC AND SOCIAL TENSIONS

Neo-liberal economic reform, at least in the short-term, can lead to an erosion of Argentine democracy. This premise is based upon the notion that though unrestrictive neo-liberal economic policies are championed by the industrialized/ developed democracies, as being the proper mechanism to be implemented in order to develop, this sort of

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It is interesting to note that traditionally a capital inflow results in reduced interest rates, a reduction in the price of foreign currency, and the price of government services. This leads to an increase in investment, increased imports, and increased government activity. These issues are not necessarily detrimental as long as the capital continues to enter the economy. Once the financing source "dries up", as occurred with the Debt-Crisis of the 1980s, investment decreases. As the value of the local currency drops relative to its foreign counterparts the country's imports fall. This inhibits the public and private-sectors from modernizing their equipment which only further undermines their competitiveness. As government services become more expenses to finance, these are scaled back and in the process bring about increased sociopolitical agitation. The end result in Argentina has been for the government to clamp down on protestors, which in the past has only contributed to further protests and the eventual fall of the authoritarian regime. See, Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965 - 1985. pg. 68-69.

economic strategy does not necessarily seem to hold quite true with regards to Argentina.¹³ This is especially so when one takes into consideration the high social costs brought about by the reduction of the public sector (ie increased unemployment, reduced domestic consumption and increased crime among other issues), as well as the effects exerted upon the Argentine political system.¹⁴ The tensions brought about by

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Within this context it is worthwhile to point out the issues associated with Argentina's development and its relationship with the International Monetary Fund (IMF). The Menem government has agreed to subscribe to the dictates of the IMF precisely at a point in time in which there has arisen serious discussion as to reforming the IMF's role. This has arisen as a consequence of the fact that for the first time in history a majority of the world's population lives in sort of market economy. Argentina has adopted an economic policy that is in line with the "Washington consensus", a model of economic development that emphasizes macroeconomic discipline and open markets. The problem that has arisen is that the IMF has floundered looking for a new role as Argentina, like other developing countries, has opened up its economy, cut its budget, privatized state assets, and attracted foreign capital. The problem relationship is that the IMF has become a development institution with a narrow macroeconomic focus and thus this overlaps with the role played by the World Bank. See, Zanny Minton-Beddoes, "Why the IMF Needs Reform" in Foreign Affairs. vol. 74, n° 3 (May/ June 1995): 123 -124.

14

Recall that the Radical Party under President Alfonsín had adopted an economic policy geared towards maintaining a economic system in which the state would be allowed to intervene as an economic actor. Though the Alfonsín administration had described itself as interventionist, it went to great pains to assure all parties concerned that it was not statist. It goes to say that it did not place too much confidence in market forces and thus permitted itself the right to intervene in the economy as it deemed necessary. That administration's goal had been not to expand the state sector, but rather re-think state spending, especially by reducing military spending, and placing civilian administrators in industries controlled by the country's armed forces. The

neo-liberalism are made further evident by the rise of a large number of left-wing workers parties (see table n° 2). The rise of new leftists parties is the result of the politically organized proletariat's desire to address the concerns of the workers which have come to be negatively affected by neo-liberalist economic policy, as well as ignored in the process by political hierarchy which champions the first world perspective of neo-liberalism.

In essence it becomes a situation in which the costs associated with the Argentine electorate's adjustment to neo-liberal economic policy may come to include certain aspects of democracy as a liability (ie a true separation of powers). It is quite possible that in order for the government to continue with the implementation of neo-liberal economic policy it may find itself forced to recur increasingly not only to rule by presidential decree, but also to influence the revision of legislation which if left unmodified (ie labor reform) may jeopardize the inflows of capital. Should this be the case,

Alfonsín administration sought to reorder the state apparatus as a means of restoring efficiency in essential activities, and to reassign resources in order to favor areas of social welfare, health, housing and education as means of guaranteeing sociopolitical and economic stability. It is worthwhile to point out that regardless of the Radical Party's middle class roots and its strong nationalistic streak Alfonsín and the Radicals did seek to attract foreign investment. They sought the type of foreign investment which would compliment Argentina's economy without sacrificing the nation's interests. See, Business International Corporation, The New Argentina: Planning for Profits in the 1980s. New York, NY: Business International Corp, 1984, pg. 139-140.

especially in light of continued success of economic reform policy and the support of 40 to 45 percent of the electorate, it is fair to say that it is only a question of time before the opposition parties are forced to tone down their rhetoric or even retire from the political arena.

It should be pointed out that the modern Argentine Republic's economic decline is a situation different from that experienced by most other nations in the hemisphere, as well as in the world.¹⁵ Argentina's case is not that of an economically backward country that failed in its moment to adopt the correct path to development and economic prosperity, but rather is the case of a modern economy and its society that has pursued the wrong sort of economic policy by refusing to accept the new realities inherent in the post-World War II era.¹⁶ This in turn has resulted in further strengthening, especially under the Menem government, the preponderant role exerted by Argentina's Executive Branch. In effect the rise of statism, as well as its decline have fused politics and economics under the stewardship of President Menem. Economic

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The modern Argentine Republic in this case is defined in terms of the period commencing in 1916 with the popular election of Hipolito Yrigoyen of the Radical Party as a result of the universal male suffrage obtained via the Roque Saenz Peña Law of 1912.

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See Felipe A. M. De La Blaze, Remaking the Argentine Economy. New York, NY: Council of Foreign Relations Press, 1995, pg. 1.

instability in the past has resulted in sociopolitical upheavals, and thus the fear of returning to similar situation again has granted the presidency a mandate to chart the nation's course without allocating to the other two branches of government an equal expansion of institutional importance or strength.

Many of the foregoing tensions result as a consequence of the fact that Argentina's economy shares more similarities at times with the economies of the industrialized and developed countries than differences.¹⁷ The previous is

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The Argentine economy shares many of the same characteristics of the developed countries, such as Australia, New Zealand and Canada, in the sense that Argentina was able to construct a modern and relatively diversified economy on the basis of exporting primary natural resources by the mid nineteenth century. Yet, the Argentine problem commenced in the postwar period of the 1940s when the state adopted the development strategy of massive import substitution. Recall that it was then believed that industrial protectionism would not only facilitate the transformation of the nation's productive structure, but would also raise productivity levels and reduce its dependence on foreign sources. The adoption of this model of development from within has finally been accepted by the Argentine authorities as being inadequate, since this model has prompted the creation of an economy with low growth potential, high-costs industrial sectors, a weakened rural sector, a strong anti-export bias, and excessive government intervention. The difference between the resource rich Argentine economy of the 1946-1989 period and that of the resource poor economies of countries such as Japan, South Korea and Taiwan, has been economic policy/strategy duration and orientation. The Asian Tigers have been strong advocates of export orientated policies and their measures of effective promotion, but fundamentally have only protected selective sectors temporarily before moving on to new sectors in which they have comparative advantages. In the process this has resulted in creating a highly competitive atmosphere characteristic of notion of "swim or sink". See, *ibid*, pg. 16-17.

made evident by the fact that the country has both a politically and economically sophisticated population which, unlike most other developing countries, is conscious of its sociopolitical and economic role.¹⁸ The need to effectively address economic issues, at times more characteristic of a developed country than of a developing country, has resulted in granting the Executive Branch increased institutionalized leeway in handling Argentina's sociopolitical and economic affairs. Additionally, political factionalism has only contributed in further facilitating this type of situation.

With regards to the preceding economic issues it should be pointed out that a viable economic development strategy for a resource rich country like Argentina is to exploit those areas in which it maintains an international comparative advantage (ie technologically sophisticated

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Since 1946 Argentine politics have been dominated by the conflict between Peronism and its opponents. Frieden has argued that a stylized version is tripartite. Peronism has traditionally been supported by organized labor, small businessmen, and some industrialists, especially those in import-substitution sectors; its policies were populists and pro-industrialists. The agro-export sector has supported the right which has been free-trade and conservative. The middle class in turn has supported the moderate developmentalist Radicals. Within this context it is worthwhile to recall that the right's electoral base has been small despite its great economic importance, and this has generally lead to it to have recourse to military intervention in order to achieve its objectives. This last issue has changed with the Menem administration, because of the Menemist/ conservative alliance. See, Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965 - 1985. pg. 187, for more information.

industrial sector, highly educated labor force, low population figures, abundant raw materials and a competitive agro-export sector). Once having accepted this basic notion it only becomes an issue of how to exploit these resources and not whether to exploit them or not. With regards to the foregoing it becomes a situation in which the electorate must accept the notion of the need for short-term economic and political readjustment. Within this context the adoption of economic neo-liberalism should facilitate the task of the reactivation of the national economy, but the need to maintain it as a viable economic policy may further strengthen the nation's Chief Executive by eroding the viability of the concept of the separation of powers.¹⁹

Within the context of the preceding it is worthwhile to recall that Australia, a country which shares with Argentina a number of similar characteristics (resource rich, agricultural producer, extensive territory and low population figures), did opt to somewhat protect its local industrial sector during the post-war period, but it did not commit the error of following extreme import-substitution policies like those implemented by Argentina. Import-substitution policies

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It is worthwhile to recall that democracy is limited by such factors as those associated with a country's social conditions (including economics, culture, politics, etc), as well as by very characteristics of the state. See, Carlos Strasser, Teoría del Estado. Buenos Aires, Argentina: Abeledo-Perrot, 1986, pg. 39.

have not only resulted in economic stagnation, but also promoted in Argentina's case the strengthening of the presidency. Economic reform has come to be dictated usually by presidential decree in search of specific political goals (ie Perón and the military's nationalistic development policies, Videla and Martínez de Hoz's liberal economic policies, Alfonsín's timid statism, and Menem's wholesale privatization of the Argentine public sector) as means of increasing both its local support at the ballot box, as well as its international standing. It is interesting to note that Australia's liberal and "balanced" development strategy did not damage its natural-resource export potential, which has been the case of Argentina, but also contributed in bringing about economic prosperity and consequently democracy.²⁰ The

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It is worthwhile to note that in the Argentine case the agricultural export sector has traditionally fueled industrialization in country through expanded linkages in the service sector (banking, commercial transactions, etc.). Argentine authorities seem to have finally accepted the notion that in order to increase GDP the country need not replicate the industrial base of other developed countries. Rather, a country should specialize in those areas in which it holds a comparative advantage and as other countries make inroads into such an area the state ought to exploit other sectors in which it continues to hold advantages. As a consequence of the ability to make the correct development policy choices it is not surprising to realize that Australia's GDP by 1989 was approximately three times greater than that of Argentina. What needs to be realized is that Australia's exports during the past ten years have been concentrated in raw materials of agricultural and mining origin, and exports derived from the processing of these raw materials. Additional examples of the same have been set by both Sweden and Denmark which have been able to construct modern and balanced societies in the present century on the basis of exploiting comparative advantages in

Argentine Republic's principle error has been to sacrifice, through benign neglect, the "fuel-source" that has driven the engine of its development, this namely being its agro-export sector, and in the process has contributed in strengthening the institutional discretion of the Menem presidency by granting it the economic excuse to increase its role in the nation's administration.

It can be held that at present the course to modern and sustained development is without a doubt the adoption of neo-liberal economic policies.²¹ International economic and political relations amongst the nations of the world no longer permit a state to close itself off behind borders, nor for that do the industrialized core states permit resource rich

natural and human resources. Australia, Denmark and Sweden have been able to accomplish these measures by fully integrating themselves into the international economy, while Argentine opted to follow a semi-autarkic path. See, Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965 - 1985. pg. 17 - 19.

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It should be pointed out that the East Asian development perspective is not entirely applicable in the Argentine case since in most cases it tends to assign the state the role of domestic developer. With regards to the foregoing it should be clarified that the state in this case concentrates the bulk of attention upon domestic groups rather than on foreign actors. The state's role is to provide credit, channelling investment into particular industries, subsidizing export products, protecting the domestic market, and attracting new technology. These issues have been considered by the East Asians as being more important than foreign capital. Under such circumstances it is foreseeable that the Argentine government could be pressed to once again accept the notions of State-Centric development since local capital is not large enough to develop the sort of industries which the state could identify as being important for national prowess. See, Stallings, pg.58.

nations like Argentina such a luxury.²² Consequently, international economic interdependence has become a factor which on the whole contributes to reducing friction among the states and tends to elevate the general standards of living across the board. Yet, this manner of economic policy does not necessarily seem to always promote unequivocal adherence to democracy and or democratic mechanisms.

This type of situation leads one to question how economics and politics can be so closely interrelated. A simplistic answer is that economic forces operate within a larger political context. As a consequence both of the preceding come to demand from each other ever increasing amounts of resources and adjustments from each other. One can not and should not commit the error, which many liberal economists tend to do, of neglecting the political framework within which economic development takes place. As a result one should not focus exclusively, to the detriment of sociopolitical factors, on the development of a well functioning market. It has to be realized that economic flexibility and the capacity of the economy to respond to changing economic opportunities are highly dependent upon the

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See, Thomas Richard Shannon, An Introduction to the World-System Perspective. Boulder, CO: Westview Press, 1989, pg 20-21, for a detailed definition of core, semi-periphery and periphery, as well as other matters relating to Immanuel Wallerstein's World-System theory.

sociopolitical aspects of a society.²³

In essence it is a situation in which economics and politics can not be divorced from each other. This is especially applicable in the case Latin American countries of the likes of Argentina, Brazil, Chile and Uruguay. In their case political tension has traditionally been brought about by the advent of high inflation. Consequently, high inflation has resulted in political polarization and popular sector mobilization, factors which in the past have prompted the military to intervene.²⁴ It is worthwhile to mention that for its part the military, at least in the Argentine case, is no longer a primary factor in the political process as a result of its failure to implement effective development policies, the issues associated with human rights abuses during the country's Dirty War, and the Malvinas/ Falkland Islands fiasco of 1982. With regards to economic aspects it can be briefly stated here that the implementation of orthodox stabilization measures, macroeconomic in scope and aimed at controlling inflation, have tended to cause political elites to gravitate

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For more information regarding the relationship between economics and politics see, Robert Gilpin, The Political Economy of International Relations. Princeton, NJ: Princeton University Press, 1987, pg. 269-270.

24

See, Stephan Haggard, Pathways From The Periphery: The Politics of Growth in the Newly Industrializing Countries. Ithaca, NY: Cornell University Press, 1990, pg. 255.

towards more authoritarian control mechanisms.²⁵

In order to assure economic development, by inhibiting a return to run-away inflation and the ensuing erosion of international capital's confidence in Argentina, the nation's electorate may find itself forced by economic necessity to turn a blind eye towards the issue of the proper functioning of the country's mechanisms of checks and balances. Thus, a large segment of the national electorate may actually vote for Menem's reelection in 1995. This would contribute in strengthening the role of the presidency with regards to the other two branches of the government. President Menem may possibly be given a mandate by the electorate in order to solve the country's economic dilemma. This mandate may be given based on the fact that Menem has come to be identified by many Argentines as being the presidential candidate that will less negatively affect one's own economic position and his government has gained the confidence of the international banking community, as well as the backing of the international development organizations. Added to these factors is the issue of economic stability that has allowed roughly 40 to 45 percent of the nation's population to better their economic position especially with regards to the inflationary Alfonsín years. These sort of factors in turn are supported by the notions associated with issue of capital

²⁵

Ibid, pg. 255.

accumulation, which is one of the most vital requirements of development, and the means of achieving it through an increase rate of domestic savings.²⁶ Thus, it can be held that the preceding can be carried out with far greater efficiency once the political opposition has been divided, the improper public policies of the past which caused domestic market imperfections identified and new more adequate economic policies implemented by presidential decree with the acquiescence of a majority of the electorate.

Within the context of the aforesaid statements it is worthwhile to point out that the Argentine state is no longer intervening directly in the nation's economy, but rather it is stimulating through neo-liberal economic policies the more politically and economically conservative sectors of Argentina to the detriment of both labor and to some extent the middle class.²⁷ In effect it has become a situation in which the

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See, Gilpin, pg. 268.

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This can be seen by the fact that Argentina had the world's third most rapidly growing economy during the 1991 to 1993 period. In the process during 1993 its industrial exports increased sharply, inflation in consumer prices fell to 7.4%, wholesale prices remained stable, and both investment and industrial production continued to rise. Yet, to reach the aforementioned levels the Menem administration implemented reforms which re-created the market economy by eliminating controls on prices, wages, interest rates, foreign exchange rates, and capital flows as well as the removal of hidden subsidies and a drastic reduction of the public sector on the national economy. See, Undersecretariat for Investment of the Ministry of Economy, Public Works and Services, " Investing in a Growing Argentina " in Argentine Investment Update. Buenos

expectations which Argentine capital holds for state policy have been altered in its favor. The result has been that capital's attitude towards public policies which support labor have hardened. In the process capital's leverage over state expenditure has in turn been strengthened.

As an added factor to the preceding it can be argued that the state's autonomy commences to decline vis-à-vis global capitalism and its domestic allies. Local capital in Argentina has traditionally maintained strong ties to transnational development financing, and these are currently keeping the government and its economic policy afloat. As a consequence domestic and international capital have commenced to supplant in economic importance and power the role previously exercised by the interventionist state. As a direct result of this the state, in order to continue to promote investment, will be forced to modify its stand with regards to industrial relations, policies and laws which mediate the labor-to-capital relationship to the detriment of the working class.²⁸ In effect the state may become a hostage of its own

Aires, Argentina. vol. n° 1, n° 1. (January-March 1994), pg. 1.

²⁸

The current legislation implemented via decree n° 470/93 aims at the decentralization of collective wage bargaining by concentrating on smaller discussion units, when there is no agreement between the parties as to negotiation parameters. Accordingly on this basis the signatories can modify the negotiation level at the individual request of any employer or group of employers and the agreement can contain rulings referring to work conditions as well as wage scales. The

neo-liberalist policy, since capital may come to force the state to comply with its demands by the mere threat of withdrawing investment funds in the eventuality that the government readopt policies favorable to labor as a means of achieving increased ballot-box support.²⁹

With regards to the previous it is worthwhile now to define the nature of democracy.³⁰ Thus, democratic regimes are those in which free speech and organization are guaranteed,

legislation aims at reducing the rigidity that has existed in centralized collective bargaining, institutionalizing more fluid negotiations through the recognition of agreements between employers and internal workers' commissions or union delegations. In effect this decree is a partial reform of the existing Labor Contract Law and its intent is to avoid unnecessary technical work and legal vacuums. The principal economic aspects are linked to the relaxation of methods of labor contracting and the reduction of the cost of labor (ie reduction in dismissal costs, lower costs due to the reduction in social security contribution, recourse to temporary and sub-contracting employment, etc.). See, " Market Reform and Economic Organization " in Argentina, A Growing Nation. Buenos Aires, Argentina: Ministerio de Economía y Obras y Servicios Públicos, 1994, pg. 36-37.

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See, Robert J. S. Ross and Kent C. Trachte, Global Capitalism: The New Leviathan. Albany, NY: State University of New York Press, 1990, pg. 223.

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From a political perspective democracy entails that it is constituted in liberty and equality, that the political regime adopted is subordinated to the sovereign populace, that power in turn is exercised by representatives and institutions subordinated to the will of the people, and that it is organized in order to regulate society and the common good. Yet, in practice the degree of democracy is limited by the actual social conditions existent in the country, by the very characteristics of the state, by the effective means of the regime and its workings, as well as by the actions and the style of those who govern accompanied by their bureaucrats. See, Strasser, pg. 38 - 39.

leaders are chosen in competitive elections, election results are honored, and governments are not systematically subject to veto or control by non-elected individuals or outside institutions such as the military, bureaucracy, or monarchy.³¹ On the other hand authoritarian regimes truncate civil liberties, restrict open political competition, and limit opposition and interest group activity.³² Argentina at this moment meets the above mentioned requirements which classify it as a democracy.³³ Yet, what needs to be realized is that

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A democracy may be defined, or for that matter a country's government may be defined as being democratic if it a) holds regular elections, the results of which can alter policy and the people that make it, b) the existence of universal suffrage, and c) the provision of civil liberties essential to the election process itself. Furthermore, it has been argued by many that democracy is best justified from the point of view of equality, justice, and the rights rather than that of utility and efficiency. Although democracy may provide for some checks on power by protecting certain rights and perhaps by even creating constitutional checks and balances on the branches of government, democracy may still be compatible with other kinds of inequality of power. Economic and social democratic inequality can quite possibly, and often do, allocate to some individuals or groups more leverage over the democratic process than others. Such inequalities if sufficiently great can come naturally to undermine the significance of democracy itself. See, Norman E. Bowie and Robert L. Simon, The Individual and the Political Order: An Introduction to Social and Political Philosophy. 2nd ed. Englecliffs, NJ: Prentice-Hall, 1986, pg. 114-115 and 118.

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See, Haggard, pg. 254.

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It should be noted that in a developing country like Argentina, democracy can only survive if its is able to promote economic growth. In the eventuality of having to assure continued economic prosperity a government may find itself forced to implement what has come to be known as "democracy under scrutiny" (democracia vigilada). This

even though the country meets the requirements for it to be classified as a democracy, the implementation of neo-liberal economic policy has tended to stymie the proper and unrestricted operation of democratic mechanisms (issue of rule by presidential decree).³⁴ This has essentially been carried out by the need to address the issue of the possibility of losing international investor confidence.³⁵

particular brand of democracy is semi-authoritarian in nature and would in turn alternate in phases of authentic popular participation and a broadening of the political arena with phases in which emergency measures would be declared and repressive controls upon certain sectors of society (especially the labor movement) imposed. Under this sort of situation it would be a regime that would preempt military threats by hardening the regime and meet popular threats by relaxation. In essence the country would be in a constant state of institutional flux. See, Silvio R. Duncan Baretta and John Markoff, "Brazil's Abertura: from What to What" in Authoritarians and Democrats; Regime Transformation in Latin America. ed. James M. Malloy and Mitchell A. Seligson. Pittsburgh, Penn: University of Pittsburgh Press, 1987, pg. 62-63.

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It is worthwhile to point out that the Argentine state is characterized as being "presidentialist" in nature. Thus, within the Argentine political system there predominates the notion that there can not be a society if there does not exist order. The executive branch that leads the state is the entity that organizes society, since it has the responsibility of imposing that order on the citizenry. In turn the government may recur to judicial and legislative instruments, if it has the capacity to do so, in order to accomplish its goals. Consequently, it is not surprising to realize that the law of any nation is neither politically innocent, nor for that matter immune to the influence of politics. See, Strasser, pg. 23.

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The government has stated on a number of occasions that Menem is the only political candidate that can possibly hope to maintain the current level of success which has come to be associated with Argentina's economic renaissance. Furthermore,

The preceding issues are directly associated with the readjustment a society must make when its government goes from a period of active involvement in the economy to one of reduced participation.³⁶ It is worthwhile to mention that this

Cavallo has become indispensable for assuring the continued acceptance of Argentine economic policy by the International Monetary Fund, World Bank, and other international institutions. This issue has been played politically by the Menem government in order to be reelected, as well as become in the process indebted to conservative Argentine capital and its international financial allies for continued backing.

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It has been argued that economic liberalization policies in the Southern Cone in the past have led to disastrous consequences. This is made evident by the issue of excessive indebtedness and the subsequent repayment problems of the 1980s. It has been stated that the model of ultra-liberalism is irresponsible since it applies measures that tend to destroy many activities in the short-term (especially industry) without knowing what alternatives will emerge or which activities will be sparked by the new conditions. Granted that the current programs are not the same as those of the preceding era, these have demonstrated certain similarities and thus have caused some groups to question their validity in light of past failures. In addition it has been mentioned that the major group that benefits from liberalization is the financial sector which reaps the rewards of deregulated credit and free floating interest rates. Within this context supposedly financial liberalization leads to a sharp increase in interest rates. In addition financial boom is brought about by the stagnation of the productive sector. Yet, what this particular perspective fails to address is the notion that the Convertibility Plan has greatly reduced risk (especially that associated with inflation) by pegging the Argentine Peso to the US Dollar. This inhibits the government from increasing the local money supply, printing more currency, without an equivalent increase in the amount of hard currency on reserve. More over this perspective does not address the issue that in the past the state became indebted due to the need to develop on its own, for nationalistic purposes, sophisticated technologies and industries. Additionally, as a consequence of the Debt-Crisis easy development monies are no longer available, thus requiring the intervention of foreign direct investment as a means of

is a different situation from that of the previous era, as proposed by the bureaucratic-authoritarian paradigm developed by Guillermo O'Donnell back in the early 1970s, as well as that of State-Led Restructuring. This is primarily due to the fact that both of these notions were originally elaborated from a perspective which sought to formulate a response to the military's role response to the economic and political crisis of dependent capitalism in Latin America.³⁷ With regards to these models it is interesting to note that the military leaders have largely proven themselves to be as incompetent as their civilian counterparts as policy makers in addressing economic policy and development.³⁸

developing the country. See, René Villarreal, " The Latin American Strategy of Import Substitution: Failure or Paradigm for the Region" in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia. Gary Gereffi and Donald L. Wyman, ed. Princeton, NJ: Princeton University Press, 1990, pg. 296 - 297.

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See, Alvin Y. So, Social Change and Development: Modernization Dependency and World-System Theories. Newbury Park, CA: Sage Publications, Inc., 1990, pg.144-145, for a more detailed analysis as to how Latin American nations opted for producing goods which they had previously imported and how such measures came to effect their political characteristics. Of key importance is So's explanation of Guillermo O'Donnell's interpretation of the threats posed by the mobilization of the masses to the interests of the dominant classes and their international affiliations.

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See, William C. Smith, Authoritarianism and the Crisis of the Argentine Political Economy. Stanford, CA: Stanford University Press, 1989, pg 1-5. It is worthwhile to note that the BA model identifies the task of a new military regime as that of eliminating the threat from below and the normalization of the economy through the adoption of orthodox

POLITICAL TENSIONS

The Argentine Republic and its body politic, even in light of the substantial advances made in the re-democratization process of recent years, still retains a strong propensity on both an institutional and societal level for favoring autocratic rule. This fact results both as a consequence of the country's colonial legacy, which has inculcated the norms of centralized one man rule, and the demands of development associated with the international economic and sociopolitical realities of the twentieth century.³⁹ These are facts that have only become further

stabilization measures. Whereas, the Restructuring model focuses on explicit projects aimed at restructuring both capital and even the dominant class itself on a sociopolitical level. The Restructuring perspective goes on to agree that the BA model's emphasis on the relationship between the military regime and the dominant class is important, but it places a greater emphasis on the reorganization of the state apparatus, the class structure, prevailing patterns of capital accumulation, and the country's mode of insertion in the world-economy (New Order).

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Recall that for most of the colonial period the area that currently comprises the Argentine Republic was considered by the Spaniards to be economically backward and consequently of minor international political importance. This was largely due to the fact that the region neither had abundant mineral resources, nor for that matter vast amounts of native laborers that could be utilized for plantation style agriculture. It should be pointed out that only in the Northwestern provinces of present day Argentina was colonization accompanied by labor intensive agriculture utilizing native labor sources (mit'a system). Yet, it should be recalled that the region then was economically more tied to Lima than to Buenos Aires as a result of the limeños merchants ability to lobby the Spanish crown in 1622 for the establishment of an internal customs

accentuated following the 1980's Debt-Crisis.

It is worthwhile to point out that the Argentine region has made significant economic advances only when stimulated by external sources and their demands. A historical case is the issue of Portuguese southerly expansion from Brazil in the late seventeenth century, prompted already then by a proto-capitalist and expansionist pre-industrial Britain seeking to gain increased market access to the River Plate region's agricultural production and under-supplied consumer market, which in turn forces the region's Spanish overlords to intensify their position locally.⁴⁰ Thus, once having

house in the City Córdoba. This was implemented as a means of inhibiting the economic development of Buenos Aires which if allowed to flourish would reduce the importance of both Lima's port of Portobelo and the limeños economic position. This artificial barrier to trade, located at the convergent point of the major trade routes between Spain's Atlantic and Pacific coast holdings, effectively hindered the development of Buenos Aires as an entrepôt for Spanish-American colonial trade until the late eighteenth century. In the process this situation contributes in orientating the River Plate region's local merchant class towards the contraband trade with Britain and consequently the Atlantic triangular trade routes. For additional information regarding the mit'a system of labor see, Steve Stern, Peru's Indian Peoples and the Challenge of Spanish Conquest: Huamanga to 1640. Madison, WI: The University of Wisconsin Press, 1982, pg. 84-85.

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The foundation of a Portuguese colony (Nova Colônia do Sacramento) in 1680, on the near shore of the River Plate facilitates the intensification of the inter-colonial contraband trade in the River Plate region. During that period Portuguese merchant vessels commence to routinely exchange their cargos of African slaves and manufactured goods (increasingly of British manufacture after the Treaty of Methuen) for Spanish-American goods, especially Potosí silver from Upper Peru, in the port city of Buenos Aires. In 1777 Spain takes advantage of Britain's military preoccupation with

neutralized the Portuguese threat the Spaniards and their new Bourbon rulers implement a series of reform measures aimed at consolidating their position in the River Plate region by promoting its economic development as a means of insuring its political stability and loyalty to the crown.⁴¹ The measures of the late colonial period contribute directly in expanding inter-colonial trade linkages and consequently create in the process an economically powerful local merchant class in Buenos Aires. The new merchant class are the principle advocate of free trade and in the process finds itself identifying much more readily with foreign traders than with Spain's official "comerciantes" of the Cadiz based monopolist trade system. Buenos Aires's merchant class, as a result of its international commercial dependence and receptiveness to

the rebellion in its North American holdings in order to expel the Portuguese presence from the River Plate region.

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Having eliminated the Portuguese threat the Spanish military expedition's leader, Pedro de Cevallos, proceeds to establish the Viceroyalty of the River Plate, as well as implement a series of reforms (Bourbon Reforms) aimed at consolidating Spain's political and economic preponderance in the region. Some of Cevallos measures were the elimination of the aduana seca in Córdoba, as well as forbidding that Potosí silver continued to be shipped via Lima's port of Portobelo. Furthermore, from that point onwards Buenos Aires would become the official port of entry for Spanish mercury utilized in the silver extraction process in Upper Peru. In order to eliminate any remaining Portuguese influence in the region Cevallos establishes direct contacts with the West African coast's slave trade. Additionally, during this period Cevallos also endeavors to guarantee Buenos Aires' independence from Lima's overlordship by establishing salt-meat plants and promoting the production of linseed and hemp (naval stores) on a larger scale than before.

the exchange of non-traditional ideas, becomes the primary backer of Creole desires for autonomous commercial expansion, as well as political independence from the Spanish crown.⁴²

This type of situation has been the recurrent theme of Argentine economic development, as well as of its political evolution. In effect it has become the norm in Argentine society.⁴³ Democracy and autocratic rule have been directly linked to the shifts in the country's economic prosperity. This situation has in turn influenced directly the development of both Argentina's political system and its economy. Thus, Argentina has traditionally supported the notion of autocratic

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With political turmoil in Spain, as a result of Napoleonic France's invasion, and the renewed implementation of many of the Hapsburg era's restrictive trade policies, favoring the Cadiz comerciantes, Buenos Aires's Cabildo moves on the 25th of May, 1810, to declare its own self-government.

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An interesting difference, in both sociopolitical and economic terms, that can be highlighted with regards to the Argentine Republic is the example set by the United States of America. Suffice to say that though both countries had different development policies during their colonial periods, these economic policies have influenced their subsequent political development. Argentina's development during that period and until the mid nineteenth century is largely the byproduct of what can be called extraction economics. This is defined as being the extraction of wealth and the full exploitation of all resources for short-term profit. Profit is subsequently remitted back to the Old World or spent on luxury imports. Whereas, the North American model evidences as strong tendency to settle the land and develop it for long-term profitability. Profits originating from the successful development of the lands in turn are reinvested domestically in order to perpetuate a cycle of economic profitability. In essence it becomes a case of self-sustaining capitalist development versus mercantalist opportunism and consumerism.

rule in the guise of a strong executive who could impose order upon the masses while maintaining a good working relationship with the owners of capital.

The strongman figure in the Argentine political universe is the caudillo. The caudillo governed in the nineteenth century through not only the threat of force and fear, but also by distributing political patronage to his supporters.⁴⁴ Yet, contrary to becoming a centralizing factor the Argentine caudillo system of the early nineteenth century resulted in nearly forty years of internal strife, political violence, economic backwardness and international isolation.⁴⁵

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This type role is directly inherited from the old Spanish viceroy system with all its military, economic and sociopolitical powers largely intact. Though with independence from Spain there is an attempt to establish a citizen democracy along the French Revolutionary model's lines, the political and economic instability results in a period of civil war and of political anarchy. The aforesaid is largely brought about as a result of the post independence government's attempts to continue with the Bourbon's forced centralization policies and the implementation of a National Constitution which largely favored Buenos Aires's position. The end result of this has been the definitive establishment of autocratic rule in the person of Buenos Aires's Juan Manuel de Rosas by 1829. Initially Rosas is seen as the champion of the Federalist interior's desire for less centralized rule/ domination from the City of Buenos Aires, as well as a restorer of law and order. Eventually his rule turns tyrannical, but largely unquestioned until his ouster from power in 1852.

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Only with the dictator Rosas's ouster from power in 1852 that rule of law finally gains a definitive, yet precarious, foothold in Argentina. This is primarily established via the much respected Argentine National Constitution of 1853. Unfortunately, this experiment in limited democracy is short lived. By 1880 Argentina once again falls victim to autocratic

Taking the preceding factors into consideration it can be noted that President Menem has had such a large measure of success due to the fact that he has been able to incorporate the more benign aspect of the caudillo system, political patronage, and merge this with charismatic leadership instead of brute force. Yet, the nature of his administration's hold over government has led many political analysts in Argentina to question if whether his measures (rule by presidential decree) are not a form of civilian dictatorship.

The importance of the preceding factors is made evident by the realization that during the second half of the nineteenth century Argentina goes through a substantial process of institutional reform which contributed in integrating the Argentine political system and creating a national economy based on agricultural export commodities to Europe. Economic prosperity and political stability during the late 1800s and the years prior to World War I allowed Argentina to make significant advances comparable to those of

rule. What needs to be pointed out is that instead of rule by one man the Argentine situation is transformed into rule by one all powerful oligarchic economic class. In the process the oligarchy comes to view the country's masses (gauchos, remaining Indians and foreign immigrants) as a direct threat to the economic and political stability of the Argentine state. The situation is only further aggravated by continued and increased immigration in tandem with continuing economic prosperity. This situation eventually results in increased demands by immigrants and their Argentine borne children for a greater say in then affairs of the national and provincial governments.

today's most advanced nations during that same period. A fact readily proven by the country's high standard of living, as measured by home ownership, number of university students and physicians per inhabitant, as well as the fact that its political system already operated within the framework of a full democracy following World War I.⁴⁶ It seems that democracy and rule of law (ie a more balanced separation of the powers of government) prospers in Argentina effectively only during periods of economic stability.⁴⁷

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Modern Argentine democracy, in this case defined in terms of universal suffrage (Saenz Peña Law of 1912) and a multi-party political system, develops as a consequence of the Radical Party's institutionalization as a legal political party. Recall that increased economic prosperity without a subsequent increase in political power contributed in alienating the prosperous middle class, university students and a small number of junior military officer, all of these mostly being descendants of immigrants. As these were integrated into Argentine society they came to demand a greater say in government and thus formed the basis of the Radical Party in its endeavors at wresting from the conservative oligarchy a redistribution of political power.

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The Menem presidency since it gained office in 1989 has carried out an economic policy which has been criticized by some as being implemented at the cost of fundamental democratic values, in particular with regards to the issue of judicial independence. This is made evident by the fact that when Menem sought to expand the number of justices sitting on the Argentine Supreme Court he was accused of intromission in the separation of powers. The International Commission of Jurists observed that the independence and impartiality of the Judicial System had been attacked and as a consequence the democratic balance of power was compromised and incapacitated to make effective the supremacy of the Constitution. Both jurists and members of the press have criticized the presidency for this attempt to subordinate the judicial branch of the government to the manipulation of the executive branch. Thus, the issue of the Supreme Court has been at the center of

It should be noted that the importance of the issue regarding changes in living standards, since it is based on the realization that changes in income levels are linked to changes in the structure of output and the composition of foreign trade. As income rises, there is a subsequent increased demand for goods, manufactured goods, and services. In the process there is a relative contraction or slowed rate of expansion for food, clothing, and textiles. In effect changes in living standards involve shifts in tastes, income and consumption patterns. This not only results in influencing the structure of domestic output, but also comes to affect the volume and consumption of foreign trade.⁴⁸

The historical factors tie directly into the current political tensions in the Argentine state in the sense that as

the insecurity over judicial security due to the fact that it is the Argentine Republic's highest court and consequently does not only act as the final judge, but sets precedents, examples and guidelines for the lower courts to follow. Particularly troubling with regards to this issue has been the fact that law N° 23.744, promulgated on April 11, 1990, raised the number of justices of the supreme court from five to nine, as well as introduced certain procedural modifications. As of 1993 Menem has been able to name six justices to the new and expanded Argentine Supreme Court and subsequent political maneuvering has allowed the court to be utilized as a bargaining chip between the Menem government and the political opposition. See, William D. Rogers and Paolo Wright-Carozza, La Corte Suprema de Justicia y la seguridad jurídica. Buenos Aires, Argentina: Editorial Abaco de Rodolfo Depalma - Fundación Hemisferio, 1995, pg. 25-27 and 43-45.

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See A. G. Kenwood and A. L. Loughheed, Growth of the International Economy: 1820 - 1990. 3rd edition. New York: NY. Routledge Press, 1992, pg. 21.

the country's economy prospers, Argentines tend to become complacent with the political status quo as a means of ensuring continued consumption of especially imported items.⁴⁹ Thus, the clamor for political rights and representation has traditionally been brought about by international economic contraction and instability (ie economic recession brought about by World War I, the collapse of free trade, wartime abandoning of the gold standard, the Great Depression, and recently international economic recession). In other words situations which tend to reduce the middle class's access to credit and consumer items (issues which have both expanded significantly under Menemism).

With the return of economic prosperity (Argentina's post World War I and II economic booms) how is it possible that the country happened to succumb to prolonged economic and political decline lasting for a period of fifty years.⁵⁰ The

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The Menem administration's implementation of neo-liberal economic reform has facilitated this by means of the Economic Emergency Law N° 23.697 of September 1989. The law not only established the suspension of all subsidies directly and indirectly affecting the resources of the national treasury, the Central Bank, and state corporations, but also prohibited the Central Bank from financing the national government. In effect as well as in deed the benefits of industrial promotion were cut back, and "buy Argentine" restrictions were lifted. This in turn has led to increased imports of consumer items. See, "Market Reform and Economic Organization in Argentina: A Growing Nation. Buenos Aires, Argentina: Ministerio de Economía y Obras y Servicios Públicos, 1994, pg. 34.

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Modern Argentina arises with Hipolito Yrigoyen's election in 1916, yet even in light of the democratic aspects of

principle issue here is that in the Argentine case there seems to exist a strong propensity for the proper working of democracy to be associated with economic prosperity. By the same measure there also exists a strong tendency to have periods in which there is economic prosperity, but without the full implementation of democracy (feasible as long as capital inflows continue). Thus, it seems that historically as economic decline gains an ever increasing foothold, the Argentine government has reverted to more authoritarian mechanisms in order to arrest a further deterioration of the national economy and as a means of controlling the political situation.⁵¹ In the end this has resulted in a situation whereby the population tends to favor democracy, but also shows a strong willingness to sacrifice it in light of economic expediency. This tends to be the case of Menem's Argentina.

It should be pointed out that the Menem government

Yrigoyen's election his government is basically the result of his charismatic leadership. The Radicals set the stage for oratory domination instead of military vigor in the political arena. Yrigoyen's politics only succeed as long as the country's economy continued to prosper. Once the economy flounders Yrigoyen becomes a liability to both the military, already upset by his meddling in their internal affairs, and the oligarchy, this being resentful of Yrigoyen's methods of achieving popular middle class support by increasing government spending and rising tariffs which could upset the relationship of laissez faire trade with Britain. Consequently, this situation results in the military coup of 1930 carried out by General Uriburu.

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See, Duncan Baretta and Markoff, pg. 62-63.

has been able to succeed precisely where its predecessors, both civilian and military, have failed. In essence it has been able to divest the state of an inefficient state-sector and in the process has attracted investment capital once again into the country. This is especially important in the post-Debt Crisis world since neo-liberal economic reform has become the principal mechanism for stimulating development and it is to this economic policy the Menem administration has hitched Argentina's proverbial horse. In effect what the Menem presidency has done has been to fuse the key aspects of State-Led Restructuring with those of neo-liberal economic perspective. The current government has accepted that Argentina and its national economy form part of an interdependent world economy based upon free trade, specialization, and an international division of labor which in turn happen to contribute to domestic development.⁵² This has in turn resulted, at times, in bringing to the forefront the more negative aspects of the Restructuring policy's "New Order". Consequently, social tensions have increased as a disproportionate share of the costs of adjustment have been

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In the process the flow of goods, capital, and technology increase optimum efficiency in resource allocation and therefore tend to transmit growth from the developed "core" nations to developing "semi-periphery" nations like Argentina. In this case Argentina as the less developed country gains access to world markets, capital, and technology, whereas the more developed countries gain increased access to regional (MERCOSUR) markets, sources of raw materials, and cheaper costs of production. See, Gilpin, pg 266.

placed upon the lower and middle classes, which are forced to bear the brunt of economic policies and inflation controlling strategies designed to increase savings and investment.⁵³

Recall that these measures and their implementation are largely possible as a result of the divisions of the political opposition to the Menem government. The multi-polarization of the Argentine political arena has allowed Menem to rule the country with less than 50 percent of the electorate's support. With the national electorate currently divided into 15 national parties with presidential candidates for the May 1995 elections, Menem stands a good chance of being reelected (see figure n° 1) without the need of recurring to a second round. This is a consequence of the fact that the Menem government has been able to address the concerns of 40 to 45 percent of the national electorate, namely the sector which has profited from trade and economic liberalization.

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See, Smith, pg. 5.

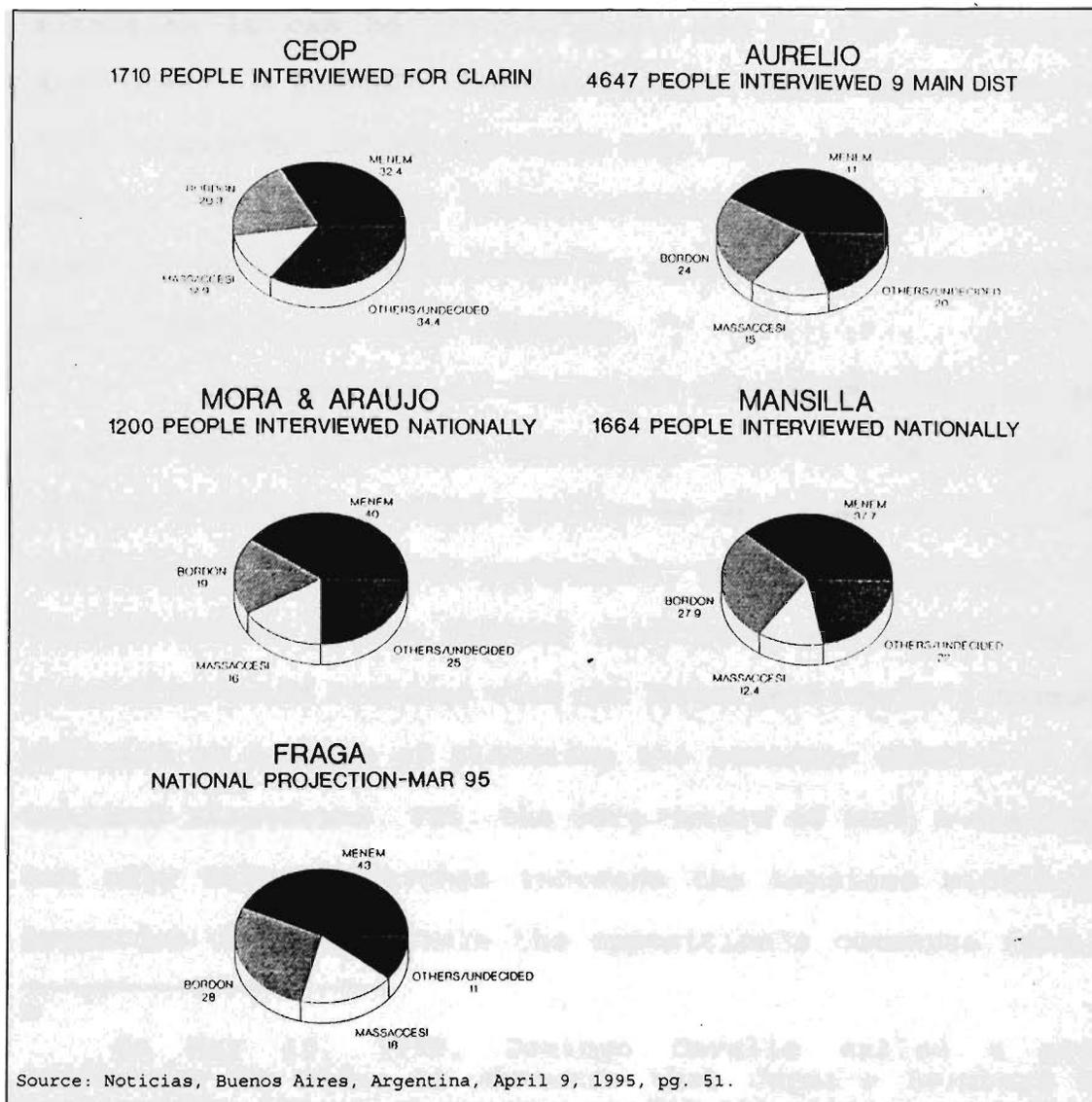


Fig. 1. Percentage of support for Menem by 5 major polls

This should tend to hold true unless the overall economic situation, from both a domestic and international point view, turns radically worse during the last four weeks prior to the May 14, 1995, election. In the advent of such a

situation it can be assumed that, due to the electorate's discontent, a run-off election between Menem and his nemesis José Octavio Bordón should ensue with Menem winning by a clear margin. The defining characteristics of such a run-off election would be based primarily upon economic issues rather than those of political ideology.⁵⁴

Furthermore, it should be clarified that President Menem's main opposition challenger has not been able to present a better economic policy as an alternative to that implemented by the Menem government. Quite the contrary, José Octavio Bordón as the FREPASO candidate, has stated that if elected he would continue with the Menem government's economic policies as a means of placating the economic worries of the national electorate. Yet, the very nature of such a statement can only help to further increase the tensions within the Argentine universe, since the opposition's comments tend to

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On May 10, 1995, Domingo Cavallo called a press conference in order to announce that Japan's Eximbank had promised the Argentine government U\$S 800 million in order to facilitate Argentina's payment of loans and maintain its international hard currency reserves. Furthermore, Cavallo announced that the Inter-American Development Bank had promised to immediately issue a credit of U\$S 750 million. In addition Cavallo also went on to announce that the government had been able to secure an added U\$S 400 million in bilateral loans. These loans can only contribute to help improve Argentina's productivity and ease international investors doubts as to the solidity of the nation's economy. In essence these sort of measures being announced five days prior to the presidential elections can only help to further strengthen Menem's position. See, Alberto Lippi, "El BID y el EXIMBANK también votan" in El Cronista: Edición Fax Internacional. Buenos Aires, Argentina, (May 11, 1995), pg. 3.

cause serious doubts as to the suitability of the opposition candidate as a viable option.

With regards to the preceding what needs to be realized here is that in State-Led Restructuring political parties and subordinate sectors of civil society come to play crucial roles in challenging authoritarianism. President Menem's trick has been to incorporate into his government members of the country's dominant capitalist class (major industrialists). These had previously been largely excluded in the classic State-Led Restructuring policy of the "Proceso Years" of military rule. With the support of the dominant economic class of the country behind him, Menem has in effect implemented early on in his presidency measures that have restructured the national economy to benefit capital and include the capitalist class in the nation's decision making process. This sort of presidential backing has made capital a powerful ally of Menemism. By having effectively carried out the preceding measure the Menem government has broken open the largely bi-party Argentine political system of the past fifty years. Furthermore, Menem has been able to astutely divide the political opposition and exploit internal party differences both within and outside of his own party by invoking the issue of the success of inflation controlling measures and Convertibility plan.

From an economic perspective Menem has "scared" the

greater part of the Argentine middle class into supporting him out of fear of a return to a period of renewed hyper-inflation.⁵⁵ In effect Menem has also made Argentina attractive to renewed foreign investor confidence. His government has accomplished this by improving the country's international competitiveness via decreasing organized labor's costs and by bringing about constitutional reform as a means of reducing fears associated with the issue of the erosion of democracy. In addition Menem has championed the rapid consolidation of MERCOSUR as a means of extending the reach of the Argentine economy. These measures have been further strengthened recently by the dollar's international fall, which incidentally has served Argentina as pseudo-devaluation of the peso. This most unexpected turn of events has contributed in making Argentina's exports internationally more competitive. Menem has succeeded precisely because his policies emulate aspects of the previous neo-liberal policies, but without the need to recourse to political alliance building with organized labor. This is the principle issue why bureaucratic authoritarianism, as well as State-Led Restructuring failed in the past.

It should be realized that Menem's rule is not in

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President Menem went on the public record, prior to the elections, and stated that people should vote for him in order to avoid a return hyper-inflation and economic chaos. President Menem's own words were, "yo o el caos".

essence authoritarian, but rather politically opportunistic and economically expedient. In effect his government has divided, and thus conquered, its political opposition by way of superior statesmanship. To certain extent the Menem government has returned to a situation reminiscent of Argentina's Oligarchic period in the sense that it has forged an alliance with not only the Argentine conservative capitalist class, but also with international capital. This has contributed in cementing the predominance of the Executive Branch. The new twist to the preceding is that Menem has incorporated into his conservative alliance, both willingly and unwillingly, elements of the now enfranchised and economically active middle class through its own fear of a return to hyper-inflation and its desire for economic gain.

Furthermore, the Menem government has been able to effectively coopt organized labor's leadership. By having successfully done so Menem and his labor allies have been able to control not only the unruliness of labor's rank and file, but also have convinced these to accept capital's control over productive assets. It should be pointed out that the immediate cost to the Menem government in exchange for this support has been quite minor, it has only had to reward labor leaders with traditional government appointments (ie embassy, secretariat, and national commission appointments). In return labor has largely accepted the call for restraint as a consequence of

its belief that a substantial portion of capital's profit would in some manner be saved, thus eventually reinvested and consequently converted into technological modernization. It is believed that this in turn should supposedly result in not only technological modernization, which leads in turn to increased productivity, but also in expanded production. Consequently, as production and profitability expand labor has assumed that future profits will be distributed in the form of higher wages (trickle down theory).⁵⁶

Interestingly enough in this case is the fact that organized labor in Argentina has traditionally been predominantly fascist/ nationalistic in sociopolitical and economic orientation and not anti-capitalist.⁵⁷ Consequently, organized labor and its leadership has not sought to bring about a socialist transformation of society as a means of improving its own well being, as well as that of general Argentine society. Rather, organized labor has come to accept, if grudgingly so at times, the notion that economic

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See, Smith, pg. 8.

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Though leftist parties abound, these are of relatively minor importance outside of the Chamber of Deputies. The best these parties, or alliances formed amongst each other, can hope for is some sort of arrangement with Menem's challenger as a means of influencing overall policy. Thus, the highly atomized atmosphere of the Argentine political arena tends to down play the role of socialist inspired political parties instead of strengthening their position.

nationalism in the form of a semi-autarkic economic system can no longer be called upon as the means of reactivating the Argentine national economy. All parties involved have come to the conclusion that the State-Centric development policies of the past have failed and that easy international financing is no longer available due to the consequences of the 1980s Debt-Crisis.⁵⁸ As a consequence not only has it been realized by almost all of the actors of the Argentine body politic that easy access to international credit-financing is no longer feasible, but also that strict adherence to the International Monetary Fund's guidelines has become acceptable as a necessary evil and thus a price that must be paid in order to get the country's finances in order. In essence this is the notion of the "bitter pill of development" which must be swallowed along with the sacrifices a society must make in

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Domingo Cavallo has argued that there was a need to recognize on a political level the issue of reducing the Argentine Republic's foreign debt. Argentina's foreign debt grew to such a point that it became an unsurpassable obstacle for economic growth. For Cavallo the magnitude of the problem became evident as reflected by the negative growth indexes of the Argentine economy during the 1980s, which in turn signified an alarming reduction of the stock of physical capital of the economy. The principal problem generated by the foreign debt was by 1989 hyper-inflation. Recall that previous was the result of not only capital flight and unstable exchange rates, but also a consequence of misguided economic policy in conjunction with the fact that major part of the foreign debt was public sector debt. See, Domingo Cavallo, "La República Argentina y el Plan Brady " in La Revista del Ministerio de Relaciones Exteriores y Culto. Buenos Aires, Argentina: Instituto del Servicio Exterior de la Nación. year 1 - n°1, 1992, pg. 11.

order to develop. This in turn has facilitated the transition of the country's economy from a primarily statist one to an economy based on private capital implemented via the massive privatization of the public-sector's assets. Furthermore, there has arisen the belief among labor leaders, government officials, and captains of industry that the material well being of labor is contingent upon reasonable guarantees it must offer capital regarding the profitability of its investments.

Contrary to the classic notions associated with political democracy, in which the proletariat allies itself with the middle class against the owners of capital, the prevailing situation in Menem's Argentina has become one in which the middle class has forgone labor and instead has allied itself with the Menem government and its pro-government conservative backers. This is directly a result of the Menem government's ability to promote economic confidence by reducing inflation, increasing credit and meeting consumer demands by reducing restrictions against imports.⁵⁹

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It should be pointed out that democracy in a capitalist society has emerged amid national notions of national mobilization in order to wage war and/ or as a result of division among the dominant class. This in turn has opened the way for progressive political alliances among the middle classes, workers, and in some cases even rural producers. In turn this has led to the expansion of the franchise and full citizenship to the subaltern classes. See, Smith, pg. 7.

ECONOMIC TENSIONS

The Menem government has been able to forge an understanding of convenience between the Argentine middle class, which has come to fear a return to a renewed period of economic instability, and the nation's conservative capitalist class. This has allowed both the state and capital to impose, via the state's coercive powers, at times non-democratic solutions to the nation's economic problems. This type of maneuvering by the Argentine state is nothing new in Argentina's political arena, rather the combination of players and the rhetoric has varied from the traditional norms. In addition it should be mentioned that Argentina's political economy and its precarious insertion in the world markets has traditionally not been overly conducive to democratic outcomes. In effect it has proven itself rather difficult for the Argentine Republic to function under the exigencies of international competition without a recourse to the suppression of Argentine labor.⁶⁰

Economic tension in Argentina on an economic level has usually resulted as a consequence of deciding which economic sector to promote and for how long. With the Menem

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State intervention in the past has been geared towards the process of extracting wealth from the national economy. In addition it has also been utilized as a means of guiding the national investment of economic surpluses for upgrading the country's productive activities.

administration this continues to be the case, but with the added factor of controlling inflation while subsequently promoting investment. It needs to be realized that the country has an internationally competitive agro-export sector, as well as a significant national industrial base. The main problem with these two sectors is that they have traditionally tended to be contradictory to each other in Argentina, since one has always suffered at the expense of the other.⁶¹ In essence every time one was promoted the other was allowed to languish (ie in the nineteenth century agriculture was king while industrialization was down-played and vice-versa in the years after Perón's rise to power). Added to this is the tension caused by the need to increase the national wealth (stock) of the economy.

Additionally, it should be pointed out that what is causing further tension in the Argentine Republic at this moment is the need to reduce overall domestic consumption and increase savings. Thus, under such a scenario it is not surprising to realize that the country has shown a strong

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With the defeat of the dictator Rosas in 1852 the Pampean agro-export bourgeoisie consolidated its position as the country's hegemonic class. Urban and rural middle class groups tied to the profitability of import-export activities of the Pampean bourgeoisie. This in turn led these to defend the notions of free trade, liberalism and acted as consumers by opposing high tariffs on imports and other measures favoring industrialization. They in turn provide the basis for extensive urbanization and precocious industrial development which gives rise to a large and prosperous middle class that came to enjoy relatively high wages.

propensity for its democratic regimes to fail in meeting the challenge of reconciling legitimate rule with economic growth.⁶² Traditionally it has been difficult to get the electorate's backing when the same is suffering the effects of economic readjustment dictated by the government. The interesting point here is that the Menem government has been able to achieve this goal.

Consequently, it can be argued that the best method of "guiding" the Argentine population at the present is not by the overt and brutish methods characteristic of the military regimes of the past, but rather by economic coercion. In essence it becomes a case of "economic authoritarianism" in which the stick is the fear of a return to a period of hyperinflation and the carrot is the speculation associated with the success of MERCOSUR and access to the European Economic Community's markets and their financing.⁶³ Consequently, the

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See, Smith, pg. 266.

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It is seldom mentioned, outside of the European Economic Union and the MERCOSUR states, that the EEC has cultivated an economically significant relationship with the South American regional trading bloc. It is worthwhile to point out that the EEC is MERCOSUR's principal partner in terms of commerce and investment. Furthermore, the Southern Cone region occupies a position of priority in the relations between the EEC and Latin America. This can be amply evidenced by the fact that the proportion of European firms in the MERCOSUR region has increased substantially in recent years. Argentina currently is the host to roughly 50 percent of the principal transnational European companies in the region. See, Consejo de la Unión Europea, Europa y América Latina: Una cooperación para la acción. Luxembourg: Comisión Europea, 1994, pg. 13-14.

Menem government has sought to develop capital markets and increase the yield on investment as a means of generating a preference for saving. This has in turn resulted in that by 1995 growth in exports have surpassed growth in imports, reducing the deficit in the balance of trade in goods and services.⁶⁴

The Menem/ Cavallo neo-liberal reforms have caused significant sociopolitical and economic tensions in the Argentine Republic. The current administration has committed itself to implement market based solutions, as well as roll back the country's excessive state intervention policies. In addition they have also sought to integrate Argentina's semi-peripheral economy more closely with the international financial, trade, and capital regimes. In addition Menem, through Cavallo, has implemented a series of economic measures that have sought to correct external trade deficits and stabilize international reserves at safe levels. Furthermore, these measures have aimed at curtailing and eliminating the public sector deficit while simultaneously bringing inflation under control. Though the implementation of neo-liberal economic reform has resulted in increasing in Argentina's external solvency, these measures have tended to aggravate the

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See, "Projection of the Principal Variables of the Economy" in Argentina: A Growing Nation. Buenos Aires, Argentina: Ministerio de Economía y Obras y Servicios Públicos, 1994, pg. 101, for more information.

local tensions brought about by the need to restructure the national economy.⁶⁵

THE ISSUE OF ECONOMIC STABILITY

The issue of the need for economic stability has been utilized to convince the Argentine middle class of the validity of measures which aim at transforming the country's economy from that of semi-autarky to that of neo-liberalism. The need to assure long-term economic stability has permitted privatization of the public-sector to be grudgingly accepted by the traditionally nationalistic middle class. As a direct consequence of this the state has gone from intervening in the economy, originally for sociopolitical reasons and economic factors of sovereignty, to favoring a return to a policy of laissez faire.

In effect it can be said that this has led the government to accept Schumpeter's "creative destruction" principle.⁶⁶ This principle states that a government will allow less efficient industries and technologies to be sacrificed in order to obtain the restoration of a positive balance which are in turn utilized in order start a new cycle

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See, Smith pg. 275-276.

⁶⁶

Ibid, pg. 277-278.

of capital accumulation.

The preceding has in turn led to the rise of concerns over the issue of the social costs associated with the government's inflation controlling policy. The government's recourse to routinely decreeing economic stabilization measures, aimed at reducing consumption, as a means of curbing inflation via tight control over monetary variables (ie the elimination of the indexation of monetary contracts, rents, wages, and fixing bonds to official price indexes among others measures) has resulted in aggravating the sociopolitical arena's tensions.

Yet, the implementation of the neo-liberal perspective has largely succeeded, from an economic perspective, due to the fact that it has avoided many of the pitfalls associated with past policies which have led to inflation. Economic success, at the cost of increased presidential power, has been achieved by adopting heterodox shock policies in place of the traditional orthodox policies of the past. In essence this has been carried out by the wholesale de-indexation of public and private-sector prices in addition to sweeping monetary reform. The preceding has also been facilitated by means of the creation of a new currency with a fixed parity to the US dollar in order to assure economic stability. Unfortunately, economic success for the government has led to the rise sociopolitical cost which need

to be quickly addressed, since less than half of the national population has prospered from these measures.⁶⁷ In effect this sector of the population has prospered from Cavallo's Convertibility Program and the privatization of the public-sector which has pumped massive amounts of capital into the Argentine treasury. In turn these monies have been utilized in order to guarantee the nation's monetary base as a means of inhibiting a return to run-away inflation. The net effect of privatization has been to free up national "equity" that had previously been locked-up in state industries and allowed an expansion of the private-sector, but this has come about at the detriment of the larger politically disunited electorate.

These factors have allowed the Menem government to solve the problem of the negative-sum game. In this case the negative-sum game can be defined as the strategic interaction between labor and capital in the context of high inflation (prisoner dilemma). The requirement of maintaining hard currency reserves equal to the local monetary supply, as a means of backing the local currency, has inhibited the government from resorting to printing more money as a means of financing its expenditure. Thus, an expansion of the money supply would bring about both inflation and increased speculation, neither of which are confidence builders for the Argentine economy. As a means of achieving stability the

⁶⁷

Ibid, pg. 278.

government has attempted to restrain wages while simultaneously endeavoring by any means possible to continue guaranteeing profits for capital.

Within the context of the preceding, and especially with regards to economic tension which in turn undermine the mechanisms of Argentine democracy, one must address the issue of the free-rider problem. Recall that there exists a strong incentive for all actors - capital and labor and the state - to refuse to share the burdens associated with austerity measures. This major issue of contention has been resolved by government's reduction of its participatory role in the national economy, by having divided organized labor both through the cooption of its leadership, as well as by the state's catering to the demands of capital to the detriment of other actors of the country's economy. The foregoing has also largely been facilitated in part by the success of the measures implemented to reduce inflation. These measures, especially from the middle class economic consumption perspective and especially the conservative class economic and political position, have ameliorated some of the more negative effects associated with privatization.⁶⁸

In the past the assumption has been that the role of the price mechanism in a competitive market and stringent controls were necessary in order to assure price stability

⁶⁸

Ibid, pg. 276.

until the inertial component of inflation had been eliminated. In this case once price equilibrium is achieved continued state intervention in the economy is no longer necessary. The so-called "visible hand" of the state supposedly then would move the economy from a high inflation equilibrium to a low inflation equilibrium. Thus, if the government could maintain a modest wage policy, competition and the self-interests of individual capitalists would allow in the process the market's "invisible hand" to reproduce a low inflation equilibrium.

The issue here is that in the Argentine case what are usually called orthodox economic measures have proven themselves to be inflationary, since they have usually stressed, if not, resulted in protectionism, subsidies, and over-valued exchange rates. While the heterodox policy position of the Menem administration stresses price stability and renewed economic growth as a means of inhibiting a possible return to traditional authoritarianism.⁶⁹

As a consequence of the previous it can be said that it is the Argentine electorate's fear of returning to a situation of renewed hyper-inflation which has allowed the Menem government the political leeway necessary to carry out its measures with a minimum of interference. Furthermore, this has allowed Menem the luxury of not having to recourse either to the military or organize labor in order to form an alliance

⁶⁹

Ibid, pg. 278-279.

of political necessity. The alliance with capital and its resources has supplanted the traditional benefits offered by the preceding groups as a consequence of the realities of post-Debt Crisis Argentina.

CONCLUDING SUMMARY

The neo-liberal economic strategy implemented by the Menem administration has followed a similar orientation to that of the one carried out under General Videla and his Minister of the Economy Martínez de Hoz. Both of these administrations have succeeded in undermining the collective strength of organized labor through policies which have widened the gulf between wage differentials both across and within economic sectors. The first through political coercion and the latter through political cooption. This has resulted in creating not only a segmented labor market, but has also deepened the working class's structural heterogeneity. In the process there has arisen a increased stratification of both life-styles and consumption patterns which have only tended to make collective action across class boundaries more difficult.⁷⁰

Similarly to the Videla government the Menem administration has sought to depolitize labor and society.

⁷⁰

Ibid pg. 263.

But, has been able to accomplish this goal through economic threats and presidential decrees instead of through brute military/ police force. It seems that this in turn has led to a restructuring of society by reducing the overall economic influence traditionally exerted by organized labor and cowering the middle class into accepting both economic and political measures which may come to undermine the mechanisms of Argentine democracy (ie via the possible recourse to presidential decree as a means of imposing legislation detrimental to certain sectors of society and latter having these sanctioned by a Supreme Court packed with government sympathizers). Thus, from an economic and political perspective the Argentine Republic has shown a strong tendency for non-democratic rule or reduced democracy by means of an imperfect separation of powers which favor an imperial presidency. In any case these have traditionally failed in meeting the challenges of reconciling legitimate rule with economic growth.

Neo-liberalism and the economic policies which it promotes require the acceptance of the notion that the state's role is to provide law and order, defense, property rights, and stable currency. Yet, this economic perspective is not necessarily conducive to democracy, since Argentina as a country can experience economic growth without democracy as long as there exist capital inflows of the likes which are

presently arriving.

In concluding it is worthwhile to recall that market mechanisms permit a balancing of supply and demand by means of market signals (ie prices) which in turn leads to harmony, equilibrium, and the efficient allocation of resources. In this scenario competition among individuals and firms leads to increased efficiency. But the very need for increased efficiency and employment may cause Argentina's electorate to forgo its demands for a proper separation of powers should the presidency continue to prove itself a more efficient and practical economic administrator than the national congress. Tensions in this case arise as a consequence of favoring economic stability over the proper working of democratic mechanisms (ie primarily limited recourse to rule by presidential decree and an effective system of checks and balances).

CHAPTER TWO

THE ARGENTINE STATE: A CASE OF SOCIOPOLITICAL DEVELOPMENT IN TANDEM WITH ECONOMIC DEVELOPMENT

The preceding chapter has endeavored to illustrate the major principles associated with the Modern Political Economy perspective, as well demonstrated how these have influenced the recent development of the Argentine state under the Menem administration (1989-1995). To build upon the preceding chapter's issues this chapter will introduce some of the key historical issues and facts which have affected the development of Argentina.

It can be held that drastic economic reform in conjunction with a national consensus for change, if applied in a haphazard manner and/ or without the proper safeguards against such threats as the expansion of the Executive Branch's power, may result in a situation in which a large segment of the Argentine populace may be forced to bear a disproportionate share of the sacrifice necessary to assure the continued success of a government's economic reform program.

This chapter will flesh out those particular issues with Argentina's own brand of modern sociopolitical and economic realities. It should be pointed out that these issues have tended historically to be closely related to each other.

This is made evident by the example of the drive towards national unity through the forceful political consolidation of the state in the nineteenth century and the implementation of economic development strategies from above in the twentieth century.

The current chapter will conclude with a brief synthesis of how these historical facts have come to affect the Argentine state in its move towards national economic development. By doing so, the reader will be shown not only the procedures utilized to identify the principal preconditions and subsequent steps necessary for achieving economic growth in late twentieth century Argentina, but also will be shown the Argentine state's possible democratic pitfalls.

PAST POLICIES

In order to properly comprehend the current nature of economic reform, as it tends to relate to its effects upon the workings of democratic mechanisms in the Argentine Republic, one needs to review the economic development process of the Argentine state in conjunction with the development of the national sociopolitical sphere and a consensus for change. Thus, the argument can be formulated that this new national consensus for neo-liberal economic reform is a direct result

of the Argentine populace's disenchantment with the failed State-Centric development policies of past years. This consensus is a result of the electorate's realization that Argentina's economy must be reactivated within the exigencies of the post-Debt Crisis world. Consequently, in order to grasp the current state of affairs in the Argentine Republic a brief overview of the principal sociopolitical and economic development strategies of the past with regard to the role exerted by the Executive Branch of the Argentine government is necessary.

Many of the issues associated with modern Argentina's economic, as well as sociopolitical development, date back to some extent to the country's earlier colonial era. These enduring elements or idiosyncrasies, of the colonial legacy, have come to influence Argentina's modern development. Good examples of the preceding are those issues of lasting legal notions from the colonial period, a strong propensity for the bureaucratic mismanagement of the economy, resistance to innovation in fields in which the country may come to hold a significant comparative advantage (agriculture), and especially a tendency to attempt to implement (since the 1940s) near-universal employment practices in the pursuit of political patronage.

AFTER PERON'S FALL FROM GRACE AND THE YEARS LEADING TO MENEM

One of the most striking features of the Argentine state's relationship between economics and politics has been the stagnation which the country experienced from Perón's ouster from power in 1955 and lasting until 1976. Argentina's economic fortune and sociopolitical stability have been linked to the upswings and downswings of the international capitalist system. These shifts have partially contributed in bringing about both unemployment and underemployment. They have also resulted in arresting the Argentine Republic's industrialization process and subsequently have been identified as responsible for lowering the general population's overall standard of living.

This type of situation necessitates a questioning of why the Argentine Republic goes from a position of economic prosperity in the immediate post-war period to one of endemic economic stagnation, if not outright decline, during the 1955 to 1976 period. This is a result of increased competition from an economically recovering Western Europe, funded by the political Cold War necessities of the United States, and increased competition for reduced market share by such countries as the United States and Australia which compete with an increasing inefficient producer like a statist Argentina. Within this context it should be mentioned that

Argentine inefficiency is a product of the implementation of wrong domestic economic policy, as well as compounded in later years (post 1976) by the end of easy financing with the advent of the 1980s Debt-Crisis. In general terms the country's policies were namely statist and interventionist in their scope have incidentally contributed to crowding out private capital.

Further complicating matters for the Argentine Republic during this period is the development of the European Economic Community (EEC) which allocates to Argentina the role of reserve supplier of goods for short-term scarcities. In effect a situation develops in which the Argentine state is unable to implement sustained commercial reciprocity with traditional trading partners, because of restrictions associated with the consolidation of the EEC and its bias in favor of European producers.¹

This situation forced the Argentine Republic to seek non-traditional markets for its produce in the Soviet Union and mainland China by the 1960s. These markets have tended not to be as profitable as the more traditional ones, but at least the presence of trade rivals like the United States were for

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The European Economic Union was created in the late 1950s, via the Treaty of Rome, as a means of providing lower tariffs and a harmonization of economic policies among member states. See, Mark Kesselman and Joel Krieger, European Politics in Transition. Lexington, MA: D.C. Heath and Company, 1987, pg. 15 and 155.

political reasons not as prevalent during that period.

Yet, another part of the problem with Argentine competitiveness has also been its inability to have equivalent access and quantities to development capital as has been made available by the United States to countries like Australia and the Western European states (see table n° 03).² This manner of situation has inhibited Argentine attempts at agricultural modernization and industrial reinvestment. David Rock has gone on to argue that though the Argentine agricultural sector evidences many specific improvements during the 1945-1973 period its average grain yields fall far behind those of the Australia and the United States during that same period.³

2

It should be pointed out that Argentina, like the other states in Latin America, was deemed in the immediate post-World War II era to be free from the threat of communism unlike its counterparts in Western Europe. Consequently, as early as December 2, 1947, Undersecretary of State Will Clayton wrote a memorandum urging the American representatives to the Bogotá Conference to point out to their Latin American counterparts that "the Marshall Plan is wholly inapplicable to the Latin American situation and that we cannot consider extending it to that area." Furthermore, needy governments were to be directed to the World Bank or the Export-Import Bank. This particular issue was due to the fact that Latin America, as a region untouched by the scourge of modern war, was still capable and continued to attract a large share of American private investment capital. This issue led the US government to purposely exclude the region from foreign aid allotments. See, Robert E. Wood, From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy. Berkeley, CA: University of California Press, 1986, pg. 44 - 46.

3

See David Rock, Argentina, 1516-1987: From Spanish Colonization to Alfonsín. Berkeley, CA: University of

Though important new crops (soya, sorghum and sunflower) were brought into cultivation during that era, they have taken time to become economically viable.

TABLE N° 03

NET U.S. DIRECT INVESTMENT ABROAD BY AREA (PRIVATE)
1946-51 (U\$ MILLIONS)

PERIOD	1946	1947	1948	1949	1950	1951
ALL AREAS	183	724	684	786	702	603
OEEC COUNTRIES	18	48	48	31	75	77
OEEC DEPENDENCIES	6	53	69	28	9	5
CANADA	38	13	77	119	265	271
LATIN AMERICA	59	442	321	429	191	187
MIDDLE EAST	21	91	123	113	117	-15
OTHER	41	77	46	66	45	78

Obs: OEEC stands for Organization of European Economic Cooperation.
SOURCE: Balance of payments of the United States, 1949-51, supplement to the Survey of Current Business (Washington D.C.: U.S. Department of Commerce, 1952) as quoted in Wood, pg. 47.

The diversification and mechanization of the rural sector has failed to trigger rapid economic growth, since even though new lands and crops have been brought into cultivation, rural labor has tended to be displaced in favor of the urban centers as a by-product of State-Centric development policies. The problem has been that Argentina, as a semi-peripheral

California Press, pg. 320 - 326. Rock has also stated that increased grain yields have been brought about by crop diversification and improved farming methods. Australia witnesses during the 1945-1973 period an average increase of 89 percent in grain yields while during the same period the United States has a 140 percent increase in its own yields. For its part Argentine in comparison is only able to increase its grain yields by merely a factor of 25 percent.

state, has been unable to effectively assimilate its displaced rural workers into its urban work force. This is a result of the fact that industrialization during the period remained largely stagnant, as well as the fact that the country's domestic consumer service sector is not sufficiently developed enough to incorporate displaced workers as has occurred in present-day post-industrial United States.⁴

In essence the problem has largely been that post-World War II Argentine governments have tended to be hesitant in promoting subsidization and/ or price controls for the country's agricultural sector, as well as incentives for modernizing the agricultural sector's capital goods. Statist policies have favored industry and inefficient producers via the notions associated with infant industry protection which consequently are detrimental to the agricultural sector. This

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In addition to these sort of issues it should be further clarified that Argentina's population can be divided into two classes, one being cosmopolitan/ oligarchic and the other simply classified as the people. The first group has traditionally favored economic liberalism, whereas the second group has traditionally feared the free market, free trade, and free competition. In essence this last group has feared any sort of economic modernization which is accompanied by efficiency and labor-saving technology. For them the state is their only hope for saving their jobs or their modest share of local market. In the past government's sought to gain the support of this sector of the electorate and thus were forced to impose populist sociopolitical and economic measures on the rest of the country which inevitably lead the oligarchy and its supporters to recur to the military option. See, Paul H. Lewis, The Crisis of Argentine Capitalism. Chapel Hill, NC: University of North Carolina Press, 1990, pg. 500.

sector, in which Argentina holds a comparative advantage with regard to other states in the world market, has been allowed largely to drift along and left to its own devices. This has been done in order not to detract attention/ capital from the development of the industrial sector. In the process this situation has motivated many Argentine agricultural producers, reluctant to reinvest their profits in industry, to produce just enough to meet domestic demand and minor exports levels. Satisfied with short-term economic well-being they have utilized their non-producing lands as mere hedges against inflation (a traditional tactic of the agricultural sector).

The principal problem for Argentina's agriculture has been reduced access to government subsidies. These have been largely dependent during the 1955-1976 period on the development of a mature and successful industrial base and a prosperous and stable urban sector.⁵ But, industry's growth has also been dependent in turn on the agricultural sector's ability to generate increasingly higher export earnings. In essence it has become a vicious cycle in which increased competition in the international marketplace, especially in foreign markets once traditionally dominated by Argentina, has hindered the possibility of successful sustained economic development for the Argentine Republic. This situation has only been aggravated by the international chaos caused by the

⁵ See, Rock, pg. 325.

1970's easy access to petrol-dollars, as an alternative source of financing, and the ensuing debt-crisis of the 1980s.

The post-Perón era's principal economic advisor is José A. Martínez de Hoz (1976-1981). As the military juntas's Finance Minister he promoted a policy which has come to be known as convergence. Under this program the country would rapidly liberalize the national economy in order to freely compete in the world economy. Martínez de Hoz's plan consisted of using imports in order to systematically drive down the price of domestically produced goods. The relevance of this point is that it shares significant similarities with the Menem/ Cavallo economic reform strategy of today. This is made evident by the fact that Martínez de Hoz's policies were not only neo-liberalist and an advocate of laissez faire trade notions, but also like the Menem/ Cavallo policies aimed at undermining the institutionalized strength of organized labor. It should be pointed out that the difference between both these neo-liberal strategies resides in the political arena, since the Videla/ Martínez de Hoz policies aimed at creating a bureaucratic-authoritarian state, while the Menem/ Cavallo measures aim at consolidating an economically conservative regime which in this context can be called "neo-oligarchical".

With regards to the issue of inflation, the primary cause of the failure of almost all previous Argentine economic stabilization policies, the Videla/ Martínez de Hoz regime

sought not only to open the economy to international competition, but also aimed at controlling inflation via monetary controls and by assuming the notions that inefficiencies are conquerable by open competition.⁶ Furthermore, the issue of price distortions for them could be addressed by ending subsidies, tariff controls and a regulated exchange rates, as well as by the creation of new financial markets. It is worthwhile to point out that this last issue became one of the principal causes of the economic/ financial collapse of 1981.⁷ In addition it has been argued by Rock that in the short-term imports and reduced tariff barriers, as well as the removal of capital restrictions, will contribute to inhibit local prices from rising too quickly. Essentially it can be held that then, much like now, the aim was to reduce the state sector, the chief source of employment and distributor of resources in urban society. This was to be carried out as a means of curtailing both the political clout and collective bargaining power of organized labor, the middle class and industry.

The problem with this particular policy, which

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See, René Villarreal, " The Latin American Strategy of Import Substitution: Failure or Paradigm for the Region" in Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia. Gary Gereffi and Donald I. Wyman ed. Princeton, NJ: University of Princeton, 1990, pg. 294 - 298, for more details on this matter.

7 See, Rock, pg. 368-369.

becomes severely aggravated by 1981, is that the private domestic banks in their desire to compete for additional deposits raised the real interest rates to approximately 40 percent per year during that period. Those individuals and corporations with access to foreign credit during that decade were able to borrow abroad and subsequently invest borrowed monies in 30-day accounts. Briefly put this situation of financial speculation allowed investors the possibility of quickly pocketing the difference arising as a consequence of the spread between domestic and foreign interest rates. Consequently, there is an infusion of nearly U\$S 2 billion in so-called "hot money" belonging to investors looking for quick returns beginning in the late 1970s and lasting until 1981.⁸ These measures, especially the issue of high interest rates, have contributed in bringing about inflationary tendencies in the Argentine economy which have subsequently led to increased political tensions.⁹

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See Michael Monteón, "Can Argentina's Democracy Survive Economic Disaster", in From Military Rule to Liberal Democracy in Argentina, edited by Mónica Peralta-Ramos and Carlos H. Waisman, Boulder, CO: Westview Press, 1987, pg. 26.

9

Many economists tend to argue that as interest rates fall investment should go up and therefore lead to increased output. Investment is the key to economic growth. Increases in government spending do lead to short-term growth via an increases in levels of output, but such action tends to decrease private investment (crowding out effect). It should be pointed out that running a deficit is not always necessarily an economic evil if the return on the public

Most analysts agree that the open economy permitted those with access to foreign credit the luxury of borrowing internationally at a much lower interest rate than those relegated to borrowing at higher domestic rates (these usually being small to medium size firms). This consequently compels such entities, which are unable to borrow abroad, to encounter heavy financial burdens. Furthermore, balance of trade figures rapidly turned sour as a consequence of the over-valued peso's proclivity in attracting imports.¹⁰

investment is greater than a return from a private investment. As long as the government's investments (building infrastructure, buying capital equipment, educating workers, etc) is able to generate a higher return in dollars, to be utilized to pay back the loans plus interests, than that which could be generated by an equal from the private sector, the issue of crowding out of private investment is not as important.

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It should be pointed out that Martínez de Hoz attempted to restore international confidence in the Argentine economy by rebuilding the nation's reserves via the negotiation of short-term foreign loans. Consequently, by July 1980, foreign investors were permitted to open month-to-month accounts, these led to U\$S 700 million being deposited in July 1980 alone. Yet, this new influx of monies contributed in increasing of imports, as well as straining of the country's balance of trade. What needs to be realized is that regardless of Martínez de Hoz's measures the Argentine financial system, by October of 1980, was on the verge of collapse as a consequence of number of firms which had sought to survive the storm of economic instability by renegotiating their debts through new short-term loans. To the further detriment of the Argentine economic situation a new series of bankruptcies occur in February 1981, these were accompanied by an unprogrammed devaluation which in turn resulted in an immediate capital flight of U\$S 2 billion. These sort of factors caused Argentina's foreign debt to escalate from U\$S 8.5 billion to U\$S 25.3 billion, an increase of 14 percent to 42 percent of the gross domestic product, between December 1979 and March 1981. As a consequence interest charges on the

The termination of state protection for infant and/or inefficient Argentine industries exposed these to much more competitive international producers who in the process quickly gained expanded market share. Consequently, the nation's export sector found itself seriously hampered by increased competition from more efficient international competitors. The deteriorating economic situation is directly responsible for bringing about massive capital flight (estimated at U\$S 1.9 billion between April and June 1980 alone). This results in quickly cutting national reserves in half from U\$S 10 billion to U\$S 5 billion, as well as doubling unemployment levels in a period of just six months by 1981.

The military junta, then presided over by Army General Jorge Rafael Videla, hands power to Army General Roberto Viola in October 1981. Consequently, Martínez de Hoz was replaced by Lorenzo Sigaut as Finance Minister. The worsening economic situation obliged Sigaut to not only close the economy by implementing numerous financial controls, but also led him to seek increased over-seas financing as a short-term remedy for the losses resulting from the record number of national banking failures and bankruptcies. As a consequence of the erosion of Argentina's international creditworthiness,

foreign debt, which had been 10 percent of exports in 1979, came to surpass 30 percent by the end of 1980. Added to the foregoing 1980 export values fell in constant dollars by 3.9 percent, while registering a simultaneous increase of 43 percent in imports. See, Rock, pg. 374.

accompanied by new runs on the Argentine peso in November 1981, Viola is forced from office by Army Commander General Leopoldo Galtieri.¹¹

The new military junta, ushered in and presided over by General Leopold Galtieri, sponsors both a hard line political attitude towards the peronists, as well as reimpose Martínez de Hoz's economic policy.¹² In order to get the country's collective mind off the national economic crisis, as well as gain political momentum, popular support and end rifts within the Army, Galtieri opted to invade the Malvinas/Falkland Islands in April 1982. The military's failure was directly responsible for undermining any chance it had at consolidating institutionalized corporatist rule in Argentina. Defeat and the ensuing disillusionment with military rule

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A decrease in interest rates combined with an increase in government spending and/ or borrowing usually leads to decreased expectations. Thus, the aforesaid leads to a decrease in output and results in a situation of economic collapse due to lack of optimism on the part of the private sector. When a state runs a large budget deficit it means that it has a large negative government Savings (taxes minus government expenditure). In order to avoid a drop in Investment (crowding out) the national economy requires that Household Savings and/ or Foreigner's savings (imports minus exports) increase.

12

Recall that Galtieri, like Martínez de Hoz, championed the notion of alienate state industries and services into private hands. In addition the new regime sought to secure new sources of foreign investment, aiming for a partnership with the United States based upon ideological affinities between Galtieri and the Reagan administration. See, Rock, pg. 375.

subsequently resulted in bringing about the reinstallment of liberal democracy by 1983.¹³

Even though the presidential administration of Raúl Alfonsín continued to follow a path largely similar to that undertaken by the previous regimes, it did initiate limited attempts aimed at addressing some of the more pressing economic concerns geared towards opening up the Argentine national economy.¹⁴ Yet, the Radical administration's

13

It should be realized that Argentine military governments have failed to stay in power or to guarantee an orderly transition to civilian rule because they have not been able to solve the political-economic dilemma caused by the tensions the nation economy's need to accumulate capital and popular demands for the redistribution of wealth. The military has failed to gain an expansion of their base of support since it has come to power declaring that the country is passing through its most serious socioeconomic crisis, blaming in the process the preceding administration's management of the economy for the ensuing political crisis. In the process the military government has usually named a conservative economic team which formulates an orthodox stabilization program aimed at increasing savings and investment and to contain inflation and fiscal deficits. Such strategies of economic accumulation imply consequently strict wage controls and lead to mounting opposition by the low income groups, and afterwards by the middle-class and the economic sectors that produce for domestic consumption. See, Aldo C. Vacs, "Authoritarian Breakdown and Redemocratization in Argentina" in Authoritarians and Democrats: Regime Transition in Latin America. Pittsburgh, PA: University of Pittsburgh, 1987, pg. 18.

14

It is worthwhile to point out that the main features of Alfonsín's Austral Plan were (1) wage and price controls; (2) a promise to reduce the government's deficits by increasing its revenues and cutting its expenditure; (3) a promise to impose discipline on state enterprises by requiring presidential approval of their budgets and by ordering the Central Bank to stop printing money to cover their losses; (4)

inability to successfully carry out the majority of the provisions of its own economic plan (Plan Austral), much less de-nationalize a fairly large sector of the national economy, resulted in the sort of domestic economic turmoil which forced President Alfonsín eventually to hand over the presidency to the Justicialista (Peronist) Party of Carlos Saúl Menem six months ahead of schedule.¹⁵

It is in light of such economic and sociopolitical turmoil in which The Menem/ Cavallo economic reform were subsequently implemented in 1990. These have been geared towards making the Argentine national economy internationally more competitive by reforming the state-sector as a reaction to external challenges posed by the Modern Political Economy. The express objective behind the implementation of heterodox measures such as these has been not only to achieve monetary

the encouragement of exports; (5) a reduction of protective tariffs; (6) the encouragement of foreign investment; and (7) the issuance of a new currency called the Austral. See, Lewis, pg. 484.

15

The last years of the Alfonsín presidency came to be characterized by extreme economic and political instability. A clear example of this sort of instability is the case of the sacking of urban supermarkets in such major urban population centers as the City of Rosario in the Province of Santa Fé. One may logically deduce and/ or extrapolate that members of the political opposition may have had a hand in undermining the economic plan by possibly promoting such acts to be carried out in order to further discredit the Alfonsín government. Additionally, the failed rouge military coups d'etat attempted by Colonel Mohamed Alí Seineldín and his band of "Cara Pintados" worked against inspiring confidence/ assurances in the Alfonsín government's stability.

stability and sound public sector accounts, but also to promote growth in the Argentine Republic by making it attractive to foreign investment. The preceding is a result of the realization that the state-sector, from an economic perspective was highly inefficient, and that corporatist military rule, from a political perspective, both had failed to bring enduring prosperity to Argentina.

THE EFFECTS OF DRASTIC ECONOMIC REFORM ON ARGENTINE DEMOCRACY: CONSTITUTIONAL REFORM

The Menem administration has been able to lobby successfully for the reform of the Argentine national constitution and in the process has thus been able to achieve the legal requirements for immediate presidential re-election in 1995. The government's express aim behind such an endeavor has been the need to guarantee the continuity of the economic reforms implemented during Menem's presidency and thus assure the sort of economic stability which has become characteristic of Menem's Argentina. Yet, though there has developed a consensus amongst a large percentage of the electorate regarding the benefits of the previous, there still remain significant reservations in other sectors of the Argentine political arena.¹⁶

¹⁶

See, " El temor como recurso político " in La Nación,

The Menem administration has been able to successfully convince roughly about 40 percent of the national electorate into accepting that the continued prosperity of the Argentine state is largely dependent on President Menem's own immediate re-election in the May 1995 presidential election. In the process the Menem administration has been able to effectively divide the country's political opposition. This has largely been brought about by implementing measures which cater on a case by case basis to specific demands of the national electorate (ie promulgating the long promised abolition of the military draft) or to other powerful Argentine institutions.¹⁷ These types of action have allowed

Buenos Aires, Argentina, Sept. 18, 1994, pg. 9, for a more detailed explanation regarding the statement that the Menem presidency lacks an authentic party ideology. The Menem government has aimed at instilling in the Argentine electorate the belief that only the Menemist can govern. To be precise with regards to the aforesaid the current administration has been accused of not only lacking a perpetuating political ideology, but also goes on to criticize its lacks substance, as well as depth. The preceding article argues that the Menem administration's only sense of continuity has been its ability to readily attract the power hungry, regardless how insignificant their share of power could result to be in the end. It has been stated that this has been precisely the way in which supposed liberals have been attracted to the Menemist camp. Traditionalists within the Radical Party have been keen in pointing out that though the Menem administration has succeeded in implementing significant economic policies, these have been the creation of Cavallo who is not precisely a Menemist/ Justicialista regardless of his statements to the contrary.

17

In the process the Menem administration has resorted to the implementation of unorthodox and/ or non-traditional solutions in order to address a wide range of problems during

the administration to undermine possible political support for the opposition and thus have allowed it to retain, so far, political preeminence in the Argentine Republic. It is astute political statesmanship, in conjunction with the successful implementation of economic reform, which has largely permitted President Menem the distinct possibility of achieving an additional and now constitutionally sanctioned second consecutive term of office in 1995.

The successful implementation of drastic economic reform has contributed to making Argentina not only a more efficient and internationally competitive state than had been the case during the preceding Radical administration of Raúl Alfonsín, but it has also made the country more attractive to

its tenure in office. For example when the military hierarchy showed signs of restlessness in December 1990, President Menem moved to pardon the military leaders of the Junta Period in order to placate simmering doubts. Furthermore, whenever external governmental sources have commenced to question Argentina's internal social problems the government has either responded by increasing its United Nations peace keeping commitments worldwide and/ or adopted measures aimed at addressing the key social issues that have been questioned. A clear example of the aforesaid has been the case of the Argentine Catholic Church's questioning of the country's internal social price being paid as a consequence of the effects of the Cavallo Plan. This has lead the government to adopt an anti-abortionist position (which was criticized by Alfonsín during the constitutional convention's deliberations) in order to dilute the Church's criticism of the government. And most recently in the ongoing Malvinas/ Falkland Islands debate Menem has proposed to buy out the resident Kelpers and thus address in a fair and compensatory manner the issue of property values. For more information regarding this matter see, Fernando Gonzalez and Edi Zunino, " Los trucos de Menem para su reelección: El gran ilusionista " in Noticias, Buenos Aires, Argentina, August 21, 1994, pg. 63.

international investor confidence.¹⁸ These measures are largely responsible for gradually modernizing, in the process through private - largely foreign - investor financing, the infra-structure of the Argentine Republic, which as a result of years of investor neglect had deteriorated through the lack of capital investment.¹⁹ It can be readily seen from the

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The Argentine state, unlike the politically trouble countries of Colombia and Venezuela and even to some extent Brazil, has been able to successfully once again to float new bonds in the European financial market. For example it has recently been able to place bonds in the amount of 100 million Canadian dollars, equivalent to approximately 72 million US dollars, in Europe. The terms have been set at three years with a annual yield of 10.50% and a price of 99.97% with which the yield should approach 220 basic points with regards to the Canadian rates of reference. This transaction, in addition to similar ones undertaken recently in German marks, Japanese yens, Dutch guilders, and Austrian schillings, should allow the Argentine Republic the possibility of obtaining financing at favorable terms. This issue is associated with the high volatility of interests rates, especially as these relate to ups and downs of the US dollar. See, " La Argentina colocó más bonos externos en el euromercado " in La Prensa, (Vida Económica) Buenos Aires, Argentina, Sept. 7, 1994, pg. 1.

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See, " Notable Ingreso de Empresas al Negocio Minero en Argentina " in Boletín Semanal Informativo Buenos Aires, Argentina. Ministerio de Economía y Obras y Servicios Públicos - Secretaría de Industria (Dirección de Prensa) Año 1, N° 16, pg. 1 - 2. The article argues that increased confidence in Argentine stability has resulted in a drastic increase in foreign investor confidence in the Argentine mining sector since 1991. It goes on to point out that the Mining Secretariat has estimated that by 1999 foreign investment in the Argentine mining sector shall have reached approximately 1.5 billion US dollars. This is largely due to a switch in extraction priorities. Previously, the emphasis had been on the extraction of iron and aluminum which require significant costs in transportation and infrastructure. Presently there is an emphasis on the extraction of scarce high value added ores

numerous pre-election public opinion polls that the economic measures implemented by the current administration have so far contributed in benefiting the position of roughly 40 percent of the Argentine national electorate. The remaining 60 percent of the electorate is either undecided or identifies itself as an opponent of Menemism. President Menem's opposition arises mainly from those who are unemployed (which hover at approximately the 15 percent level of the economically active population), old-age pension holders, and a large number of low and middle level government employees.²⁰ This fragmentation of the electorate into various political fronts has given Carlos Saúl Menem the sociopolitical leeway needed to successfully reform the national constitution and seek his own immediate reelection.²¹

(ie gold and silver).

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Indicative of this is the example set public-sector workers. These have seen their wage purchasing power contracting 1.5 percent in recent months. Added to this is the issue that the government, businessmen and unions have signed an accord through consensus to reform the system of labor relations, maintaining the macro-economic objectives in order to improve job levels and competitiveness. The aim has been to lower business overhead, stimulate the creation of new jobs and introduce changes such as in the trial period, apprenticeship contract, part-time employment, professional specialization and job training. See, Consejo Técnico de Inversiones, Anuario 1994: The Argentine Economy. Buenos Aires, Argentina: Consejo Técnico de Inversiones S.A., 1994, pg. 75.

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It should be pointed out that in regards to unemployment figures the government has expressed that "the increase in the

THE POSSIBLE THREAT TO ARGENTINE DEMOCRATIC MECHANISMS

In this light, it should be mentioned that the preceding discussion has sought to identify the key sociopolitical and economic issues affecting the development of the Argentine state and have attempted to illustrate how the Argentine Republic's economic ties to core markets and their demands have at times drastically affected national economic and sociopolitical development. These issues have been utilize in order to illustrate the realization that late twentieth century developing countries need to become more efficient producers within the Modern Political Economy in order to be internationally more competitive in an ever expanding global economy, as well as more attractive to foreign investment. Such types of factors have led the Menem administration to re-think not only the country's traditional political and economic stance internationally, but also from a domestic perspective.²² The continuation of the privatization

level of employment is not always reflected in the rate of unemployment because more workers, who were previously discouraged, have re-entered the labor market". See Argentina: A country for investment and growth - 1994. Buenos Aires, Argentina: Ministerio de Economía, Obras y Servicios Públicos, 1994, pg. 16.

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Since 1989 the Argentine government has put into place a process of unilateral reductions in tariffs and non-tariff barriers on imports. Consequently, as a result of such actions the Argentine economy has in the process become one of the world's most open economies. A clear example of the foregoing

process and the implementation of tax legislation reform (simplification of norms for businesses) have been measures implemented as a means of assuring the continued flow of foreign investment into the Argentine Republic.²³ Economic stability and the continued implementation of the Convertibility Plan, have become dependent on the preceding, as well as a political bully pulpit for the Menem government.²⁴

The issue that needs to be addressed at this point

has been the November 1992 tax rebate scheme implemented for exports. It now includes rebates on all taxes covered by the rules of the General Agreement on Trade and Tariffs (GATT). Ibid, pg. 96.

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Though by the beginning of 1994 substantial advances had been made in reducing employer social security contributions, as a means of improving competitiveness and lowering business costs, progress still needs to be made on the issue of labor reform. Most government authorities have argued that there still remains significant work to be done in with regards to the labor issue, especially as it relates to cost cutting measures, doing away with disproportionate taxes, financial reform, and provincial belt tightening by carrying out tax changes, intensifying deregulation and curbing and optimizing spending. See, Consejo Técnico de Inversiones, pg. 48.

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In August and early September Domingo Cavallo announced a set of measures aimed at stimulating economic activity and in the process increase employment in the Argentine Republic by reducing the costs of doing business in the country. In effect several laws and executive orders promulgated since the approval of the Foreign Investment Law of 1976 have been recently unified and re-sated in a single executive order. It essentially reaffirms that foreign investors can invest in the Argentine Republic without prior authorization and both capital and profits can be repatriated with no waiting period. See, " The Economy and Economic Policy " Argentine Investment Update. Buenos Aires, Argentina. The Undersecretariat for Investment of the Ministry of Economy and Public Works and Services. vol 1, N° 1, January - March 1994, pg. 4 - 5.

is if successful economic reform, which reduces inflation and reactivates the growth in the national economy, can possibly contribute to threaten the mechanisms of democracy in the Argentine Republic. In essence what is at the center of this issue is to what extent can successful economic reform and the continuation of the same threaten democracy via constitutional reform aimed at assuring in the near-term one party's (a renewed implementation of Argentina's 19th century unicato/one party rule) dominance over the national government through constitutional mechanisms.

Thus, does constitutional reform, without proper safeguards and limitations, when championed by the ruling party become a potential threat to a country's political mechanisms? It is not surprising to see that Alfonsín and the Radicals whom he leads, as the main opposition party, have been forced by political necessity to accept with certain guarantees the issue of constitutional reform. They have acquiesced to Menem's personal desire for a second term as a means of preventing the Menem government from obtaining a free-hand in writing a largely one sided constitution sanctioned by a mandate obtained through recourse to plebiscite during a period of sociopolitical and economic stability. Thus, it is worthwhile to point out that the principle aspects associated with this question were obtained by negotiating the same behind close doors prior to the

Constitutional Assembly.

The next question to be addressed is the issue of how successful economic reform has not only laid the groundwork for constitutional reform, but also how constitutional reform has occurred in today's Argentina. In the process the remaining half of the chapter will discuss what the new constitution and the negotiated guarantees will provide for the Argentine Republic. In the end the chapter shall attempt to reach a conclusion regarding whether if successful economic reform, under present circumstances, can come to pose a possible threat to the workings of democracy.

THE GROUNDWORK FOR CONSTITUTIONAL REFORM

The Menem administration has proposed that undertaking constitutional reform is a measure necessary for guaranteeing the continued success of its economic reform program. The Argentine Republic's main opposition party, the Unión Cívica Radical (UCR), has gone on the public record as stating that the government's pursuit of constitutional reform is merely a self-serving endeavor aimed at perpetuating President Menem's own current term of office. The Radical Party members of the Argentine Lower House of Congress have argued that they are in favor of the sort of constitutional reform which aims at reducing the concentration of power in

the Executive Branch of government, as well as de-personalizing the Presidency. They favor the vigorization of the role played by the Argentine Republic's Congress, guarantees of adequate control of state power, and notions of the rule of law through a truly independent Judicial Branch of the national government.²⁵

The successful implementation of economic reform has made constitutional reform geared towards addressing the Argentine President's desire for immediate re-election a reality. Political opposition in the Argentine Republic has shown itself to have been divided or been weakened by the Menem administration's success in bringing about sociopolitical stability via the implementation of successful economic reform. The greatest headway the political opposition has been able to achieve so far has been to negotiate the terms which in the end have made constitutional reform easier to accept politically for the electorate.

As has previously been mentioned constitutional reform has been brought about largely by the Menem administration's success in addressing the Argentine Republic's economic problems of the late 1980s and early 1990s. In effect Argentina's ability to stabilize its economy

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See, Mario Losada, et al. " Antes que sea tarde ", Temas Parlamentarios: Publicación del Bloque de Diputados Nacionales de la U.C.R. Oct. 1993, n°13, Año II. pg. 1.

through fiscal and structural reforms has given President Menem the means of achieving his goal of being immediately re-elected.²⁶

It is worthwhile to recall that Argentina has become during the three year period, ranging between 1991 and 1993, the world's third most rapidly growing economy. This can be seen in part by the sharp rise in foreign trade volumes by 1993 (see table n° 04), but especially facilitated by the fact that inflation in consumer prices has fallen to 7.4 percent, that wholesale prices have remained stable, and that both investment and industrial production have continued to rise.²⁷

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The International Monetary Fund has stated in its March 1994 survey, that Argentina's remarkable turnaround since the late 1980s reflects a comprehensive effort to lower inflation and promote sustainable growth. The Argentine Republic has in effect brought inflation under control by eliminating its fiscal deficit, curbing central bank credit and by pegging the peso to the dollar. It has been argued that these sort of measures, in conjunction with structural reforms and the resumption of internal and external debt service, have strengthened confidence in Argentina and have led consequently to large-scale capital inflows. In essence Argentina is currently showing positive signs of strong economic recovery. See, " Argentina Stabilizes Economy through Fiscal and Structural Reforms ", in Argentina: Trade & Investment News. Argentine Embassy, Washington D.C., vol. 1, n°2, April 1994. pg. 1.

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See, " Investing in a Growing Argentina ", in Argentine Investment Update, Undersecretariat for Investment for the Ministry of Economy and Public Works and Services. Buenos Aires, Argentina: vol n°1, n°1, January - March 1994. pg. 1.

TABLE N° 04

FOREIGN TRADE IN U\$S MILLIONS

YEAR	EXPTS	VARIAT VS. 1994	IMPTS	VARIAT VS. 1994	BALANCE	VARIAT VS. 1994
1974	9066	(6434)	8384	(12816)	671	4337
1975	6252	(9248)	8332	(12868)	(2045)	1620
1976	7904	(7596)	6122	(15078)	1753	5418
1977	10746	(4754)	7912	(13288)	2786	6452
1978	11289	(4211)	6763	(14437)	4451	8116
1979	12241	(3259)	10501	(10699)	1710	5376
1980	11016	(4484)	14475	(6725)	(3402)	264
1981	11505	(3995)	11866	(9334)	(355)	3311
1982	9405	(6095)	6583	(14617)	2774	6440
1983	9545	(5955)	5487	(15713)	3991	7656
1984	9647	(5853)	5455	(15745)	4122	7787
1985	10040	(5460)	4561	(16639)	5387	9053
1986	8439	(7061)	5818	(15382)	2578	6244
1987	7629	(7871)	6980	(14220)	638	4304
1988	10314	(5186)	6138	(15062)	4105	7771
1989	10557	(4943)	4634	(16566)	5824	9490
1990	13177	(2323)	4349	(16851)	8681	12346
1991	12584	(2916)	8512	(12688)	4004	7670
1992	12717	(2783)	15457	(5743)	(2695)	971
1993	13341	(2159)	17069	(4131)	(3666)	0
1994e	15500		21200		(5605)	

Obs: e stands for estimate
 Source: Consejo Técnico de Inversiones, pg. 145.

Especially interesting with regards to the preceding issues has been the fact that the Argentine automobile and consumer-service sectors have shown a marked expansion during the period.²⁸ This is important since it signifies that

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General Motors, Mercedes Benz, and Mazada have announced that they are in the process of expanding and/ or opening new production lines in the Argentine Republic. Furthermore, Isuzu, Honda, Toyota, Rover, and Mitusubishi have indicated that they are presently in advanced stages of feasibility projects regarding the opening of new plants in Argentina. See, " Foreign Investment Highlights: Automobiles " in Argentine Investment News. Buenos Aires, Argentina.

international investment capital is willing to bet on Menem and his neo-liberal economic strategy regardless of the sociopolitical and economic tensions these can bring in Argentina. This becomes especially relevant as the country's technologically sophisticated industrial sector is gradually reactivated via the infusion of new investment capital. Recall that capital is entering the Argentine economy precisely because of both the divestment of the large state-sector and the economic possibilities associated with supplying (without major tariff restrictions) the MERCOSUR countries (see table n° 05).

As a consequence of the preceding it can be held that as economic stability is maintained, modernization and capital inflows will increase in the MERCOSUR countries, especially in Brazil. This will tend to allow domestic consumption to increase and consequently favor an increment in the levels of Argentine exports within the overall framework of MERCOSUR. Furthermore, this should also tend to trim the asymmetries which have previously hindered the competitiveness of some fields of industrial activity in Argentina.²⁹

Undersecretariat for Investment of the Ministry of economy, Public Works and Services, vol n° 1 n° 1 (January-March 1994) pg. 2.

²⁹

See, Consejo Técnico de Inversiones, Anuario - 94: Business Trends and the Argentine Economy. Buenos Aires,

TABLE N° 05

ARGENTINE FOREIGN TRADE WITH MERCOSUR
(U\$S MILLIONS)

YEAR	TOTAL MERCOSUR		BRAZIL		URUGUAY		PARAGUAY	
	EXPTS	IMPTS	EXPTS	IMPTS	EXPTS	IMPTS	EXPTS	IMPTS
1977	647	441	465	373	97	32	85	36
1978	827	414	577	341	122	30	128	43
1979	1309	792	886	657	239	79	184	56
1980	1136	1305	765	1072	182	148	189	85
1981	892	1106	595	893	128	121	169	92
1982	829	827	568	688	116	90	145	49
1983	522	795	358	667	77	89	87	39
1984	655	979	478	831	83	98	94	50
1985	667	698	496	612	99	66	72	20
1986	894	831	698	691	129	93	67	47
1987	768	1003	539	819	168	114	61	70
1988	875	1170	608	971	187	131	80	68
1989	1428	869	1124	721	208	99	96	49
1990	1833	876	1423	718	263	116	147	42
1991	1977	1805	1489	1527	311	235	178	43
1992	2327	3755	1671	3339	384	351	272	65
1993	3684	4214	2814	3570	512	571	358	73
1994 (e)	3587	4237	2691	3561	518	622	378	54

Obs: e stands for 1994 estimate
Source: Consejo Técnico de Inversiones S.A., pg. 150.

CONSTITUTIONAL REFORM IN ARGENTINA

President Menem and the members of his government have been able to successfully bring about the legal implementation of constitutional reform in the Argentine Republic with a minimal amount of political opposition. Constitutional reform has aimed at granting Menem a second

Argentina: Consejo Técnico de Inversiones, S.A., ed. n° 167, 1994, pg. 49.

term of office and has been facilitated as a consequence of the success his administration has achieved in not only stabilizing the Argentine Republic's situation of hyperinflation, but also as a result of the nation's renewed international competitiveness and credit-worthiness.

Granted not all sectors of the Argentine electorate have profited directly from the successful outcome of the Menem/ Cavallo measures, but there does exist a sizeable segment of the national electorate which largely subscribes to the government's position and tacitly supports it. This is made clearly evident by the realization that if presidential elections were to be held at this very moment Menem would be able to muster support from approximately 45 percent of national electorate.³⁰ In the process the divided main opposition parties would be relegated to the mid-twenty percent range at best.³¹ Notwithstanding that finding, in the eventuality of such a situation occurring the new national constitution provides for a run-off election, ballotage, between the two political contestants which obtain the largest

³⁰

See, "Política" in El Cronista: Edición Fax Internacional. Buenos Aires, Argentina (May 11, 1995) pg. 1. The same states that Menem should obtain 45 percent of the vote with a difference 10 percent over the main rival José Octavio Bordón.

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See, "Sería entre Menem y Alvarez: Según una encuesta oficial, en el '95 habría ballotage" in El Clarín. Buenos Aires, Argentina, August 25, 1994, pg. 6.

percentage of votes in the first round.³² Though the Radicals originally thought that a second round would favor their candidate, in reality their cooperation with Menem has shown them to be politically weak. This has furthered undermined their position as the country's main opposition party. The Radicals are gradually losing ground to Bordón's FREPASO.

Therefore, the next inquiry involves whether the successful implementation of drastic economic reform, which in turn has led to constitutional reform in the Argentine Republic, may ultimately affect the proper workings of democracy if certain safeguards are not assured. There is a tendency for such a occurrence when one considers, for example, the increasingly powerful role being played by the Executive Branch of government, which has in effect been responsible for spear-heading the privatization drive via presidential decree and now aims at further consolidating its

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It is worthwhile to note that one of the constitutional reform measures adopted foresees the possibility of avoiding a second round if one of the presidential candidates obtains forty-five percent of the votes or more. It also foresees the possibility of avoiding a second round if one of the candidates obtains forty percent of the votes and leads the next political contestant by a margin of at least ten percentage points. In effect this factor and the issue of a multi-polar electorate allows the Menem administration to target key sectors of support instead of having to target the majority the electorate in order to gain re-election. This more "cost effective" in the sense that if reelected President Menem will be beholding to a smaller constituency than would be the case if he were to win by recurring to the entire electorate's support.

preeminence by assuming the role of a national regulatory body.³³ The main issues surrounding constitutional reform in the Argentine Republic must be addressed in order to gauge the possibilities of successful economic reform negatively influencing democracy and/ or its mechanisms.

What has made negotiated multi-party constitutional reform in the Argentine Republic feasible has been the possibility of the Menem administration resorting to a plebiscite in the eventuality of continued minority party opposition. The Radical Party's hierarchy realized after the October 1993 parliamentary elections that it could not hope to marshal the necessary national support to impede Menem's re-election aspirations.³⁴ The Olivos Pact is the direct result of the aforesaid realization by the Radicals of their ballot-box weakness and the success of the Menemist economic reform

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In effect the state through the privatization program has abandoned its previous role as the nation's chief investor and in the process has delegated it to the domestic and/ or international private sectors. Such a role had previously been undertaken in order to provide the state with ballot box support, brought about by full employment practices characteristic of State-Centric development, and in order to develop independently of the core industrial states' control. The implications of this is that middle class/ conservative alliance may come to oblige the presidency to impose a new form of unicato on the Argentine Republic in order to assure the continuity of the success of the neo-liberal policies.

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The support that President Menem obtained during the October 1993 parliamentary elections clearly demonstrates the weak position in which the political opposition now finds itself relegated to.

policies.³⁵

The Menem administration has also recognized that there still remains opposition, albeit disunited and fragmented, in the Argentine Republic to many of its measures. This in turn has required it to negotiate certain aspects of the constitutional reform in conjunction with provincial constitutional reform.³⁶ Provincial constitutional reform has aimed at assuring opposition party governors the possibility of serving additional terms of office in exchange for support at the constitutional convention. This serves as a text book example of a case of political quid pro quo.

The Radicals by mid-1993 fear the possibility of Menem, being able to ride the crest of economic recovery, unilaterally promulgating constitutional reform. At that point in time the Menem administration was still basking in the unquestioned light of being responsible for unprecedented renewed economic prosperity and the ensuing increase in levels of personal consumption.³⁷ Such a situation, if not addressed

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Named after the locality in which Dante Caputo, Alfonsín's former Minister of Foreign Affairs, maintains an apartment utilized for the initial negotiations undertaken between Alfonsín and the Menem administration.

³⁶

The Argentine Constitution of 1853 guaranteed the nation's provinces the right to elect their own governors and legislatures, as well as frame their own constitutions.

³⁷

This sort of situation has gradually eroded due to the

via political negotiation, would have allowed the Menem government the possibility of achieving its goals by merely convoking a national plebescite requesting authorization to rewrite the constitution as it saw fit. Recourse to plebescite was however never convoked by the Menem administration, even despite its strong showing during the October 1993 and April 1994 parliamentary elections, because the Radical opposition realized that it had lost substantial national representation, as is further evidenced by the poor showing obtained even in their own bulwark of the City of Buenos Aires.³⁸ It can thus be logically held that had the plebiscite been convoked by the Menem Administration immediately following the April 1994 elections, the government would without a doubt have been in a far more powerful position to dictate the general terms and conditions of the new Argentine Constitution than resulted to

changing nature of the World-System. Countries like Argentina are tied to the economic upswings and downswings of the core states and the international capitalist economy which these influence directly. An example of this is the issue that an increase in the United States interest rate may contribute in halting the flow of capital to developing countries. It has become the case that the flow of capital has been largely responsible for Cavallo's miracles in the Argentine economy. It is worthwhile to note that the preceding sort of situation has affected also Mexico, Brazil, and Venezuela, among other Latin American states. For more information see, Joaquin Morales Sola, " Amor con barreras " in Noticias, Buenos Aires, Argentina, April 10, 1994, pg. 62.

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A large segment of the Radical electorate voted for the parties opposing the government and/ or the accords of the Olivos Pact negotiated by the Menem administration and Alfonsín.

be the case as carried out by negotiation.

These sort of factors increase political tensions as a result of the necessity of assuring continued allegiance to the neo-liberalist economic policies that have inhibited a return to inflation. The need to assure the continuity of the economic measures has allowed the presidency to suggest that it could resort to convoking a plebiscite in order to accomplish its goals. In order to avoid such a debacle the opposition has opted to reach a negotiated solution that would guarantee its concerns.

CONSTITUTIONAL SAFEGUARDS

The mechanisms of Argentine democracy may become victims to the very success of the economic reforms implemented by the Menem administration if certain safe-guards are not implemented. The foregoing chapters have also attempted to illustrate that Argentina, as a semi-peripheral state, is not only affected by the core's requirements, but also by core demands for stability in the semi-periphery. These sort of factors have been readily made evident, among other issues, by the Oil Crisis of the 1970s and the ensuing need to recycle petrol-dollars, as well as by the subsequent Debt-Crisis of the 1980s. In the end it can be said that core instability during the preceding period has lead to financial/

economic instability in semi-peripheral Argentina, which in turn has required core intervention (primarily via the IMF's auspices) in order to reestablish economic stability in Argentina.

This correlation endeavors to illustrate that the national government may become prone to exert greater demands on the Argentine populace in order to avoid a recurrence of the previous situation. It is precisely out of such fears that the Radicals have been led to negotiate and bargain with the Menem government via the Olivos Pact. The result of those negotiations has been among other issues the incorporation into the new constitution of supposed constitutional safeguards.

One of these has been the creation of the post of Cabinet Chief of Staff charged with the general administration of the Argentine Republic. Though the person heading this post will be designated and removed by the President, the Argentine Congress will also be empowered to remove the Cabinet Chief of Staff through a vote of censure. Notably, under the previous considerations the administration of the country had been the exclusive domain of the President. Arguably this new constitutional measure could allow the Argentine Congress a greater degree of influence in the administration of the country than had been the case previously.

An additional safeguard of the new constitution has

been the increase in the number of senators per province from two to three after the year 2001. These senators are to be elected by direct vote to six year terms instead of the current nine year ones. Before, senators had been elected indirectly. In effect this measure should allow the electorate, especially minority parties, to have more political representation in the Argentine Senate. This could contribute in further fragmenting the opposition and thus strengthen the Executive.

Another key measure adopted has been the extension of the ordinary session of the Argentine Congress by four months. The 1853 Constitution had allowed Congress to meet from May 1st to September 30th each year. The constitutional reform implemented in 1994 defines the congressional session as running from March 1st to November 30th. This should facilitate increased congressional oversight of the workings of the Executive Branch of government and in the process further safeguard the workings of Argentine democracy.

A fundamental issue addressed within the text of the new Constitution is that pertaining to the Judicial Branch of government. Previously judges had been appointed to their offices by the President. From this point onwards the Council of the Magistracy is to be given constitutional standing. It will thus be empowered to present the President with a list of three candidates for each judicial position, from which the

President must choose one to fill the corresponding vacancy. Furthermore, the Council of the Magistracy will administer the Judicial Branch of government.

An added judicial measure has also been the creation of the Office of the Public Defender. This office is charged with protecting the citizenry against damaging or excessive acts perpetuated by the state. The Public Defender will be autonomous, but will be chosen by the Congress.

An additional element involved with the Judicial Branch of government is the issue of the Supreme Court and political trials. The justices of the court are to be chosen with the approval of 2/3 of the Senate and can only be removed by political trial for having failed to properly carry out their functions or for having committed crimes. In order to be removed a sitting justice must go before a Jury of Judicial Proceeding, Jurado de Enjuiciamiento, which is composed of lawyers, magistrates, and members of the legislature. Previously the Supreme Court had been nominated by the President and approved by a simple majority of the Senate. In effect these measures are aimed at strengthening the concept of rule by law and independence for the other branches of the national government.

One of the most important measures adopted pertained to the control of the national public administration. This will be undertaken by the General Accounting Office of the

Nation, Auditoría General de la Nación, which will be presided over by a person nominated by the chief opposition party. Previously there had been no such instrument mentioned in the Argentine national Constitution. This development is noteworthy, especially in light of recent accusations made against presidential appointees of official mismanagement of public funds. Thus, the new Constitution adds a check meant to inhibit official corruption and to disqualify proven corrupt public officials from again holding public office.

Another key measure adopted relates to the issue of semi-direct democracy. Previously the Argentine Constitution held the precept that the people did not deliberate nor did they govern except through their representatives. The new National Constitution introduces the concept which has been labelled as vinculating plebiscite. This plebiscite is convoked by the House of Representatives to allow that if a bill proposed by plebiscite triumphs at the ballot box it automatically becomes law. The issue of non-vinculating plebiscite has also been introduced into the new National Constitution. It is convoked by the President, though only the National Congress can convert the resulting bill into law. Bills dealing with constitutional reform, international treaties, taxes, the budget, and penal legislation cannot be addressed by plebiscite.

Another innovation in the new National Constitution

is that of citizen initiative. It essentially allows the common citizenry to obligate the Congress to address a bill if at least three percent of the electorate signs a petition so demanding. Furthermore, the Congress may not take more than one year to actually consider the proposals of the bill.

The adoption and implementation of such measures should contribute to inhibit the Executive Branch from having a free and unrestricted hand on the reigns of government. Such measures were negotiated in exchange for allowing the direct election and subsequently the direct re-election of the President and Vice-President of the Republic to four-year periods of office. The presidential term of office had been restricted, under article 77 of the 1853 Constitution, to six years without the possibility of immediate re-election. Further, under the old constitution the election of the President and Vice-President of the Republic was indirect; previously they were both elected by an Electoral College. Furthermore, the President of the Republic is no longer required to be a member of the Roman Catholic faith.

The new Argentine Constitution also foresees the implementation of run-off elections, ballotage, between the two presidential tickets with the most votes.

Additionally, the new Constitution attempts to protect the presidency from future coups d'etat by the incorporation of a constitutional clause which establishes in

perpetuity the inability to occupy public office for those who commit acts of aggression against the democratic system, as well as for the members of the ensuing de facto government. It goes on to establish that those perpetuators of aggression to the constitutional order shall be considered as traitors to the nation, traidores a la patria.

The Constitution of 1994 placates Menem's desires for immediate re-election and also addresses many of Raúl Alfonsín's most significant concerns relating to unbridled executive power by placing constitutional restraints on Argentina's chief executive. Yet, the constitutional reform of 1994 has had its share of detractors from both within the traditional rank and file membership of the Justicialista Party in addition to that emanating from the political opposition.

Especially troubling for many has been the role assigned to the Constitutional Convention, that seems to have been largely delegated a symbolic and rubber-stamping role, since most of the critical details of the new Constitution were previously negotiated during the Olivos Pact deliberations. Many Argentine political observers have tended to argue that the fundamental law of the country has in effect fallen victim to both Menem's re-election whims and the aspirations for renewed political importance by Alfonsín, a largely unrepresentative politician.

The only defense that can be offered on the behalf of Alfonsín and his supporters is that they have agreed to assist Menem in order to avoid allowing him the possibility of consolidating total political hegemony.³⁹ These Radical Party adherents have argued that they have been able to "sell" Menem, in view of his obsession with being re-elected, a package deal of guarantees.⁴⁰ Supposedly the negotiated terms of the Olivos Pact should safe-guard the major principles of Argentine democracy.

CONCLUDING SUMMARY

Those in not complete agreement with the Menem government have asumed that the Argentine Republic's renewed experiment with democracy may be negatively influenced by the need to continue with the economic viability of the current economic reform program. It is obvious that the Menem government has aimed and adopted every measure that it could

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Alfonsín's former Minister of Economics, Jesus Rodriguez, has argued that even though his main objective is to comply to the letter of the agreement signed between Alfonsín and Menem, he has his reservations. Essentially, he has argued that the Olivos Pact has been a difficult pill that he has had to swallow. See, Gustavo González, "Un médico aquí", in Noticias Buenos Aires, Argentina. Feb. 20, 1994, pg 80-81.

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See, James Nielson, "¿La Historia y los constituyentes de hoy: Alberdi, Alberdi a qué altura...?" in Noticias Buenos Aires, Argentina, Feb. 20, 1994, pg. 61.

Buenos Aires, up from the 10 percent level in 1993).

One can conclude that what needs to be done in order to avoid a return to the sort of on-again-off-again autocratic rule of past years is not only the effective implementation and adherence to the constitutional safe-guards which have been negotiated in order to assure the democratic process, but also adopt effective economic reactivation measures.⁴¹ Added to this there must also be a firm commitment by the national government to stimulate not only the large producers of the Argentine Republic, but also the small and medium-sized producers as well. These compose directly and indirectly the bulk of the middle class and thus national electorate.

The constitutional deliberations have attempted to address the opposition's main concerns about the democratic workings of the Argentine system in conjunction with the administration's desire to achieve immediate presidential reelection and thus supposedly assure the continuity of the Convertibility Plan. This goal has been paramount and pursued as a means of maintaining renewed Argentine international creditworthiness, as well as the viability of a globalized

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In essence what is needed in order to guarantee the viability of constitutional reform and democracy is the implementation of measures aimed at promoting exports, by way of production refunds and subsidies in exchange for undertaking increased commitments for exporting. See, Carlos Abalo, "Remedios para el descontento social" in El Cronista: Edición Fax Internacional. Buenos Aires, Argentina. (May 30, 1994), pg. 1.

Argentine national economy. But the country and its leadership must prepare itself to address a second phase of the Convertibility Plan, one that aims at addressing more social issues than have been during the first phase.

The 1994 Constitution has been apparently construed in such a manner that it seems to dilute the possibility of the rise of an "imperial presidency" in the Argentine Republic. But the new constitution has a series of defects (ie increased number of senators, rule by vinculating plebescite and citizen initiative) which if properly exploited by a charismatic president could lead to a circumvention of the impediments placed to impede expanded presidential authority. The previous could further be facilitated if the ruling government controls the Congress. In theory there do exist constitutional safeguards that aim at inhibiting (ie Council of Magistracy) the possibility of the rise of an imperial presidency, but these may prove to be inadequate in the face of economic dislocation brought about by international sociopolitical (ie the Peruvian-Ecuadorian War in the Andes) and economic upheavals (Mexico's Tequila effect).⁴² These sort

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The Mexican crisis has shown that bondholders are prone to panic once a stock market in one country collapses. These in turn suffer the effects of "contagion" in which investors sell-off their assets in other markets in order to recoup their initial losses. This results in a situation of irrational market behavior that comes to negatively affect countries (ie Argentina) that in good economic shape to suffer from crises elsewhere. See, Zanny Minton-Beddoes, "Why the IMF

of circumstances contribute in undermining international opinion of both the Latin American Region and subsequently of Argentina since it forms an integral part of it. This in turn may force Argentina and its government to impose ever harsher stabilization programs as means of arresting those fears, and as a by-product increases sociopolitical and economic tensions in the country.

Needs Reforming" in Foreign Affairs. vol. 74, n° 3 (May/ June 1995): 125 - 126.

CHAPTER THREE

STRUCTURAL ADJUSTMENT AND DEMOCRACY

In the preceding chapters I have attempted not only to illustrate the main issues associated with the Argentine Republic's key historical economic and sociopolitical development as they pertain to the Modern Political Economy perspective, but also endeavored to set the stage for addressing the question of how successful economic reform implemented via neo-liberal policies can influence the proper working of Argentine democracy. This has been carried out by looking at the economic, as well as the sociopolitical development of the Argentine state and the tensions generated by the Menem/ Cavallo economic reforms.

Having briefly done so it becomes evident that the modern Argentine state's experiment with State-Centric development has failed. This issue is made readily evident by the Menem administration's wholesale privatization program of the early 1990s.¹ Furthermore, the principal notions

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Privatization requires both the transfer of ownership, as well as the operational and administrative control of a state company, to the private sector. The Menem administration has assumed that by exposing Argentine firms to the discipline/rigors of the capital markets, and in turn by also allowing the owners and managers of these to reap the rewards of improved levels of costs and services, these would become more efficient producers. In the process this should supposedly reduce costs, as well as increase national economic efficiency. Furthermore, it can also be held that privatization has been an effective tool for improving the

associated with constitutional reform have also been addressed as a means of illustrating the principle fears of the opposition parties to an additional term of office for President Menem. Consequently, the aim has been to illustrate how a failed economic development policy (State-Centric development), subject to the demands associated with the realities of the Modern Political Economy and neo-liberal economic reform, have led to the 1994 Constitutional Reform and in the process increased sociopolitical tensions in Argentina.

It is interesting to note that the principle threat to Argentine democracy in this case does not tend to arise from the military sector of the Argentine Republic as had been the case in the past, but rather may arise from the Executive Branch of government seeking to perpetuate itself in office. Thus, the possibility of returning to autocratic military style rule of earlier years is remote at the best in the Argentine Republic at this point in time. This is due primarily to the fact that the military has proven itself to

fiscal health of the Argentine Republic by reducing the country's fiscal deficit. This in turn assists in reducing the funding losses previously brought about by inefficient state-run concerns. In the Argentine case this has consequently lead to both a reduction of the external and domestic public debt. For more information regarding this particular matter see, David L. Moore and Diana M. DePinto, " Solving the Capital Crisis: Energy Sector Restructuring, Commercialization and Privatization " in LatinFinance. (Supplement June 1994), pg. 19-24.

be an inefficient economic allocator of resources, an ineffectual sociopolitical leader, and a failed military machine because of the Malvinas/ Falkland Islands War waged with Britain in 1982.

Having briefly clarified the preceding I should point out that the present chapter will address the issue of how the implementation of successful economic reform may come to adversely affected the proper workings of Argentine democracy as a consequence of the government's policy and its need to assure continued economic stability. This section of the study will simultaneously look into both the Argentine labor issue, as well as the need to restructure the economy along more competitive lines. Especially relevant in this case are the issues that pertain to the requirements inherent in the Modern Political Economy and neo-liberal economic reform in light of the post-Debt Crisis situation faced by Menem's Argentina.

THE ISSUE OF ARGENTINE LABOR & INTERNATIONAL COMPETITIVENESS

It is precisely within the greater context of the international competitiveness of the Argentine national economy that the issue of labor must be addressed. Recall that the current economic reform program, as implemented by the Menem administration, has sought to improve the country's

overall international competitive position. The economic reform program carried out by the Menem/ Cavallo team has sought to open up the national economy, restructure the state's activities and reduce the size of government while simultaneously boosting its operating efficiency. In the process this major restructuring of the Argentine economy has also included a deep and broad privatization program.²

The issue of Argentine labor and its political mobilization as it tends to pertain to Argentina's twentieth century economic and industrial development is particularly relevant here. In the past half century Argentine labor has come to play a central and powerful role in the country's development. Any attempts at reducing its institutionalized strength has led to increased sociopolitical tensions. The labor issue in light of Argentina's renewed economic growth, resulting from the implementation of neo-liberal policies, continues to be a question of significant economic and sociopolitical importance for the Argentine state.

The relative importance of the labor sector is made evident by the fact that it still constitutes the Argentine Republic's single largest voting bloc. This factor is still

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See, Jerry Haas, " The Argentine Miracle Continues " in LatinFinance. N° 58 (June 1994) pg. 82. The author makes the argument that the ambitious economic reform program implemented by the Menem administration has sought to eliminate the country's fiscal deficit, as well as liberalize the Argentine labor and capital markets in the process.

relevant today as it was when first identified by Juan Domingo Perón in 1943 and which was subsequently ratified with his election to the Argentine presidency in 1946. Even though labor has been marginalized by the Menem administration its relevance as a potential political force still remains valid. With regards to the preceding it should be pointed out that the Menem administration has reneged on what was initially supposed to have been a populist government in favor of neo-liberal economic reforms. These reforms have largely addressed the financial concerns of the Argentine middle class, as well as those of the more conservative elements of the national electorate and international corporations. Yet, as a consequence of increased economic stability individual workers have been able to increase their levels of consumption of consumer items.

As a consequence of the success of the neo-liberal economic reforms implemented by Carlos Menem the country's GDP has risen 6.5 percent in 1994, speeding up in the process the rate of growth compared to 1993 and taking cumulative growth in the 4-year period 1991-94 to almost 34 percent, a fact previously unheard of in other Argentine stabilization plans (see table n° 06).³ In having abandoned the populist pro-labor policies of the past the Menem government has been able

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See, Consejo Técnico de Inversiones, Anuario-94. Buenos Aires, Argentina: Consejo Técnico de Inversiones, S.A., 1994, pg. 50.

to gain the confidence of economic actors which had previously been ignored in the government-labor alliances of the past. In essence this has stimulated the economy and led to an expansion in construction and the exploitation of economic sectors which had stagnated due to the lack of capital.

TABLE N° 06

DEVELOPMENT OF ARGENTINE GDP IN CURRENT U\$S

YEAR	PESOS(a)	U\$S MILLIONS IN CURRENT DOLLAR QUOTATION (1)	U\$S MILLIONS IN CURRENT VALUES IN ACQ. PARITY (b) (2)	POP. IN MILLION	GDP/HEAD CURRENT VALUES U\$S	
					P/(1)	P/(2)
1960	0.00000010	12,198	12,198	20.0	610	610
1965	0.00000036	14,928	15,446	21.6	691	715
1970	0.00000088	23,150	20,177	23.4	989	862
1971	0.00000126	23,688	22,299	23.8	995	937
1972	0.00000209	21,628	24,073	24.2	894	995
1973	0.00000356	35,657	29,704	24.7	1,443	1,202
1974	0.00000488	48,934	39,006	25.1	1,950	1,554
1975	0.00001452	45,381	45,282	25.6	1,773	1,769
1976	0.00007546	46,288	41,616	26.0	1,780	1,601
1977	0.000208	51,870	50,856	26.4	1,859	1,813
1978	0.000518	64,900	55,569	26.7	2,373	1,905
1979	0.001390	103,423	65,044	27.1	3,792	2,243
1980	0.003840	206,897	116,895	27.4	5,495	2,802
1981	0.00747	114,985	118,484	27.9	4,121	4,247
1982	0.02185	81,425	99,201	28.3	2,877	3,505
1983	0.10950	97,088	109,220	28.8	3,371	3,792
1984	0.79092	105,846	119,615	29.2	3,625	4,096
1985	5.3055	85,024	104,645	29.7	2,863	3,523
1986	9.9841	103,677	116,773	30.1	3,444	3,880
1987	23.3324	103,515	125,578	30.6	3,383	4,104
1988	111.0619	127,657	129,142	31.1	4,105	4,152
1989	3,244.05	67,938	113,349	31.6	2,150	3,587
1990	68,922.27	140,543	144,977	32.1	4,378	4,516
1991	180,898	189,760	182,762	32.6	5,821	5,606
1992	226,636	228,303	221,541	33.1	6,906	6,701
1993e	255,326	255,326	238,044	33.5	7,615	7,100
1994e	280,000	280,000	262,172	34.0	8,235	7,711

obs: e stands for estimate. Acq. stands for acquisitive

SOURCE: Consejo Técnico de Inversiones, pg. 61

Within the context of the foregoing it should be realized that the principal means of achieving the injection of financing in the post-Debt Crisis world has been via not only privatization, but also by restructuring the state-system to favor neo-liberal economic policy. This has resulted in increasing sociopolitical tensions among organized labor. In effect it has seen not only its wages reduced and/or frozen in the short-term, but also its collective bargaining strength undermined as consequence of the implementation of more agile labor-dispute resolution mechanisms promoted by the government. Yet, contrary to what may first be assumed this particular situation has tended to favored the individual worker to detriment of organized labor.

Negatively affected by the preceding is the case of public-sector workers which have been forced to accept the notion that their overall purchasing power has contracted by 1.5 percent because of government policy.⁴ The government's aim apparently has been to set an example for the private-sector to follow as means of lowering business costs and increasing the nation's overall competitiveness while simultaneously bringing about greater transparency in the labor market.⁵

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Ibid, pg. 75.

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A principal policy instrument implemented by the government, as a stimulus for both industry and agriculture,

With regards to the preceding, and especially in conjunction with overall historical terms, it is worthwhile to recall that the importance of the labor sector was made amply apparent to Juan Domingo Perón, as the founder of the Peronist/ Justicialista Party. He in effect utilized labor as the pillar of his political power in an alliance with the nationalistic industrialist sector. This is made clear as early as 1943 when Perón commenced to effectively manipulate Argentine labor to his political benefit by promulgating pro-labor social legislation, as well as by increasing organized labor's wages in exchange for its political backing. Juan Perón undertook such populist measures in order to gain the support of a then largely untapped source of potential political power.⁶

has been to reduce payroll taxes and other contributions paid by employers. Reductions have been set according to distance from Buenos Aires and income levels of the employees. It should be pointed out that these reductions were implemented by January 1994, and have varied from 30 percent 80 percent in most cases. The firms targeted for this sort of stimulus have been those companies involved in the production of primary products, industry, construction, and tourism. Specifically excluded are other services and the retail trade. The government has estimated that though the fiscal cost of the reductions will be roughly one billion dollars in lost revenue, this shall be compensated (from the government's and not employee's perspective) by greater economic activity and tax enforcement. See, Ministry of the Economy, "The Economy and Economic Policy", in Argentine Investment Update. Buenos Aires, Argentina: Undersecretariat for Investment of the Ministry of Economy, 1994, pg. 4.

⁶ What greatly facilitated Perón's political aspirations was his official position as a member of the Farrell government to lavish unprecedented attention on labor. This

Perón was able to effectively channel/ manipulate labor's discontent over its situation of lack of representation and sense of oppression vis-à-vis the Argentine Republic's traditional elitist/ conservative sector into propelling him into the presidency. Labor's support of Perón, in conjunction with the post-war economic boom, facilitated the ensuing Peronist government's ability to implement policies of economic nationalism as means of seeking an alternative route to development (tercer camino) than that proposed by the Soviet Union (communism) or the United States of America (free-market/ laissez faire capitalism).

In addition to the previous it should be recalled that the native Argentine capitalist class has traditionally been hesitant to invest in long-term and slow growing investments needed to produce capital goods. Rather, it has shown a propensity to favor quick and high profit rates over a definite and limited period of time.⁷ This was one of the principle factors that led to the state's increased involvement with State-Centric development. Recall that this

resulted in raising not only the standard of living of the average worker of the period, but also contributed to vastly improve the general sense of dignity and self-worth of the Argentine proletariat. See, Benjamin Keen, A History of Latin America. 4th ed. Boston, MA: Houghton Mifflin Company, 1992, pg. 308 - 309.

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See, E. Bradford Burns. Latin America: A concise interpretative history. 6th ed. Englewood Cliffs, NJ: Prentice Hall, 1994, pg. 240 - 241.

is basically a situation in which the state becomes directly involved with the financing of larger and more capital risky undertakings since the local capitalist class is either unable or unwilling to invest such large amounts of capital.

As a consequence of the state's expanded role in domestic economy, Perón sought to provide increased national employment at higher wages and increased social benefits to further consolidate his ballot-box support. Consequently, when blocked by the political opposition, the Executive Branch of the government would then either rule by decree or turn to Peronist controlled national electorate for plebiscite approval. It is within such an atmosphere in which Perón's first Quinquennial Plan, aimed at achieving accelerated industrialization and greater economic independence, was initially undertaken.⁸

Perón's eventual fall from power in 1955 is a result not of the loss of popular backing, but the loss of support from the Argentine Roman Catholic Church, the nation's military, the traditional oligarchy's effective opposition, and middle class discontent over the mismanagement of the national economy. Yet, regardless of these facts Argentine

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In rapidly increasing the country's industrial park, by becoming the principle driving force for it, the Perón government speculates that it will be able to increase high wage employment. If successful the government could point with pride not only its economic accomplishments, but also to its pro-social successes as well in the process.

labor, for the most part, continues to remain even to this day a firm supporter of Perón and the Peronist cause ideology. This type of allegiance to the personality cult created by Perón in the 1940s succeeded in bringing the ousted leader back from exile in 1973. Furthermore, it should be realized that organized labor's support granted the newly returned Perón a third new term of office with over sixty-two percent of the popular vote.⁹

This contributed to effectively legitimizing the reentry of the Argentine proletariat as an institutional mass into the country's political life by 1973. Yet, it should be pointed out that not even Perón and his charismatic leadership were enough to control the complex demands of a sociopolitically and economically agitated Argentina of the 1970s. Consequently, sectors of the Argentine middle class and the elitist and traditional factions of the country came to fear the rise of a populist controlled government. That situation represented to the elites a direct erosion of their power-base, as well as a challenge to their position from below.

Thus, by 1973 the Argentine Republic was already being subjected to the pull of increasing sociopolitical

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It is worthwhile to point out that under such circumstances the government could readily recur to plebescite as a means of implementing policy, since all that is required in this regard is obtaining fifty percent of the vote plus one vote in order for measures to pass.

tensions caused by the reappearance of not only Perón, but also economic tension caused by the state's need to develop the country along nationalistic lines. It is worthwhile to point out that regardless of Perón's nationalistic economic development rhetoric the greatest advances in Argentine industrial development were made after his ouster during the 1955 to 1973 period with primarily the help of foreign investment capital. Yet, Perón and Peronism have never been anti-capitalist, rather have favored state capitalism and national economic independence. The general effects of Perón's policies were to increase the number of small, labor-intensive establishments even in light of the fact that because of economic necessity he was forced to open the country to foreign capital by 1954 (see table n° 07). It is a consequence of the inroads made by foreign capital during that period which causes the Argentine state to increasingly seek the possibilities of taking over the management of development from domestic capital via State-Centric development.¹⁰

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During the 1955 to 1973 period the Argentine economy passes from being primarily a labor-intensive one to a capital-intensive one. During this period non-traditional industries known as "dynamic" take-off principally in such fields as iron and steel production, chemicals, petroleum derivatives, rubber, automobiles and machine building. Foreign firms during the period come dominate all of the dynamic industries with the exception of the steel and paper industries which continued to be dominated by local capital. See, Paul H. Lewis, The Crisis of Argentine Industry. Chapel Hill, NC: University of North Carolina Press, 1990, pg. 298 - 299.

TABLE N° 07

ARGENTINE INDUSTRIALIZATION FIGURES FROM 1943 TO 1974

YEAR	NUMBER OF FIRMS	NUMBER OF WORKERS	INSTALLED HP	WORKERS P/ FIRM (AVG.)	HP P/ FIRM (AVG.)	HP P/ WORKER (AVG.)
1943	59,765	820,470	1,836,453	13.7	30.73	2.24
1946	84,905	1,058,673	2,076,531	12.5	24.46	1.96
1950	81,599	1,035,765	2,661,922	12.7	32.62	2.57
1954	148,371	1,217,844	3,570,037	8.2	24.06	2.93
1964	190,892	1,370,483	5,115,913	7.2	26.80	3.73
1974	126,388	1,525,221	6,753,375	12.1	53.43	4.43

RATES OF CHANGE (%)

	1943-1954	1950-1954	1954-1964	1964-1974	1954-1974
NUMBER OF FIRMS	+148.3	+81.8	+28.7	-33.8	-14.8
NUMBER OF WORKERS	+48.4	+17.6	+12.5	+11.3	+25.2
INSTALLED HORSEPOWER	+94.4	+34.1	+43.3	+32.0	+89.2

SOURCE: Lewis, pg.299.

The foregoing figures are indicative of the changes that have occurred in the Argentine Republic's drive towards industrialization. These have endeavored to illustrate the importance of foreign capital in developing the country. Especially relevant in this case has been the role played by U.S. capital. This is made amply evident when it is realized that during the period in question foreign firms have been the principle actors in the so-called second stage of development dealing with import-substitution mechanisms led by the dynamic domestic concerns.¹¹

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See, Bernardo Kosacoff, "La Presencia Actual de las Empresas Extranjeras en la Industria Argentina. Su Estrategia ante el Mercosur", in Segundo Seminario, Mercosur: Perspectivas y Problemas. Buenos Aires, Argentina: Centro de Economía Internacional - Ministerio de Relaciones Exteriores, Comercio Internacional y Culto, pg. 162 - 163.

LABOR REFORM AND WHAT IT MAY COME TO IMPLY

The Menem administration was voted into office in 1989 on a wave of popular socioeconomic discontent with the Radical Party's administration of Raúl Alfonsín. Menem, as the Justicialista (Peronist Party) candidate, was able to defeat Eduardo Angeloz, the Radical Party candidate, as a direct consequence of both the deterioration of the Argentine national economy, as well as the traditionally Peronist Party's ability to gain the backing of then all powerful Argentine labor sector. Notably, the political honeymoon between the then newly elected Menem administration and organized Argentine labor movement has not lasted as long as most analysts and traditional Peronists would have initially assumed or liked.

Quite the contrary the Menem government quickly and deliberately moved to adopt a much more conservative attitude towards the stagnant economy than would have been assumed possible for a Peronist/ Justicialista Party government. This has soured the relationship between the Menem administration and the Argentine labor sector.¹² The ensuing adoption of

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It is worthwhile to point out that organized labor's discontent with regard to many of the government's measures seems to have been largely diluted by the Menem administration's privatization policy. The state, by divesting itself of its industrial and commercial sector responsibilities through the privatization program, has been able to circumvent criticism by relocating blame to the new

conservative, in this case non-populist policies logically expected from a Peronist/ Justicialista Party presidential administration, has drastically rearranged the Argentine economic and sociopolitical playing field. In the process this has increased tensions within the Argentine Republic and the electorate.

Effectively the Menem administration, by adopting unorthodox economic measures, has distanced itself from its own party's traditional power-base, organized Argentine labor, in favor of addressing the concerns of the international financial investment community and the conservative sectors of Argentine society. By implementing neo-liberal economic measures, different from the traditional orthodox measures of past Argentine stabilization programs, the government has succeeded in effectively addressing the major fears of the middle class, this namely being a return to inflationary

owners (ie the case of Argentine Airlines). In effect the privatization program has allowed the Menem government to reduce its fiscal expenditure, by no longer requiring the federal government to continue absorbing losses brought about by inefficient and/ or employee bloated industries, while simultaneously requiring the new owners to assume a greater share of social responsibility. In this case social responsibility can be defined in terms of obligating the new owners to make capital improvements to the newly privatized firms over a fixed of time as part of the purchase/ concession price requirement. This sort of issue should supposedly come to entail the fortalization and/ or development of linkages with other complementary firms in the same sector. In the process employment should also tend to expand both directly and indirectly while simultaneously increasing the privatized company's operational efficiency as it becomes able to capture new market shares.

levels characteristic of preceding eras of hyper-inflation and assured the country's capitalist class of the possible profitability of its investments.

The requirement of effectively carrying out these measures led the Menem administration to implement early on in its administration a series of measures which allowed the government to largely divest itself by 1994 of most of the former unprofitable national public sector.¹³ In effect the Menem government has opted to exchange the state's prior statist and populist role for primarily a more regulatory function.¹⁴ This has allowed the national government to become

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In August 1989 the Argentine National Congress approved the State Reform Law, conceived as a point of departure for the placing in order of public finances and the redefinition of the tasks to be performed by the public-sector. Law N° 23,696 on State Reform declared a state of emergency covering the provision of public services, the fulfillment of contracts and the economic and financial situation of the National Public Sector Administration, its agencies, State companies and corporations, services from special accounts, welfare funds and official banks and financial entities in which the National Government held full or majority control. The law authorized a partial or total privatization or liquidation of the aforementioned. See, Ministry of Economics, Works and Public Services, "Reform of the State", in Argentina: A Growing Nation. Buenos Aires, Argentina, Ministry of Economics, Works and Public Services, 1994, pg. 04.

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The aim of the state is to increase national savings directly by reducing public consumption or indirectly by encouraging greater savings in the private sector. In either case it is important to increase national saving and channel it towards productive investment. Furthermore, through trade liberalization the state has foreseen that a short-term increase in the trade deficit, but the end effect will be that the rate of exports will exceed that of imports. Ibid, pg. 158 - 159.

the national promoter of both domestic and foreign investment. In the process the Argentine state has reduced its expenditure by cutting back on a bloated public-sector payroll which had been built-up as a means of guaranteeing employment for political patronage and socioeconomic stability (See table n° 08).

These measures have officially been designed to bring about the transformation of the Argentine national economy by re-organizing public expenditure in a much more efficient manner and thus bringing about in the process macroeconomic stability. The government's goal has been to reinstall in primarily the international financial community, and then secondarily in the Argentine electorate, assurances of the Argentine Republic's macroeconomic stability. The policies implemented have aimed at improving the country's overall credibility as a safe-haven for both domestic and foreign investment. Thus, the beliefs associated with neo-mercantilism or economic nationalism of the pre-Menem era have been largely abandoned by the Menem administration in favor of economic neo-liberalism.¹⁵

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Essentially economic nationalism can be defined in terms of what is good for the country is therefore good for the individual; the nation-state comes to reflect the sum interests of national society. Within this perspective the state manipulates the economy in order to maximize what it views as being the national interests (wealth and economic power). This sort of belief falls within the tenants of the zero-sum game in which a state advances largely at the expense of other states.

TABLE N° 08

CONSOLIDATED PUBLIC SECTOR EXPENDITURE

YEAR (as % of GDP)	1993	1994	1995
TOTAL EXPENDITURE	28.33	26.48	25.18
SOCIAL EXPENDITURE	18.01	18.02	17.68
Health	4.36	4.46	4.32
Social Welfare	0.62	0.63	0.71
Social Security	7.02	6.77	6.38
Education & Culture	3.36	3.62	3.87
Science & Technology	0.20	0.20	0.24
Employment	0.78	0.74	0.69
Housing & Urbanism	0.43	0.43	0.35
Drinking Water & Sewers	0.31	0.30	0.25
Other Urban Services	0.94	0.85	0.88
OTHER OUTLAYS	10.31	8.46	7.50

NATIONAL ADMINISTRATION (U\$S MILLIONS)

CURRENT REVENUES	38,582.3	38,870.1	41,268.4
Tributary Revenues	21,808.5	21,993.0	23,835.6
Soc. Security	13,604.1	13,861.0	13,884.4
Non-tributary	1,870.0	1,564.2	1,537.4
Sales of Goods & Services	422.2	447.0	334.1
Property Taxes	861.0	925.5	1,631.0
Current Transfers	16.5	79.4	45.9
CAPITAL REVENUES	1,251.2	1,666.0	1,619.0
TOTAL RESOURCES	39,833.5	40,536.1	42,887.4
TOTAL EXPENDITURES	39,985.5	41,527.2	39,887.4
CURRENT EXPENDITURES	36,431.3	36,725.6	38,187.8
CAPITAL EXPENDITURES	3,554.2	4,801.6	4,699.6

Source: Consejo Técnico de Inversiones, pg. 138.

The Argentine state's adoption of free-market mechanisms, as a means of increasing national economic efficiency, have tended to have positive results on a macroeconomic level. Yet, on a microeconomic level the system has started to show definitive signs of augmented strain. Two fundamental examples of this have been the riots in the Northwestern region (ie in the Provinces of Santiago del Estero and Tucumán) over the provincial governments' adoption

of budgetary restraining measures aimed at reducing or cutting provincial payroll expenditure (the provincial governments have traditionally been the main employers in that underdeveloped region of Argentina) and the International Monetary Fund's recent concerns over the possible social costs associated with the continued implementation of economic measures which do not readily address microeconomic concerns in the Argentine Republic.¹⁶

The labor issue must be viewed within the context of successfully addressed macroeconomic concerns. In effect the adoption of free-market mechanisms by the Menem administration has been the guideline for the Argentine Republic's economy since 1990. As a consequence of the aforesaid supply and demand for labor have come to be balanced by means of market signals. For example, by allowing domestic prices to be fixed on average international levels the government has assumed that there should develop a situation which leads to harmony,

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Michael Camdessus has argued during the Tenth Annual Convention of Private Banks organized by the Argentine association of Banks (Asociación de Bancos Argentinos - ADEBA) that the country's economic evolution during the Menem administration has been spectacular. Yet, as head of the International Monetary Fund he would recommend undertaking efficient policies aimed at addressing health and education issues. Furthermore, the IMF's director has argued that governments must adopt imaginative measures aimed at easing the problems associated with periods of transition and thus assist the short-term victims of periods of transition. For more information see, " Recomendó una política social el titular del FMI " in La Nación. Buenos Aires, Argentina. Aug. 30, 1994, pg. 1.

equilibrium, and the efficient allocation of resource. With regards to the labor issue it should be pointed out that competition among individual workers, as well as among firms freely competing in the marketplace fosters a situation of increased efficiency and thus in the process should result in making the Argentine Republic's industrial and commercial sectors domestically and internationally more competitive.¹⁷

Labor reform has been proposed and championed by the Menem administration as a means of achieving the goals of improving overall Argentine international competitiveness. The much hailed Convertability Plan, responsible for having halted Argentine hyper-inflation and for bringing about renewed economic growth on a macroeconomic level, may, however, be

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A problem with this issue and the Convertibility Plan has been that Argentine produce, in this case defined in both industrial and agricultural terms, pegged at equivalent dollar to peso values has tended to hinder Argentine export competitiveness overseas. This sort of situation thus requires that production costs, namely wage rates, be reduced in order to compete in the world market at lower operating costs as part of improving efficiency. This is a fact that has also become aggravated by the issue of a strong dollar overseas. In the process this sort of situation has tended to make Argentine items set at dollar parity values less competitive internationally. The flip side of the coin has been that if the Menem government seeks to devalue the national currency, in order to make Argentine export items more competitive vis-à-vis the dollar, this measure could then possibly contribute in undermining investor confidence in Argentina. Such a development could thus result in lower foreign investment levels, as well as the possibility of a renewed round of domestic capital flight in search of more profitable investments overseas.

threatened if a labor reform is not implemented by 1995.¹⁸ The government sees itself pressured by the need to reactivate the national economy and prevent a return to inflationary policies. It is foreseeable that in order to become competitive internationally the Menem government will have to either de-value the national coin, thus sacrificing the sacred cow that the Convertibility Plan has become and risking a return to inflation, or it will have to "squeeze" additional concessions from labor in order to lower the costs of production for Argentine industry.

Furthermore, it has also been argued by Javier González Fraga, former President of the Argentine Central Bank and current head of the Instituto Argentino de Mercado de Capitales (Argentine Institute of Capital Markets), that the Convertibility Plan may be seriously threatened in 1995 if labor reform is not implemented. Essentially, this means that labor costs in the Argentine Republic are still too high at the moment for those Argentine producers that wish to be internationally competitive. The importance of this particular issue is underscored by the fact that even though the Menem administration has divested itself of the majority of the government's former holdings, the national economy still

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See, Georgina M. Gómez, "Sin reforma laboral, el plan peligra". El Cronista: Edición Fax Internacional. Buenos Aires, Argentina, Sept. 1, 1994, pg 3. It should be pointed out that labor reform will most likely be carried out after the next presidential election in 1995.

remains largely closed. This is illustrated by the 1993 figure of Argentina's merchandise trade which only accounted for 11 percent of nation's GDP.¹⁹

González Fraga has further argued that the second phase of the Convertibility Plan must by necessity address the labor reform issue, since without it monetary and fiscal discipline would continue, but the national currency would no longer be tradable at parity with the United States dollar, a fundamental pillar of the Convertibility Plan. The preceding is due to the fact that either the national coin must be devalued, in order to increase the country's goods competitiveness, or the labor-capital relationship redefined in order to make Argentine goods better sellers internationally. In essence it can be held that in an atmosphere of increased access to the world's marketplace and the globalization of the economy, Argentine industries, both large and small, are exposed to both the benefits and the rigors of the international capitalist system. This forces both Argentine producers and workers, in order to survive, to become more competitive, efficient, and increasingly more productive at lower costs to capital.

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See, David Lubin, " Risk and Rhetoric: In Search of a Definition for Country Risk " in LatinFinance. (Supplement - September 1994), pg. 20.

ASSURING CONTINUITY

The success of the Convertibility Plan has been responsible for Argentina's vigorous reentry into the international capitalist system, but the very continuation of the success is largely dependent on the state and the continued implementation of its macroeconomically stable economic policies. Though the state is no longer charged with the role of creator of business opportunities directly, it still remains the vehicle by which national economic success continues to be implemented. This essentially means that the state has adopted the role not of entrepreneur, but rather of promoter for businesses that have commercial concerns in the Argentine Republic.

This in turn leads to the conclusion that labor reform if implemented will necessarily aim at reducing the overall costs of labor by maintaining or even lowering current levels of employee recompensation in order to attract or retain foreign corporate investment in an atmosphere in which the Cavallo Convertibility Plan remains largely untinkered with.

A serious concern for the Menem government recently raised has been Mercedes Benz's Argentine subsidiary's threat of pulling out of the Argentine truck manufacturing market. Mercedes Benz has stated that it might carry out such a

drastic measure as a direct result of increased labor costs. Additionally the company has stated that it would aim to transfer its operations to neighboring Brazil, which incidently has lower labor costs, if it can not negotiate further labor wage concessions.

This sort of situation has become especially troubling for the current Menem administration because of the globalization of the Argentine Republic's national economy. In effect the globalization of the economy has resulted in not only stimulating other national industries (ie the energy producing sector, mining, tourism, services, etc), but also has allowed the government to find new ways of financing its debt burden, reducing fiscal deficit, bringing about greater local efficiency, and increasing access to foreign capital and generating internal capital.²⁰ Yet, in the process the globalization of the national economy has forced the government to weigh each threat of investment exodus with increased scrutiny. As a consequence of such issues the aim of the government has been to seek the possibility of immediate presidential reelection as a means of assuring the continued implementation of the Convertibility Plan and sound fiscal policy. In the process the Menem administration has committed itself to maintaining low inflationary levels, stability, and

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See, David L. Moore and Diana M. DePinto, " Solving the Capital Crisis " in LatinFinance. (Supplement - June 1994), pg. 19.

economic growth in the Argentine Republic as a means of obtaining both popular and conservative sector backing.

It is precisely as a consequence of the aforesaid in which the proper workings of Argentine democratic mechanisms can come to be threatened by the very success of the economic reform program. The failure of the Argentine state previously has been its inability to not only properly invest its national wealth, but also the monies it has borrowed internationally. The Debt-Crisis of the 1980s demonstrated that the Argentine state was then unable to make the sort of investments required to generate positive returns in U.S. dollars. That situation was largely brought about by the governments of that period utilizing funds for currency speculation and consumer purchases, as well as for military purchases. Furthermore, the situation was aggravated by the fact that the governments of that era aimed at sponsoring industries that tended to be labor intensive, as a means of assuring domestic political tranquility, instead of financing more capital-intensive projects. Problem with the preceding is that labor-intensive projects were implemented for ballot-box support in the short-term instead of capital-intensive projects whose results usually would have taken longer to become evident. In other words economic profitability was sacrificed for political expediency.

The end results of those measures have largely been

the creation of firms that quickly became technologically outdated as a result of the lack of renewable sources of founding for modernization brought about by the 1980s Debt-Crisis and especially burdened by bloated payroll obligations. It should be recalled that in order for the country to develop as a whole the state must effectively guide and promote sectors for development in which the nation may hold a comparative advantage. In order to achieve this the state must implement policies that will generate investment by increasing the savings of the national private-sector, government, and in the current case the foreign investment sector as well.²¹

The 1980s Debt-Crisis has required the Argentine state to find new and alternative sources of financing. One measure has aimed at increasing the national tax base, whereas another more common measure has been the privatization of the state-sector. As a consequence of increased fiscal responsibility, as well as a marked reduction in tax evasion, the Argentine state in the process has been able to reduce its deficit by spending less and taxing the population more efficiently (see table n° 08). It can be held that these are clearly fiscally sound measures. The problem is that in both cases these measures may mean that a certain sector of the national society must ultimately make sacrifices. The usual

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This can be easily illustrated by the formula:
$$I = S^P + S^G + S^F$$

route tends to be promoting private savings as a means of increasing investment. What is interesting to note is that private savings may be increased by effectuating a change in the distribution of national income to the disadvantage of the lower classes. This is because the more affluent sector of a society is prone to save a greater portion of its income than does the national proletariat, since it has more income available to save.²²

It is obvious that the government has committed itself to maintaining the current economic reform policies, but what is troubling is the attitude of the Argentine national electorate. These same objectives are shared by a large segment of the national population, as well as by the main political parties which continue demanding a freer, more

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An alternative source of development funding available to a government when it is no longer able to procure the means of funding investment (I) due to reduced access to S^G and/ or S^F is redistributing income away from the poorer sections of its constituency. This is usually undertaken in order to encourage increased private savings (S^P). Naturally being a highly political move, it can only be logically implemented when a government has the power/ political will to effect such a move. This sort of measure is usually carried out via tax reform, abolition of minimum wage, and/ or labor reform geared towards de-regulating institutionalized collective bargaining agreements. Argentina's recent constitutional reform has facilitated the aforesaid by allowing the concept of "ballotage". In effect the current Menem administration can foreseeably implement these sort of measures and still be able to effectively govern with the support of approximately fifty percent of the national electorate.

open, and prosperous community.²³ This is despite the fact that the new Argentine economic model has not resulted in the general improvement of the entire Argentine electorate.

Recall that a major source of discontent has been the continued levels of unemployment that are increasing, as well as the fact that few benefits from drastic economic reform have spilled over or "trickled down" to the poorer interior provinces (see table n° 01). Especially troubling in this regard has been the issue of provincial resistance, primarily in the Northwest, to implementing not only tax reform as mandated by the central government, but also the issue of cutting public-sector employment rolls.²⁴ Regardless of such setbacks the Argentine Republic has continued to offer foreign investors persisting good economic news as made readily apparent by low inflation levels (a mere 3 percent in

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See, Hugh A. Arbat, "Argentina" in LatinFinance. (Supplement - April 1994), pg. 34.

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The Menem administration is aware that there exist a high social cost being paid at the moment (quite troubling during an election year), especially in the interior provinces. Consequently, it is not surprising to realize that it has been announced by Domingo Cavallo, Economic's Minister, that the federal government will commence to invest/ grant credits earmarked for creating employment in the provinces. Especially, relevant in this regards has been the issue of promoting the construction sector. The aim here has been to create jobs in an industry that will result in the increase of housing and housing related services. See, "Preocupación de Cavallo: Darán créditos a las provincias para obras creadoras de empleo" in El Cronista. Buenos Aires, Argentina. (July 29, 1994) .

June 1994) which are at or near the U.S. level. President Menem's possibility of running for a new term of office in 1995 has largely translated into meaning that the economic reform policies and goals set by his administration would largely tend to continue unaltered.²⁵

Though the Argentine Republic under the Menem administration has made significant advances in the short-term, these have been accomplished at a high social cost. To guarantee the success of the neo-liberal reforms the country has seen recently the increase of its external trade balance (the U\$S 3.2 billion trade deficit for 1993, is a 20 percent increase over the 1992 level and the highest level ever recorded in Argentina), as well as increased social costs being borne by the less privileged sectors of Argentine society. The state must prepare itself to either actively promote job creation or improve state compensation for the unemployed, measures alluded to by the International Monetary Fund incidently.

Notably, even though imports are increasing in the Argentine Republic at the moment, a large amount of these are contributing to improving Argentina's manufacturing

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For more information regarding this particular matter see, Richard Voorhees, " Argentina rides the falling German interest-rate trend " in LatinFinance. (July-August 1994), n° 59, pg 60. In essence the author makes the argument that Menem's reelection in 1995 would contribute in maintaining on course the country's political and economic reforms.

infrastructure. Furthermore, exports have increased by 18 percent from the 1993 levels.²⁶ The issue now for the government is how to increase employment levels.

Although the Argentine state has been able to achieve without a doubt an improved situation on a macroeconomic level, its efforts on a microeconomic level have tended to fall rather short. In essence the Argentine state has brought about macroeconomic stability, which has resulted in fiscal discipline, and thus assured the government's economic policy credibility. The problem currently with the Argentine economy is that it is still remains fairly closed, as is seen by the sum of Argentina's merchandize trade in 1993 which amounted to approximately 11 percent of its GDP.²⁷ In

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See, Ingrid Blauer and John West, "Solid State: Argentina's Bond market Continues to Offer Opportunities" in LatinFinance (Supplement July-August 1994), pg. 16. The authors go on to point out that the current situation supports the opinion that the Argentine national currency is stable, thus largely ruling out the possibility of currency devaluation in the medium-term.

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With regards to this issue it should be recalled that Argentine industry has gone through considerable changes as off 1955. Since that point in time it has moved from labor-intensive to capital-intensive production methods. In addition industrial enterprises during the 1955 to 1973 period have gotten larger will simultaneously increasing in technological sophistication. This has largely been due to foreign investment carried out by large multi-national corporations. With the advent of the easy financing in the 1970s the state sought to develop sophisticated technologies on its own as a means of freeing itself from foreign dependence. The subsequent Debt-Crisis of the 1980s forced the Argentine state to seek new means of financing its development via neo-liberal economic policy and the privatization of the state-sector.

order to improve the situation the Argentine government may see itself forced to implement labor market reforms in order to improve the country's overall ability at attracting foreign investment, as well as reducing the costs associated with labor in the country. These sorts of measures need to be done by improving the country's regulatory environment in favor of business, trade, and taxation.²⁸

This particular position is similar to the one held by such presidential opposition candidates as Chacho Álvarez of Frente Grande who have argued that there would not be a state mandated wage increase for labor, but rather that the workers' salaries should be improved by indirect methods such as the implementation of an improved public education system, a better public health system geared towards addressing the needs of the workers, and a tax system that is less onerous for the working class.²⁹

Such proposals are in line with current International Monetary Fund thinking as can be evidenced by the statements made by Michael Cassimadissus when in Buenos

See, Paul H. Lewis, The Crisis of Argentine Capitalism. Chapel Hill, NC: University of North Carolina Press, 1990, pg. 298.

²⁸

See, David Lubin, " Risk and Rhetoric: In Search of a Definition for Country Risk " in LatinFinance. (Supplement - September 1994), pg. 19.

²⁹

See, "Economía", El Cronista Internacional: Edición Fax Internacional. Buenos Aires, Argentina, Sept. 7, 1994, pg. 2.

Aires, as well as those of the United States Department of State.³⁰ The dependent nature of Argentina and the rest of Latin America is clearly made evident by the 1980s Debt-Crisis. Recall that this was brought about by the necessity of finding new means of financing economic development as alternative to direct foreign investment. Thus, in the past, in order to undertake development projects, the state was required to turn to international financing.

Consequently, like most other Latin American states the Argentine Republic borrowed heavily during the 1970s in order to implement its development projects, as well as purchase military and consumer items. These measures were based primarily on overly optimistic growth forecasts, which did not contemplate the increase in oil prices (oil shock of the 1970s) and subsequently the ensuing increases in consumer

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Ambassador Alexander F. Watson, Assistant Secretary of State for Inter-American Affairs, has recently argued that in Latin America there is a growing perception of a new role for government. No longer is government seen as the primary source for economic growth. Rather, the new role being increasingly assumed by government has been that of setting the rules and the framework for private decision making and that the rule of the law is applied to all citizens rich and poor alike. That there is a need for the state to invest in basic human and physical infra-structure which is highly beneficial to society as a whole, but is beyond the individual's ability to finance (i.e. health and education). Furthermore, the elimination of artificial protection and/ or subsidies to inefficient industries lowers the cost of living which incidently benefits the poor and the middle class. For more information see, Alexander F. Watson, Political, Economic and Security Issues in the Western Hemisphere, Paper as delivered as the remarks delivered to the Miami Congressional Workshop, Miami, FL., January 7, 1994, ARA/ Press Release, pg. 6-7.

and capital goods in tandem with the decline in the price of agricultural products. As a result of the preceding, along with a rise in interest payments, this has required that post-1973 administrations petition the International Monetary Fund for the approval of new loans in order to meet the demands associated with the country's initial debt.

To accomplish these goals the state was required to prove itself creditworthy and consequently, to implement the economic dictates of the IMF. Typical policy recommendations made by the IMF in the past have been aimed at emphasizing austerity measures. For example, a favorite measure has been the abolition of governmental subsidies on gasoline, electricity, transportation, or basic foods, as well as freezing wages and an ending public works projects while simultaneously emphasizing an increase in exports. It has been argued that the IMF's policies can pose a direct challenge to both democracy and economic development, since the implementation of such policies threaten the popular backing of fragile democracies like that of Argentina in the 1980's.³¹

This leads one to question how the successful implementation of economic reform policy can require that labor reform measures be undertaken and how this in turn may come to negatively affect democratic mechanisms. In essence the government of Carlos Saúl Menem has been able to implement

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See, Burns, pg. 314.

a structurally sound policy of official restraint characterized by not only prudent budgetary policy, but also by increased industrial and agricultural production. This in turn has led to expanded regional and international trade for the Argentine state. In addition Argentina's privatization program has brought an estimated U\$S 9 billion in cash into the country, as well as lowered the national debt by U\$S 4 billion. In essence privatization has not only resulted in bringing about greater efficiency for the Argentine economy, but it has also apparently brought about increased competitiveness, productivity, improvement of infra-structure, and better wages.³² Yet, the cost associated with these measures has been forced upon organized labor's shoulders.

CONCLUDING SUMMARY

In conclusion the Menem administration has endeavored to ameliorate the position of a sector of the national electorate, the middle class and the medium to high industrial commercial/ industrial sector, by improving its general economic welfare. This situation is clearly evident by the swing of approximately U\$S 10 billion dollars as this pertains to the previous national U\$S 8 billion trade surplus to the current U\$S 2 billion trade deficit. This tends to be

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See, Haas, pg. 83.

indicative of increased consumer consumption, facilitated by the national government, which implies that political discontent may have been effectively neutralized or significantly reduced in the short-term.³³ Thus, as a consequence of macroeconomic stability President Menem has been allowed the possibility of promulgating constitutional reform in order to assure himself the opportunity of immediate reelection in 1995. The official government logic behind this endeavor has been to guarantee the continued and uninterrupted implementation of the economic reform measures which have brought to the Argentine Republic macroeconomic stability. This being a stability brought about by implementing a policy of privatization and fiscal responsibility which has allowed the government to cut back drastically on its expenditure.

Though these measures have met with a large degree of success, and thus have inspired foreign investor confidence, they have come to exert an increasingly elevated domestic social price. A major problem is that the liquidation of assets is merely a temporary or short-term measure or stimulus. Eventually the Argentine state will run out of

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The government's fiscally sound policies have resulted in not only improving the Argentine Republic's international credit, but has also "trickled down" to the Argentine population of improve access to credit. In essence the middle class has seen itself able to borrow increased amounts of monies against their personal credit cards. This has allowed them to continue to consume even though they may not have the funds necessary to make the purchases.

assets to privatize, since, for example, the only two major remaining state concerns are the atomic energy power-plants and the country's airports, both of which have been slated for eventual privatization. An additional argument against the complete privatization of the state-sector is that in the future those assets that have been privatized (physical assets and equipment utilized in the production process and service industry) will commence to generate returns not for the state, but rather for the new owners. The fear is that under certain circumstances, especially those associated with sociopolitical and economic instability, these may increasingly be shipped overseas which could further contribute to aggravate local tensions. In essence it becomes a case in which the state will no longer be able to exert unquestioned control over those assets. Rather, it will merely exercise the more traditional role of revenue collecting entity, instead of reaping profits from the means of production, as well as from the exploitation of national resources.

It should be pointed out with regards to the foregoing that the issue of State-Centric Development and Foreign Investment is in reality at the heart of the Argentine economic problem and thus a primary cause of sociopolitical and economic tensions. Recall that during the 1955 to 1973 period there existed broad agreement among Argentine economists, government officials, and military officers that

the move towards large and sophisticated enterprises was desirable. Yet, the problem then resided in the fact that much of the country's "dynamic" industries were controlled by foreign concerns. This was an issue that Raúl Prebisch pointed when he argued that controversy would without a doubt arise with Argentines, for whom economic independence was a principle source of national pride.³⁴

Regardless of the issue of hostility to the massive entry of foreign investment capital into the Argentine economy it is worthwhile to point out that the Menem government is not the first presidential administration to have adopted neo-liberal policy measures that favor foreign investment. Arturo Frondizi of the Unión Cívica Radical Intransigente (UCRI) sought to win the Peronists masses over by building up Argentine heavy industry which would not only create new jobs, but also secure the country's economic independence. In order to achieve this goal the government had to attract massive amounts of foreign investment via the reduction of government regulations, balancing the budget, curbing inflation, and keeping labor unions under control. Furthermore, profit remittances and the repatriation of capital were freely permitted. In addition these measures were accompanied by special tax incentives for those firms which would reinvest their profits in Argentina. The problem for Frondizi was that

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See, Lewis, pg. 300 - 301.

his economic policies depended on a continuing inflow of capital.³⁵

Unlike other neo-liberal economic policies of the past the one implemented by Menem has succeeded in the sense that it has been able to reassure foreign investors of the profitability of investing in a stable Argentina. The government is no longer shackled by the notion of developing the country on its own for reasons of economic nationalism, nor for that matter is it any longer forced by political necessity to form a political alliance with labor. This in turn allows one to agree in the 1990s with Guido Di Tella's statement that what Argentina required in the 1960s was a Schumpeterian entrepreneur which would be both innovative and daring. Thus, the Menem government has forgone the Colbertian notions of the businessman, inextricably linked to the state in a kind of neo-mercantilist arrangement which shield business from competition while simultaneously assuring it

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Mallon and Sourrouille both observed that Frondizi's neo-liberal policy was an "all or nothing strategy" that required constant forward motion in order to attain success. In essence they have argued that "all desirable investment programs could be financed rapidly and simultaneously with a massive inflow of foreign investment, which would take care of the balance of payments constraints." Critical to this situation was the issue of investor confidence in the sense that should it be shaken there would result a slowdown of inflows of new capital and cause the entire strategy to collapse. See, Lewis, pg. 304.

profit, which crippled the entrepreneurial spirit.³⁶

In the process the Menem administration's privatization program has had the positive effect not only of reducing the state-sector's operating deficit, but has also contributed in transforming money losing state enterprises into more efficient and profit-orientated private-sector tax paying entities. It has already been stated above that these actions have been carried out by abandoning the outdated nationalistic economic rhetoric as a means of contributing to the further consolidation of investor confidence in the Argentine Republic.

Even so, there are major concerns, especially relating to the proper workings of Argentine democratic mechanisms. The government may eventually see itself obliged to resorting to the promulgation of presidential decrees, thus circumventing the elected congressional authorities of the country, as means of continuing with its successful economic policies. In effect such a situation would indicate a marked reduction in congressional oversight, as well as increased Executive Branch supremacy.

Also troubling in this regard has been the Argentine state's vulnerability to fluctuations associated with any increase in interest rates in the United States. These could supposedly come to negatively influence the Argentine economy,

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Ibid, pg. 329.

and thus the Argentine political system, by increasing financial pressures upon the national government. The Menem administration may thus see itself required by the need to remain internationally creditworthy with no other recourse than to increase the Argentine interest rates. This would be a de-stabilizing measure on a macroeconomic level, since it would tend to be highly inflationary in nature.³⁷ Even though a falling dollar rate might eventually lead the dollar-linked Argentine economy to increase its exports, it may also result in increased prices of imports, that are currently required for the modernization of the national infra-structure. In turn this could renew inflationary pressures brought about by increased prices.³⁸

The successful implementation of economic reform has led to breaking up vertically and horizontally the previously monolithic state-owned industries into smaller, more natural business units, and has increased in the process both efficiency and productivity. Yet, this situation may come to demand a higher than expected price on the mechanisms of

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Though rising interest rates may constitute disposable income in other states, in Menem's Argentina this situation tends to imply an inflationary situation. In effect the success of the country's economic policy, and thus by default its economic stability, has been pegged at a low inflation rate in conjunction with reduced wages as a means of attracting foreign investment.

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See, Victoria Griffith, "Hills and Valleys" in LatinFinance (July/ August 1994), n° 59, pg. 22-23.

Argentine democracy. This may result, as a consequence of the state's perceived need to continue the economic reform program on a macroeconomic level, without granting microeconomic concerns due consideration. Such action might, in turn lead, the state to implement measures which aim to further promote foreign investment to the detriment of the local Argentine labor sector which may thus come to be required to increase productivity by sacrificing more - reduced wages and reduced consumption in favor of increased productivity aimed at servicing the interests of the export sector.³⁹

In the end it can be seen that during the 45 months of the Convertibility Plan, defined as from April 1991 to December 1994, there have occurred the following changes in Argentine relative prices:

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As a consequence of such measures it is not surprising to realize that the evolution of relative prices in 1994 and since the implementation of the Convertibility Plan tend to suggest greater deflation in order to make the country more competitive. The aforesaid arises as a fact even though the country's productivity during this period has continued to increase. This manner of situation allows one to concur with the notion that distortions in relative prices lead business in general to make easy microeconomic adjustments to adopt to modern times in the context of an opening economy. Within this context it is worthwhile to recall that the government has adopted various economic policy measures geared towards helping lower the cost to business by eliminating distortive taxes, reducing social security contributions, deregulating various activities, and taken active steps to counter import competition. Yet, there still remain serious difficulties, which may lead to increased tensions in the Argentine system, due to resistance regarding changes in working conditions. The previous includes such issues as the gradual restriction on greater job demand. See, Consejo Técnico de Inversiones, pg. 74.

- 1) sharp rise of agricultural prices in industrial costs
- 2) marked upturn in labor costs for industry
- 3) heavy growth in real industrial wage
- 4) significant increase in industrial salary in dollars
- 5) hike in utility costs for industry
- 6) steady appreciation in agricultural prices in dollar terms
- 7) noticeable decline in utility costs for agriculture
- 8) substantial relative decline in utility costs for industrial workers
- 9) improvement in the purchasing power of the food basket for salaried industrial workers.⁴⁰

Thus, in order to increased its competitiveness the state must implement measures that aim not only at market liberalization, but that also favor export-competing producers. As the national economy take-off the costs to business should be reduced by increased profitability, thus offsetting the cost of labor. Menem has laid the foundation for this by attacking organized labor's hold on the nation, essentially by divesting the state of import-substitution policies and exposing industry to competition.⁴¹

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Ibid, pg. 74.

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In essence the Menem government has identified macroeconomic instability as arising from the strength which organized labor exerted upon the Republic. Menem has attacked Peronism's labor power base, but the alliance with the middle

As a final comment the argument can be made, utilizing Peter Evans's position calling for a more active and entrepreneurial state, in the sense that the Argentine state ought to become the nation's promoter of its industry and not the nation's primary businessman. This would fortify the notion that even when industrial development is underway an active state apparatus is still required to counteract the tendencies of international capital to centralize newer, higher earning industrial activity in the core.⁴² The Argentine state role would be to accumulate capital at the local level by attracting it from overseas for investment in Argentina. This could be done not only by guaranteeing the access to local and regional markets, but also by offering technologically sophisticated labor at competitive international prices.

class and conservative sectors of the economy has offset the more negative effects of such measures. Menem and Cavallo have identified that import substitution policies of the past in conjunction to subsidies to manufacturing had created by 1989 swollen industries artificially powerful labor unions. See, Jeffrey A. Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965 - 1985. Princeton, NJ: Princeton University Press, 1991, pg. 210.

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See, Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americanists" in The Political Economy of the New Asian Industrialism. ed. Frederic Deyo. Ithaca, NY: Cornell University Press, 1987, pg. 205 & 221, as quoted in Frieden, pg. 238.

CHAPTER FOUR

TENDENCIES OF THE LOCAL ARGENTINE ELECTORATE RESIDENT IN THE CITY OF MIAMI, FLORIDA

The chapter will address the issues of economic development and the possibility of the erosion of democracy by measuring the Miami Argentine electorate's tendencies. The principal premise is that support for the ruling party, in this case Menem and his brand of sociopolitical and economic reforms, tends to indicate a propensity for the aforesaid as a means of assuring the continuity of economic reform and stability.

This survey tends to mirror the tendencies of the larger Argentine electorate in that not only has the local expatriate community maintained close cultural and political ties to Argentina, as is evidenced by the large voter turnout for a voluntary election on a Sunday, but also the composition of the local electorate is demographically similar to that of the City of Buenos Aires.

With regards to the preceding it should be pointed out that the City of Buenos Aires is Argentina's largest and most politically sophisticated electoral district. Though in many respects the local electorate is similar to that of the City of Buenos Aires and the major urban center of the Argentine Republic, Miami' expatriate community is prone to be much more representative of Argentina's upper middle class

than would be the case if the same survey had been administered across the board in Argentina. This fact tends to eliminate not only the influence of a large segment of the poorer class, but also of the economically powerful upper class. Consequently, the results of the survey are biased towards a middle class perspective as would be the case for the City of Buenos Aires.

The sociopolitical and economic survey was administered to registered voters during the October 3, 1993, Argentine Parliamentary elections held at that nation's Consular Mission in the City of Miami, Florida. These local results have tended to mirror the overall tendencies of the Argentine national electorate within the national boundaries of the Argentine Republic. Of added importance in this matter is the fact that during August and September 1993, Gallup Argentina administered a series of polls in the Argentine Republic which aimed at gauging the Argentine electorate's particular sociopolitical and economic orientation in conjunction with its electoral tendencies. Gallup Argentina's study concluded that approximately 41 percent of those polled would vote for the current ruling party of Carlos Saúl Menem). Furthermore, this tendency has been made amply evident by the electorate's 42 percent vote of support on the October 1993,

elections.¹ It should be pointed out that the preceding figure of popular support has largely been carried through until the eve of the 1995 presidential election.

THE SURVEY: ITS PURPOSE AND METHODOLOGY

The survey administered during the October 1993, Argentine Parliamentary election has sought to gauge the particular tendencies of the resident Argentine community registered to vote at that country's Consular Mission in the City of Miami, Florida. This particular survey is composed of sixteen questions, of which five are of general demographic and background information and the balance are structured to determine the individual respondent's sociopolitical and economic orientation.

Though the questionnaire administered for the survey does not require the respondent to directly identify his or her party affiliation, since that would violate the concept of the secret ballot, it is structured to allow one to determine if the respondent is or is not in favor of the current government and its policies. This is further supported by tabulating the results of the questionnaire with the overall ballot box count.

¹

Marita Carballo, "Cómo votaron los argentinos y el perfil del sufragio partidario" in La Nación, (Política/Educación) Buenos Aires, Argentina, Oct. 9, 1993.

In order to properly comprehend the results of this survey, in comparison to the overall results in the Argentine Republic, it is worthwhile to initially review each question and its responses. Subsequently, the responses for a set of specific questions shall be compared in order to gain an overall picture of the local Argentine electorate's sociopolitical and economic proclivity in regards to the possibility of it coming to acquiesce to the erosion of certain democratic mechanisms.

In overall terms 204 individual electors were surveyed on October 3, 1993, out of 422 who participated in the election. Consequently, the survey was administered to approximately 48 percent of that electoral contest's voting population. With regards to voter turnout it should be mentioned that 64 percent of those registered to vote (653) participated.²

In order to gain a clearer understanding of the voters who participated in the survey I will break down the survey group along age and gender lines. This is primarily done as a result of the fact that these two variables are the ones which hold the most statistically meaningful analysis

2

It should be realized that as opposed to the obligatory nature of voting within the Argentine Republic, voting overseas is non-obligatory for Argentine nationals. Consequently, a large voter turnout can be held to be merely a sign of political/ civic indoctrination or hopefully a definitive sign of advanced civic responsibility.

value for this particular study. The survey has shown that nearly almost all of the respondents are working private sector employees or trained professionals. As a consequence the survey group has therefore largely been made up of respondents that have completed high school and some measure university education.

TABLE N° 09
 BREAKDOWN BY AGE AND GENDER GROUPS

MALE (126 total)			
18 - 35	36 - 50	51 - 65	OVER 66
31	51	34	10

FEMALE (78 total)			
18 - 35	36 - 50	51 - 65	OVER 66
24	36	13	5

A much more graphical representation of the aforesaid can be construed by creating a pyramid of the respondents independent of gender, marital status, educational and/ or professional background. This is both a worthwhile measure, as well as a preliminary step required prior to

addressing each individual question. This measure should allow one to gain a better understanding of the makeup of the participating electorate.



Fig. 2. Age pyramid of local Argentine electorate participating in the October 3, 1993, Argentine Parliamentary elections, as well as surveyed during the same.

In fig. 2, one can denote both the breakdown by age, as well as the total number of respondent per age category. This sort of method assists one in identifying age blocks which allow certain conclusions, that shall be addressed shortly, to be drawn. Consequently, the next step involved is to address each individual question and its particular responses.

QUESTION N° 6

Some people hold the opinion that the Argentina's economic situation has improved as a result of the economic policy adopted by the Menem government.

In overall terms, regardless of personal background, 46 percent (98) of the respondents agreed with the question. While an additional 29 percent (61) tend to agree. This shows that a large percentage of the local electorate supported during that period in time the notion that the country's economic situation had improved as a consequence of the measures adopted by the Menem government. These results demonstrate a strong tendency of support which can be graphically visualized in the following pie chart.

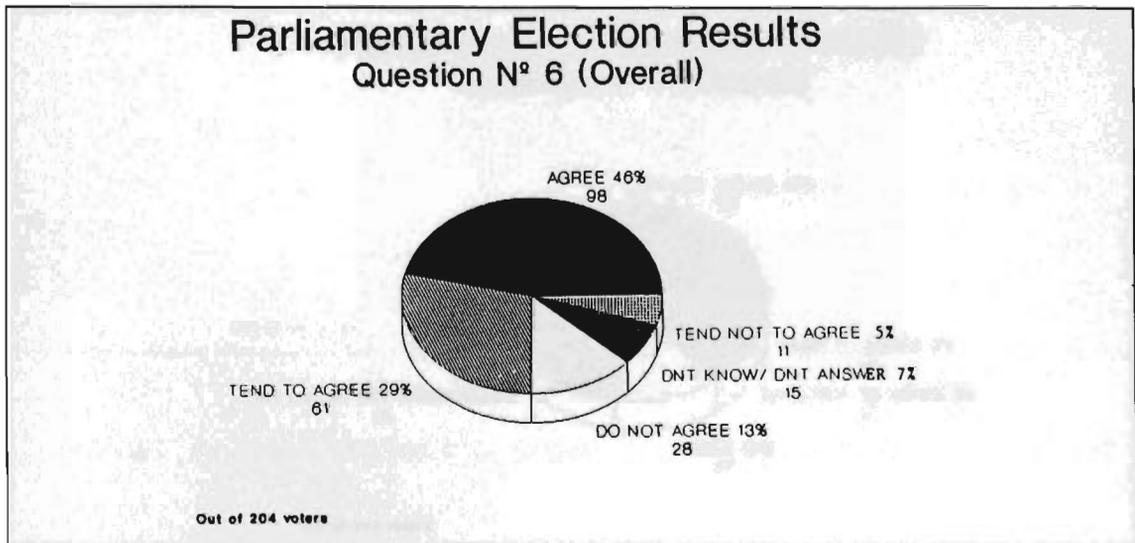


Fig. 3. Parliamentary Election Results (Question N° 6).

QUESTION N° 7

Some people hold the opinion that the pluralistic democratic system currently in place should be temporarily suspended if it results to be an impediment to the economic development of Argentina.

With regards to this question 49 percent (99) of those polled did not agree with the question and only 8 percent (17) tend not to agree. What is troublesome is that though only 13 percent (27) of the electorate, largely composed of middle class professionals, agree with the question and a further 6 percent (13) tend to agree, nearly a quarter (24 percent) of those surveyed responded that they did not know/ did not wish to answer (possibility of consent).

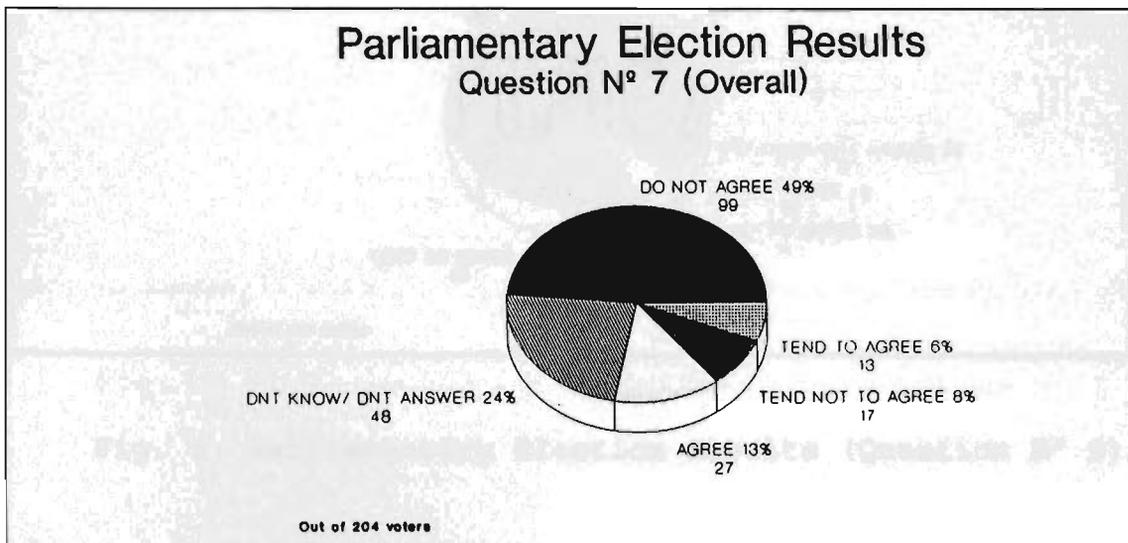


Fig. 4. Parliamentary Election Results (Question N° 7).

QUESTION N° 8

Some people hold the opinion that the privatization program adopted by the government has been a positive step taken for Argentine development.

The surveyed electorate responded overwhelmingly, 62 percent (126), that they agree with the question. Furthermore, 21 percent (43) tend to agree. This represents that approximately 83 percent of those surveyed agree and/ or tend to largely agree with the current government's privatization program.

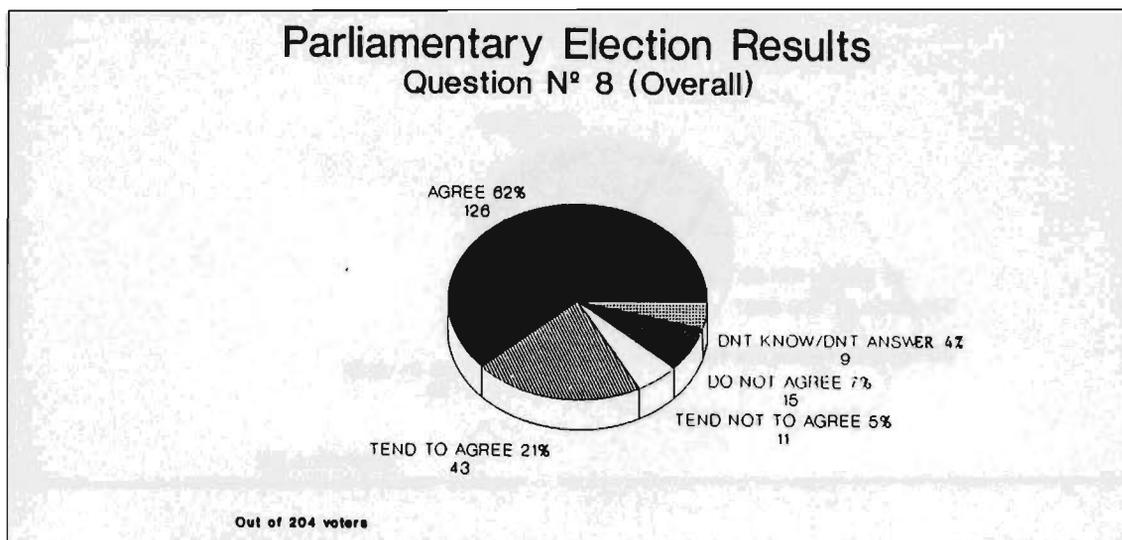


Fig. 5. Parliamentary Election Results (Question N° 8).

QUESTION N° 9

Some people hold the opinion that the economic measures taken by Domingo Cavallo in order to control inflation have been the most adequate ones possible.

More than half of those surveyed, 55 percent (113), agree with the question. In addition 25 percent (50) also tend to agree with the question. Whereas, only 5 percent (10) of the respondents tend not to agree and 4 mere percent (9) did not agree with the question outright.

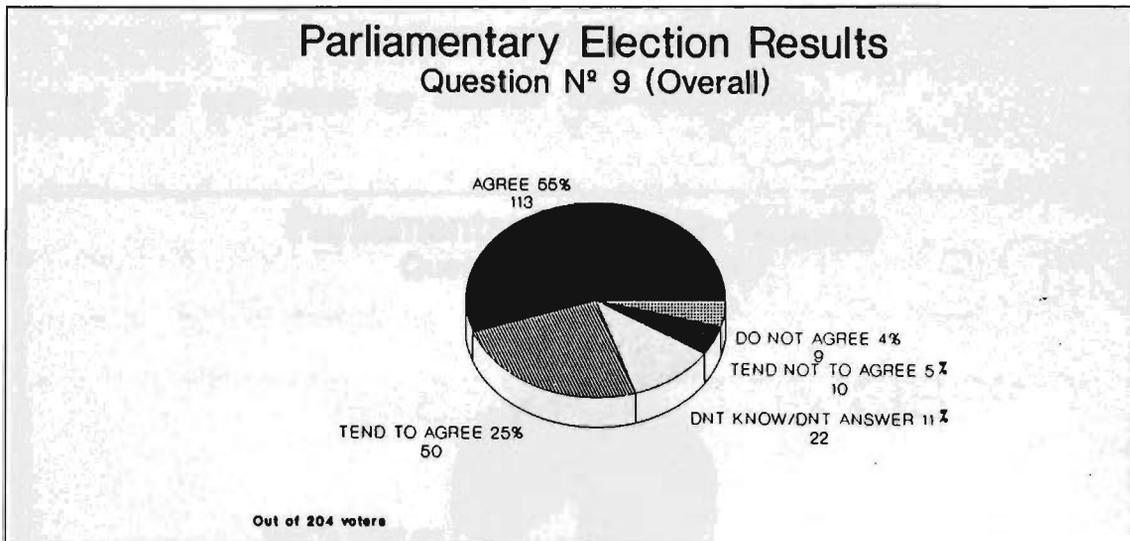


Fig. 6. Parliamentary Election Results (Question N° 9).

QUESTION N° 10

Some people hold the opinion that the individual members of a society should be prepared to sacrifice their own economic interests in order to assure full national economic development.

Approximately half of those interviewed, 46 percent (93) agree with the question, while an additional 17 percent (34) tend to agree. On the other hand 17 percent (34) did not agree with the question's premise and an additional 9 percent (19) tend not to agree either. On middle ground one finds that 12 percent (24) of those polled answered that they did not know/ did not want to answer the question.

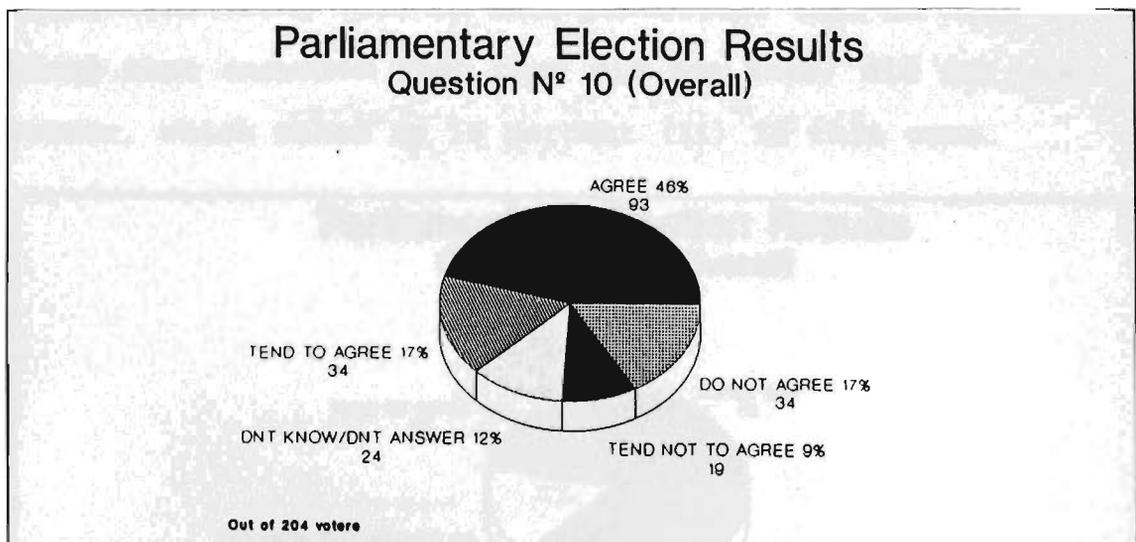


Fig. 7. Parliamentary Election Results (Question N° 10).

QUESTION N° 11

As a consequence of the world's new reality in wake of the post-Cold War some people say that Argentina ought to accede to American foreign policy interests (ie dismantle the Condor II, vote with the United States at the United Nations, sign the non-proliferation treaty, etc) in order to assure access to economic aid and credits controlled by the United States.

Nationalistic sentiments in this case have balanced out more equitably the respondents opinions. Only 30 percent (62) of those polled agree with the question's premise. While 16 percent (33) tend to agree. Nearly a quarter of the electorate, 24 percent (49) did not agree outright with the question followed by 14 percent (29) which tended not to agree. The swing vote in this particular case is held by the group that answered that they did not know/ did not wish to answer, which makes up 15 percent (31) in this case.

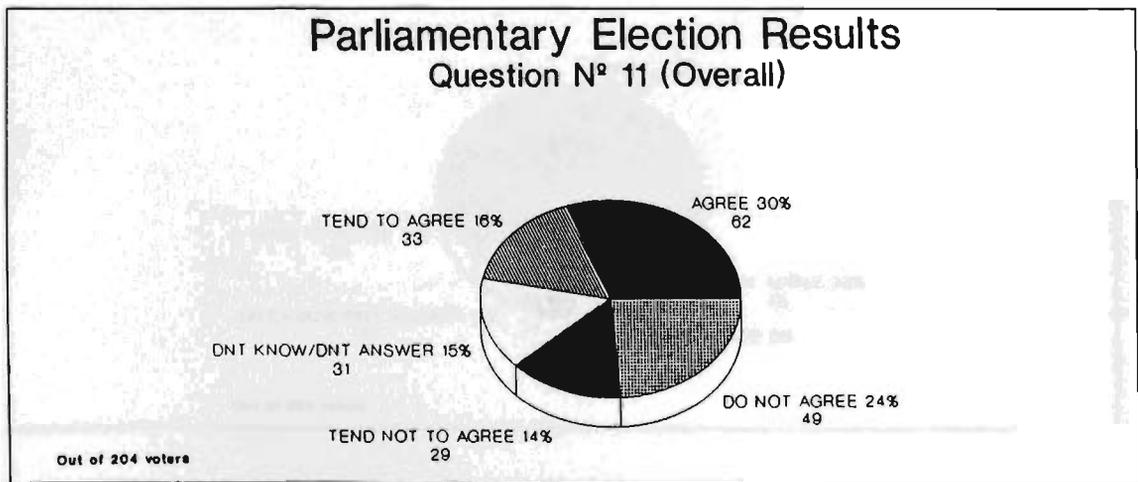


Fig. 8. Parliamentary Election Results (Question N° 11).

QUESTION N° 12

Some people say that it is necessary to reform the national constitution in order to permit the reelection of the president.

Nearly half, 45 percent (92), of the respondents agree with the question. These are in turn supported by 17 percent (34) which tend to agree. Though 22 percent (45) of those surveyed do not agree with the question, as well as 5 percent (11) which tend not to agree, these groups are in the minority. Even if the entire group that answered that they did not know/ did not answer were to place its support in the camp of the anti-reformists, constitutional reform still would be adopted, since the former holds 62 percent of the electorate.

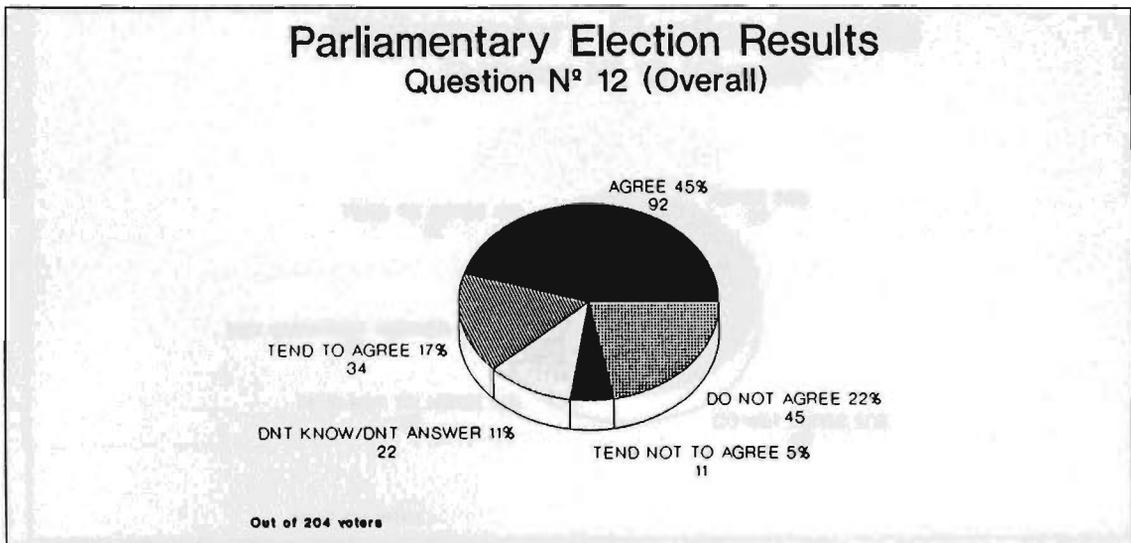


Fig. 9. Parliamentary Election Results (Question N° 12).

QUESTION N° 13

Other people say that constitutional reform intents ought to be supported only if President Menem were not the principal beneficiary of an such undertaking.

32 percent (66) do not agree with the question followed by an additional 10 percent (20) that tend not to agree for a possible total of 42 percent support for President Menem. In overall terms 45 percent (93) of those interviewed agree and/ or tend to agree with the question. The issue becomes irrelevant due to the fact of the polarization of the Argentine electorate, since even with such a figure of public support Carlos Saúl Menem still controls the largest block of potential voters.

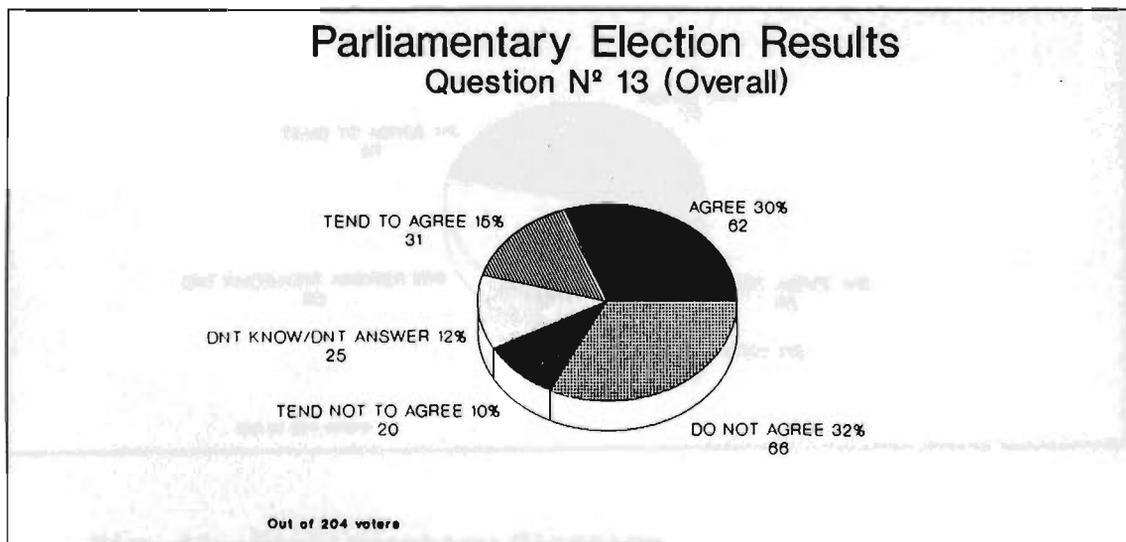


Fig. 10. Parliamentary Election Results (Question N° 13).

QUESTION N° 14

Some people say that if they had a million U\$S dollars they would invest them in Argentina.

Nearly half (45 percent) of those surveyed support the question's premise, 34 percent (70) agree and 11 percent (23) tend to agree. A quarter of those surveyed (50) manifested that they do not know/ do not wish to answer. This can be inferred to mean that they are largely unopposed to the idea and thus subsequently tend to tacitly support the notion. Only 19 percent (38) of those polled did not agree with the question followed an 11 percent (23) which tend not to agree.

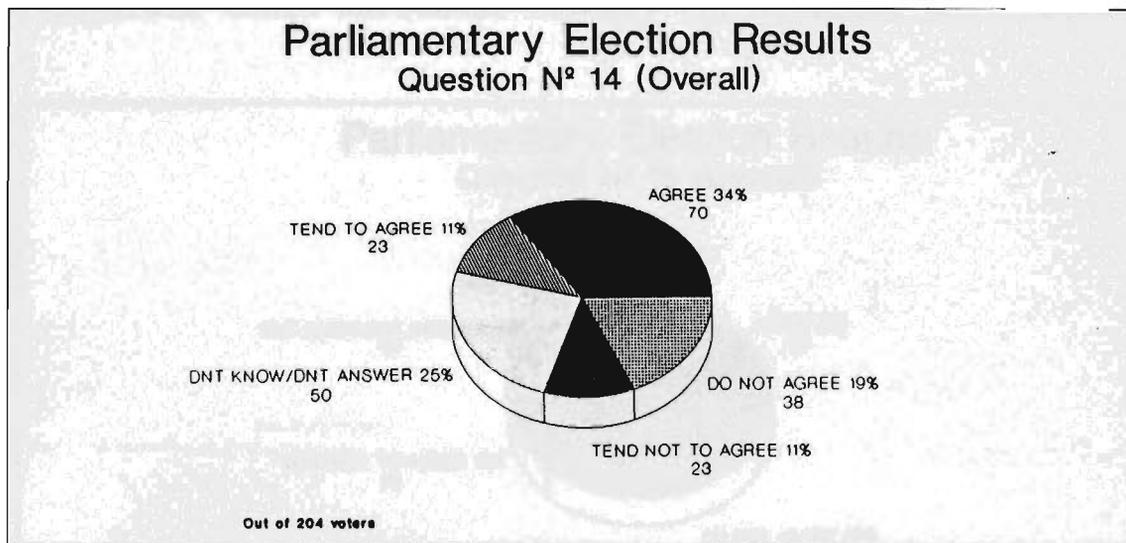


Fig. 11. Parliamentary Election Results (Question N° 14).

QUESTION N° 15

Some people say that it is more important to have development and economic stability (defined in this case as access to the latest consumer items, as well as low inflationary levels) than to have full political and labor rights, in other words a situation similar to Chile under the Pinochet regime.

Only 21 percent (42) of those polled answered that they agree with the question. Yet, that percentile added to the 11 percent (22) which answered that it tended to agree with such a notion in addition to a large 18 percent (37) segment, which responded that they did not know/ did not wish to answer, makes this question quite troubling. Half the electorate could surrender liberty for material well being.

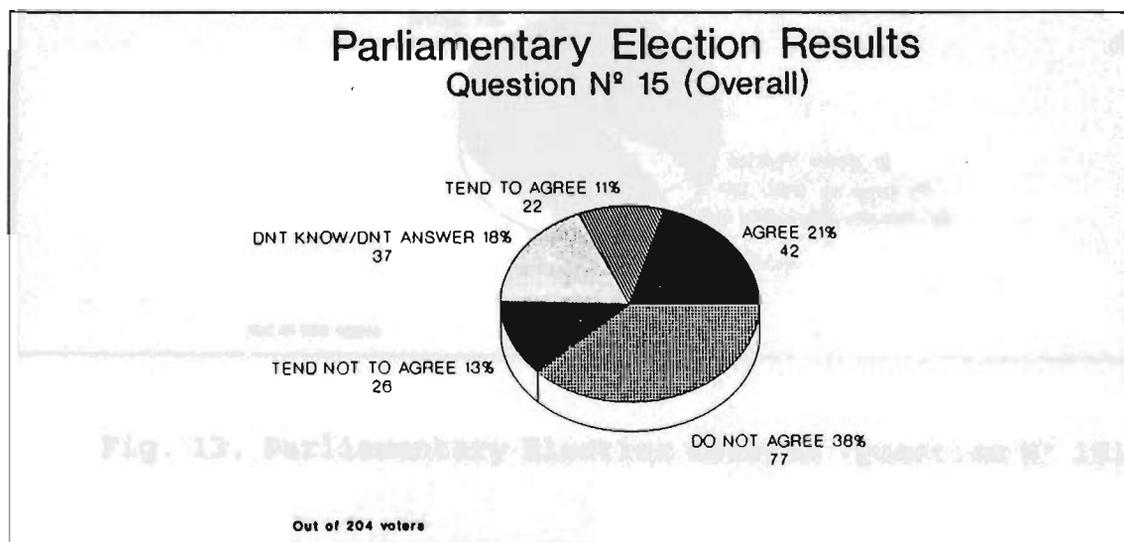


Fig. 12. Parliamentary Election Results (Question N° 15).

QUESTION N° 16

Some people are in agreement with Menem that it is more important to have a democracy of accomplishments and not one of words.

In overall terms 71 percent (145) of those polled agree with the question and therefore one can infer that they agree with President Menem's statement. An additional 14 percent (28) tend also to agree with the question. Thus, relegating to the remaining three groups a mere 25 percent of the electorate.

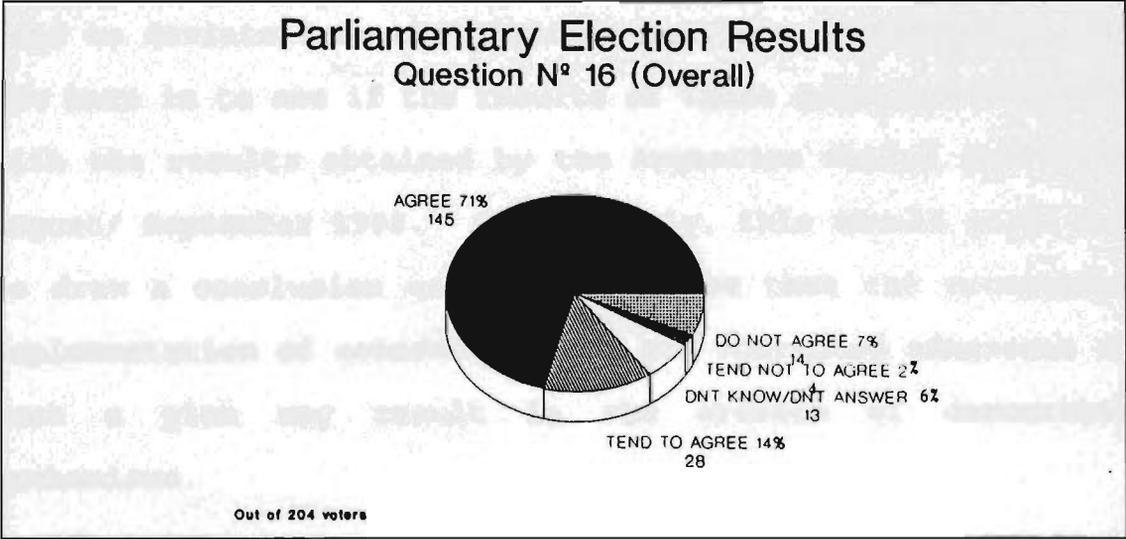


Fig. 13. Parliamentary Election Results (Question N° 16).

ANALYSIS

Of the eleven sociopolitical and economic questions raised by the survey, four of these hold particular relevance to this study. These questions are geared towards addressing the issue of democracy vis-à-vis economic development and the need for constitutional reform. The questions being analyzed in this case are numbers seven, ten, thirteen and fifteen. The study has already viewed the above mentioned questions, as well as the other questions in the survey in overall terms regardless of age and sex. The next logical step is to see if these particular questions if viewed in terms of age and sex tend to deviate from the previous analysis. Furthermore, the aim here is to see if the results of these questions coincide with the results obtained by the Argentine Gallup survey of August/ September 1993.³ Consequently, this should allow one to draw a conclusion as to the premise that the successful implementation of economic reform and continued adherence to such a plan may result in the erosion of democratic mechanisms.

³

See, Carballo, in La Nación. (Política/ Educación), Oct. 09, 1993.

QUESTION N° 7

Some people hold the opinion that the pluralistic democratic system currently in place should be temporarily suspended if it results to be an impediment to the economic development of Argentina.

In overall terms the survey showed that 49 percent (99) of the electorate did not agree with the question (see fig. 4). If the same question is viewed in terms of the male gender's response regardless of age the result is 55 percent of those surveyed did not agree with the question.

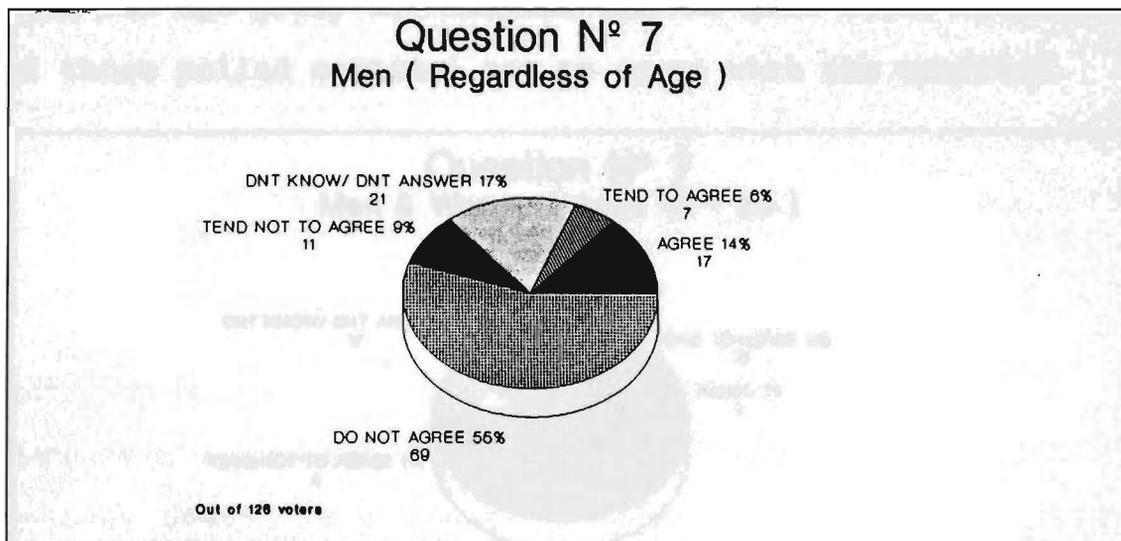


Fig. 14. Parliamentary Election Results (Question N° 7) for men regardless of age.

The same question reviewed in terms of women and regardless of age shows that only 41 percent of those polled did not agree with the question's premise.

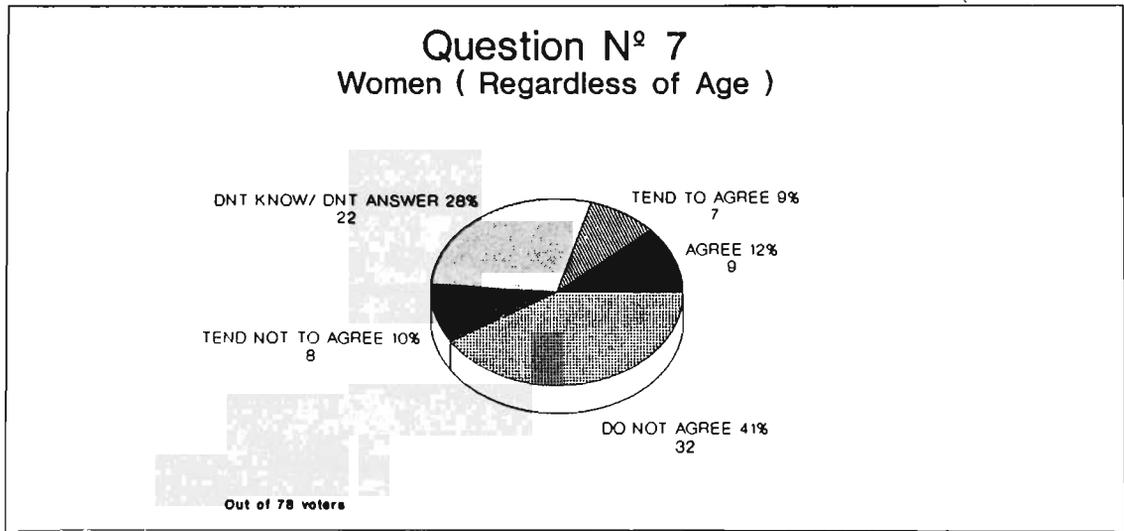


Fig. 15. Parliamentary Election Results (Question N° 7) for women regardless of age.

Now if the male and female variables are combined with the age group 18 - 35 one can see that still 44 percent of those polled continue not to agree with the question.

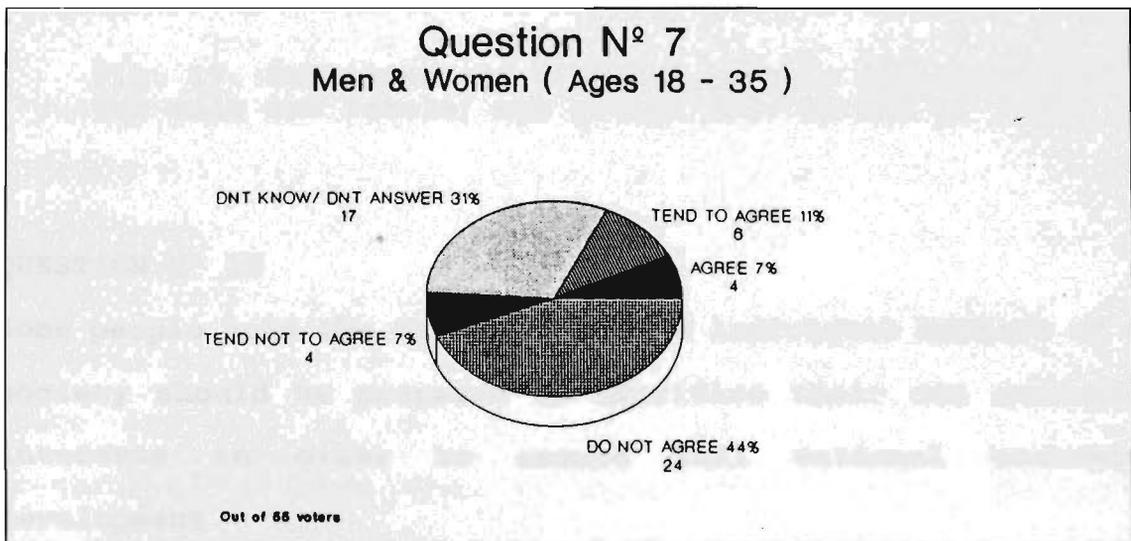


Fig. 16. Parliamentary Election Results (Question N° 7) for male and female/ age group 18 - 35.

When the same question is viewed in terms of male and female gender considering the age groups 36 - 50 and 51 - 65 one sees a variance to 56 percent of the responding electorate non approval of the question.

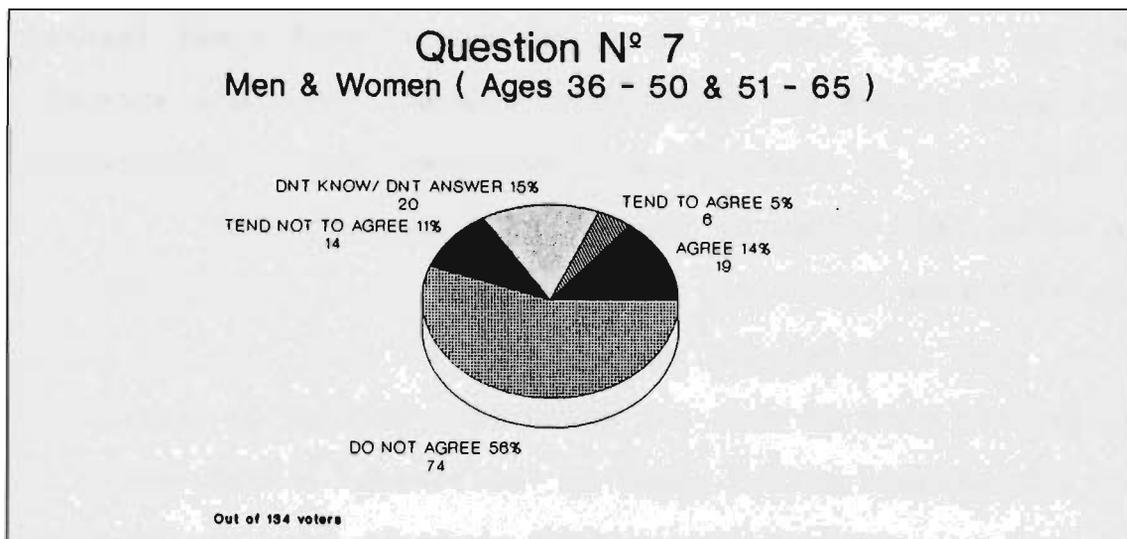


Fig. 17. Parliamentary Election Results (Question N° 7) for male and female/ age groups 36 - 50 and 51 - 65.

QUESTION N° 10

Some people hold the opinion that the individual members of a society should be prepared to sacrifice their own economic interests in order to assure full national economic development.

In overall terms we have seen that the surveyed population has responded that it agrees with the premise that

the individual members of a society should be prepared to sacrifice their individual economic interests in order to assure full national economic development (see fig. 7). What is interesting to note is that when one considers men (regardless of age) the previous overall figure (both male and female) jumps from 46 percent to 50 percent, but in the same instance and under the same conditions the female population (regardless of age) response rate decreases to 38 percent.

That sort of factor tends to imply that males are more willing to accept the notion of individual sacrifice than would be the case of the female population. Yet, it is worthwhile to realize that males may also be more predisposed to impose such a "sacrifice" on their fellow compatriots than would be the case of their female counterparts.

The followings graphs tend to illustrate that regardless of the aforesaid conclusions the Argentine electorate, regardless of age and sex, tends to be highly predisposed towards accepting the premises of the question. This is made amply evident not only by the acceptance rate towards the question, but especially by the low non-agreeing rate involved in overall terms and according to gender regardless of age. What is surprising that in the three scenarios at least 10 percent of the population responded that they did not know/ did not answer. This can be construed to largely mean that if they do not oppose the question's premise

they do not necessarily oppose it significantly enough to worry about its implications.

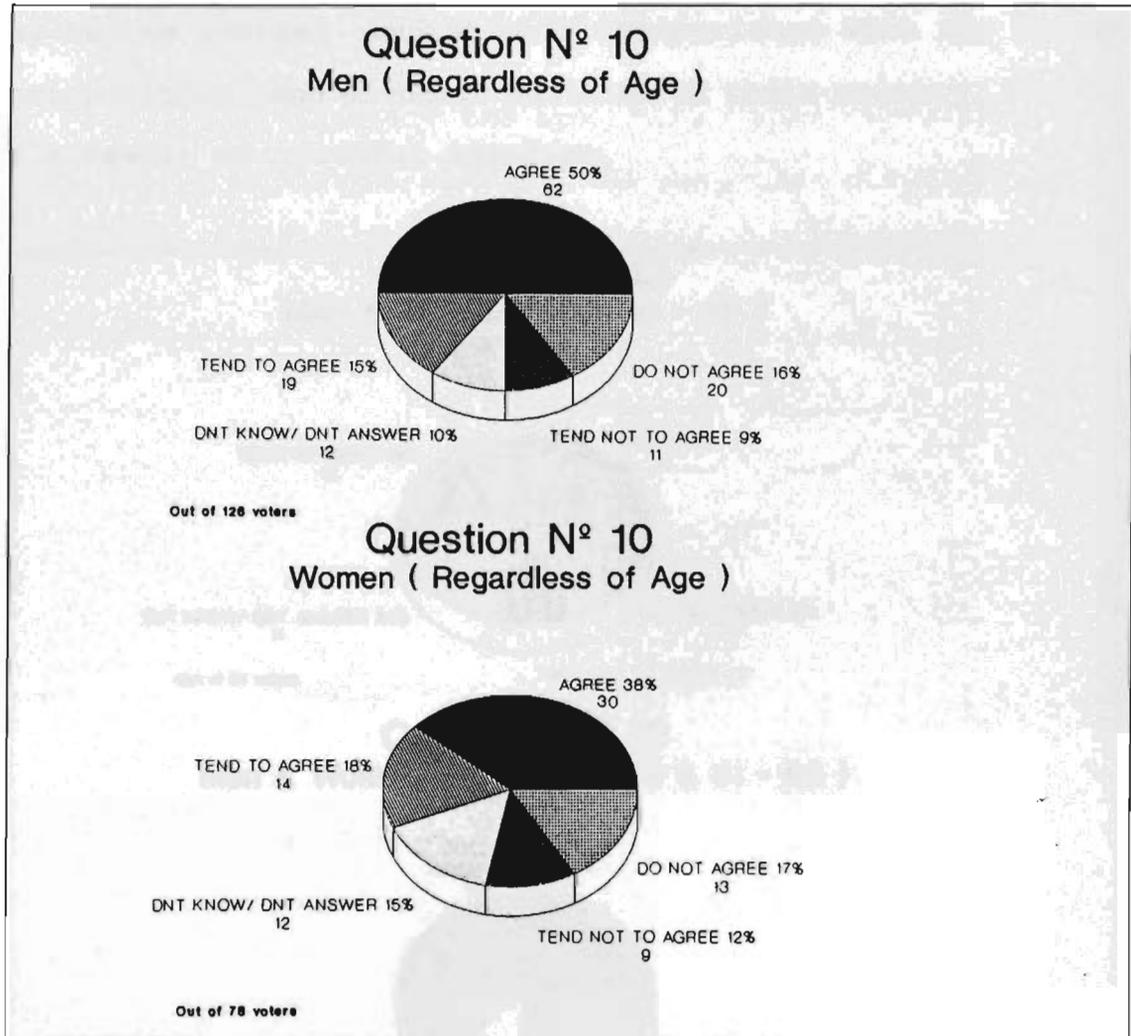


Fig. 18. Parliamentary Election Results (Question N° 10) for men and women regardless of age.

What is statistically interesting to note with regards to this particular scenario is that the age factor seems to play an important role. The younger section of the

population (males and females ages 18 - 35) tend to be more opposed to the implications involved with the question than their elders. This can logically be held to be a product of may be the younger generation's inexperience with the failed sociopolitical and economic policies of their country, as well as a result of youthful idealism.

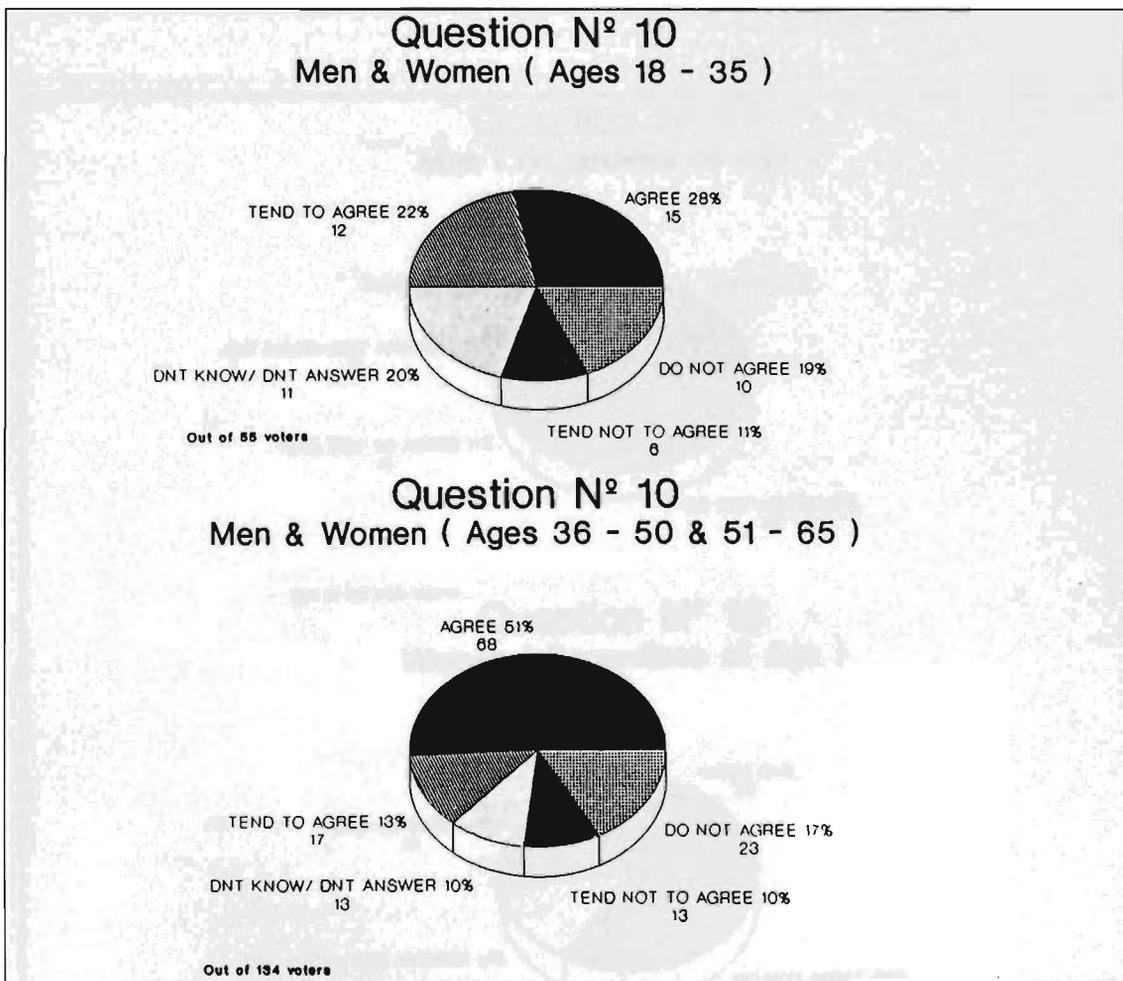


Fig. 19. Parliamentary Election Results (Question N° 10) men and women groupings according to age breakdown.

QUESTION N° 13

Other people say that constitutional reform intents ought to be supported only if President Menem were not the principal beneficiary of an such undertaking.

This question has been structured along such lines as to gauge party affiliation. The responses obtained seem to imply that males are more predisposed to back Menem.

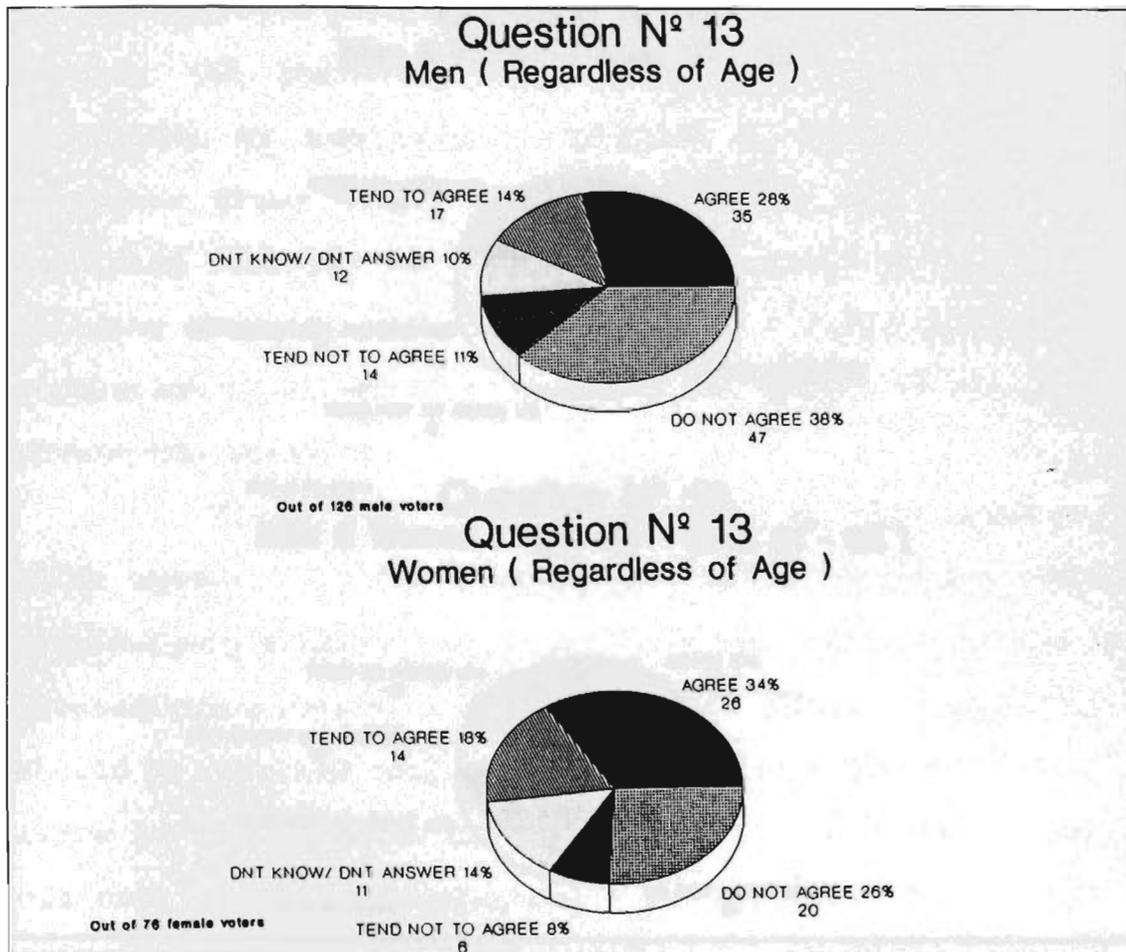


Fig. 20. Parliamentary Election Results (Question N° 13) support for Menem according to gender.

With regards to the age factor and regardless of gender what is interesting to note is that Menem overseas has a stronger backing than seems to be the case in the Argentine Republic among the population over 36 years of age and less than 66 years of age. This further leads credence to the various polls' conclusion that Menem (Justicialista Party) holds the lion's share of the Argentine electorate.

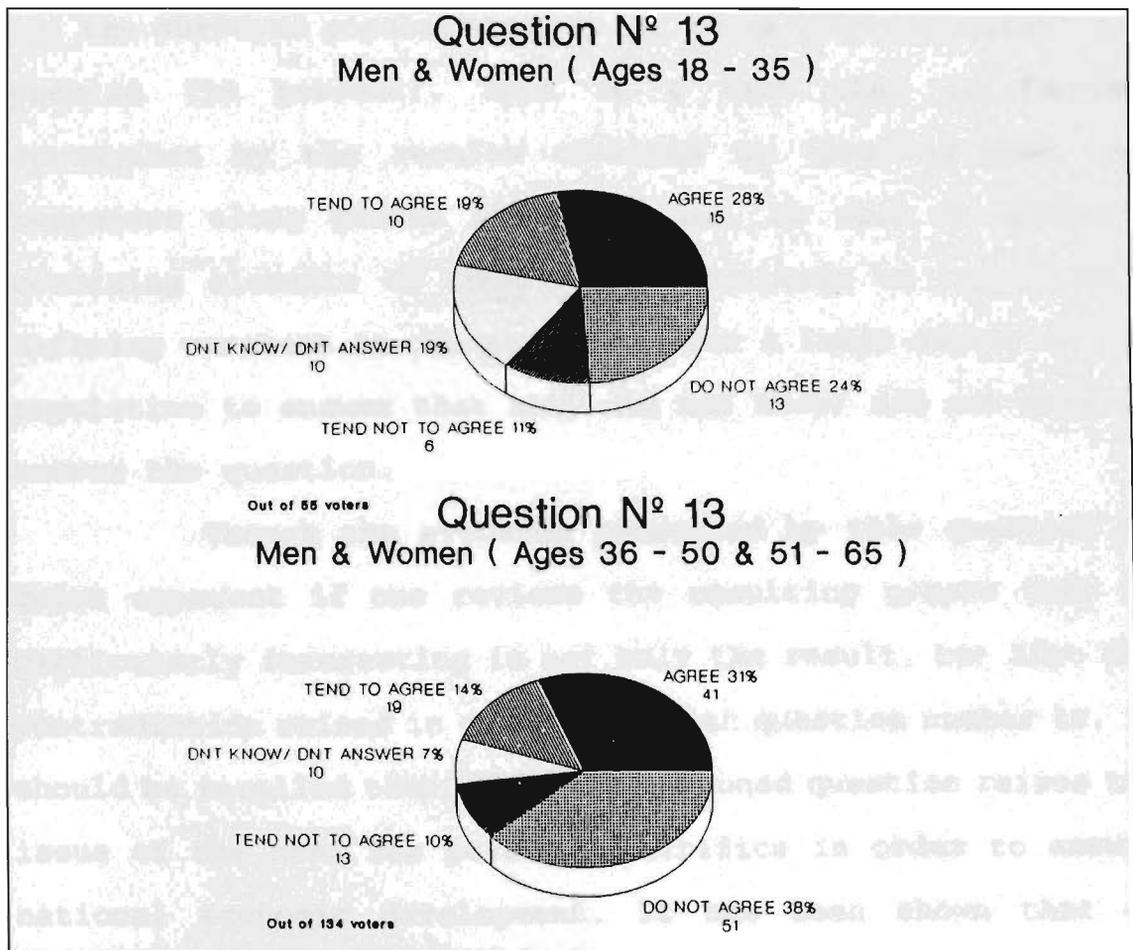


Fig. 21. Parliamentary Election Results (Question N° 13) with regards to age.

QUESTION N° 15

Some people say that it is more important to have development and economic stability (defined in this case as access to the latest consumer items, as well as low inflationary levels) than to have full political and labor rights, in other words a situation similar to Chile under the Pinochet regime.

As has been made evident in overall terms (see fig. 12) the surveyed population does not agree with the question's premise (38 percent). This is a fact that is further strengthened by the results obtained by breaking down the responses along gender and age lines, as well as mutually combining elements of these. What continues to remain as a defining constant is the propensity for a large sector of the population to answer that they did not know/ did not wish to answer the question.

Though the evidence presented by this question is quite apparent if one reviews the resulting graphs what is particularly interesting is not only the result, but also the contradiction raised in comparison with question number 10. It should be recalled that the aforementioned question raises the issue of the need for personal sacrifice in order to assure national economic development. It has been shown that 46 percent (see fig. 7) of the surveyed electorate are in favor of such a measure, but the same electorate when asked if they

support the premise of question 15 did not agree in the same proportion as in the other question. This can be held to be a result of the fact that question 15 is structured along much more personal lines than question 10. This goes a long way into supporting the notion that it is easier to pass/ transfer the burden of sacrifice to another, than to place it upon one's own shoulders.

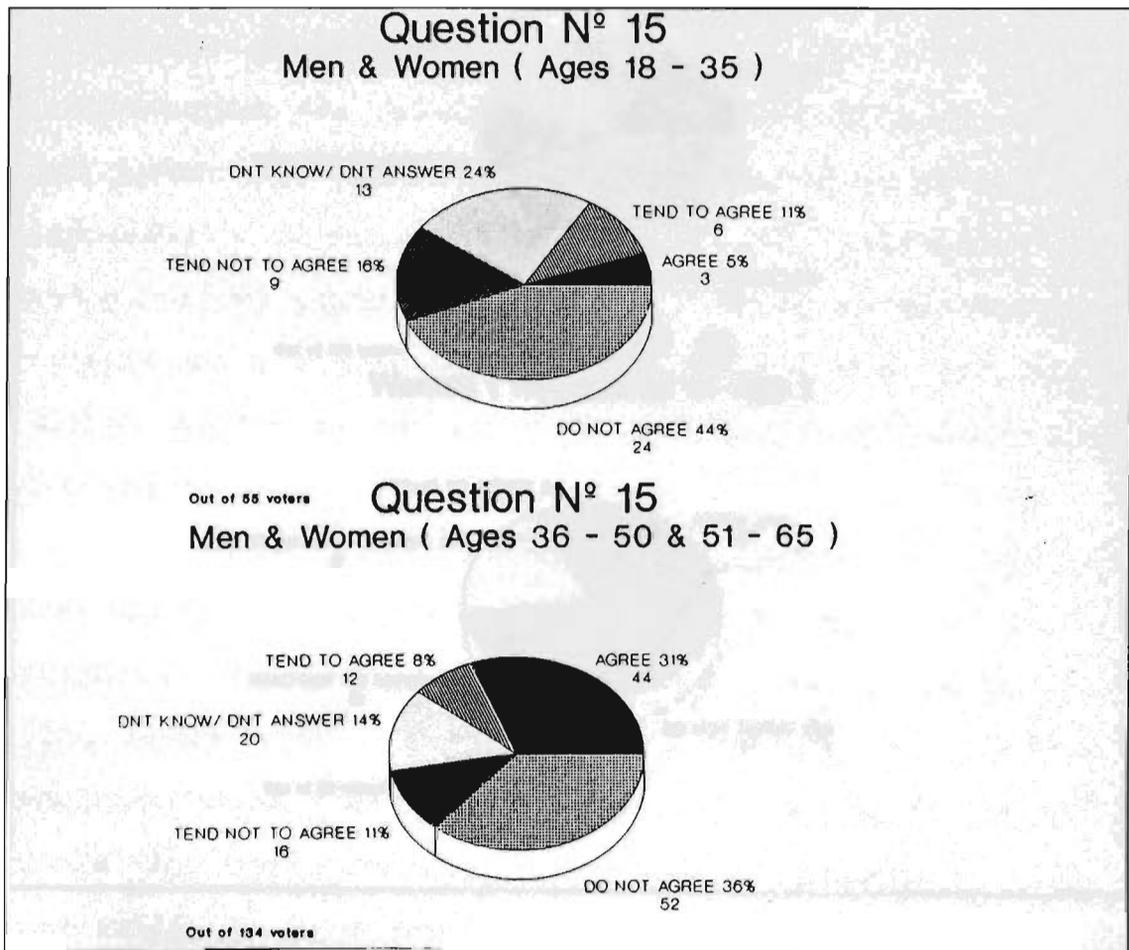


Fig. 22. Parliamentary Election Results (Question N°15) men and women with regards to age.

The aforementioned tends to be additionally supported by the fact that there does not exist a significant variance, to its contrary, if one takes into consideration only the gender issue without regard to the age factor.

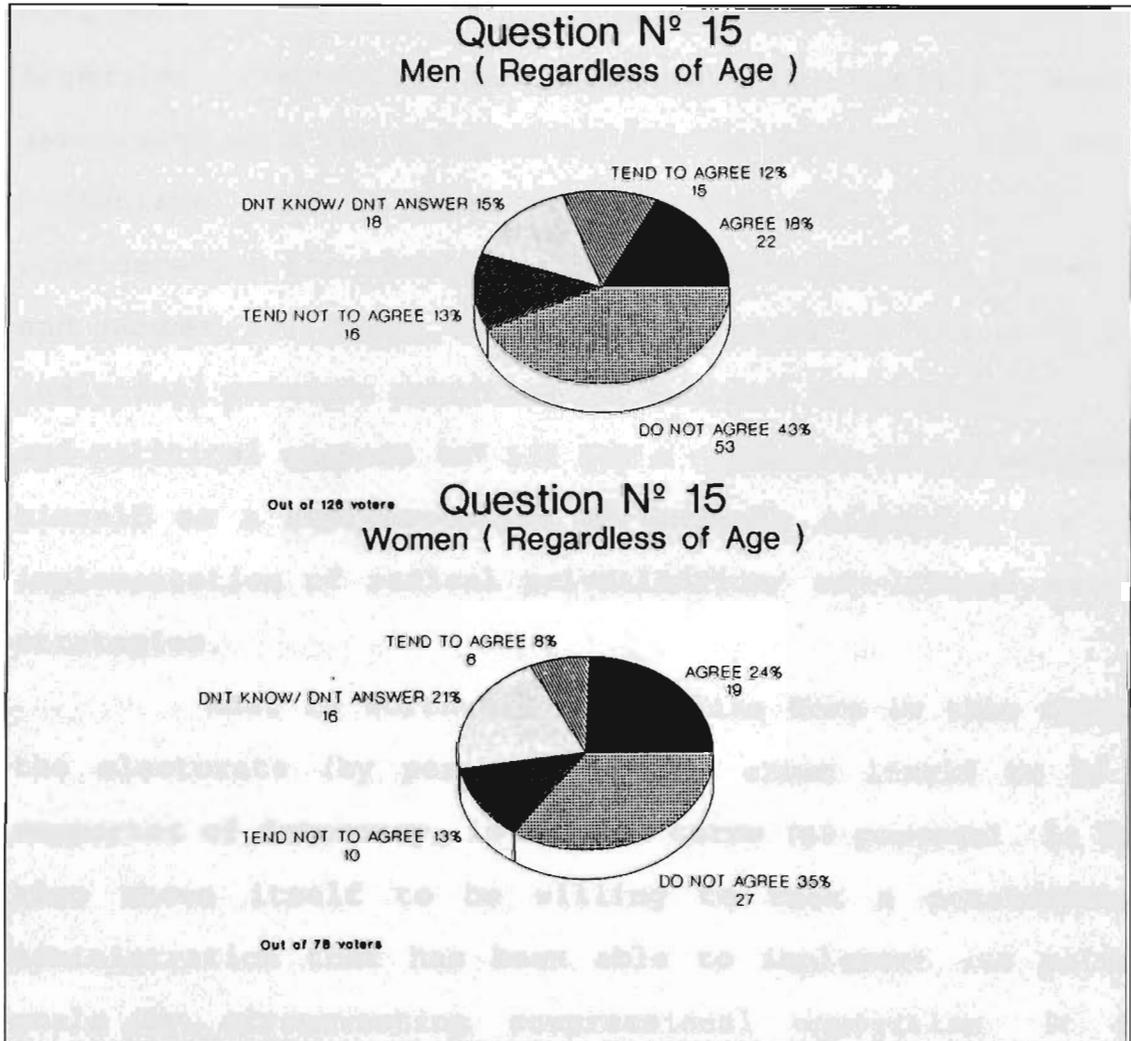


Fig. 23. Parliamentary Election Results (Question N° 15) men and women regardless of age.

CONCLUSIONS

The conclusions that can be drawn from this chapter are basically held to be that the variables utilized, in this case age and gender, have tended to demonstrate that there does exist a sociopolitical and economic tendency for the Argentine electorate to acquiesce to certain aspects associated with the possibility for the erosion of democratic mechanisms. This is especially the case when one takes into consideration the results associated with question number 10 and number 13. These two questions refer to the need for individual economic sacrifice for national development (n° 10) and political support (n° 13) for a candidate that has imaged himself as a representative of economic stability via the implementation of radical privatization/ neo-liberal market strategies.

What is worthwhile to realize here is that though the electorate (by percentages) has shown itself to be a supporter of democracy, in overall terms (49 percent), it has also shown itself to be willing to back a presidential administration that has been able to implement its policy goals by circumventing congressional opposition. It is worthwhile to note that the Argentine political system has traditionally been characterized by the fact that the Executive Branch of the Government has always been the

"princeps entre pares". This has historically meant that it has been able to impose most of its measures with minimal Legislative and/ or Judicial opposition. These sort of issues, in conjunction with the electorate's overall propensity to be willing to accept the viability of the concept of individual economic sacrifice (question n° 10) for national development, supports the notion that the implementation of drastic economic reform may come to eventually undermine democratic mechanisms in a crisis situation.

Precisely, as mentioned above, the current administration has been able to largely accomplish many of its policy goals by recurring to the implementation of presidential decree legislation. Sustained popular and institutional opposition to the privatization program and its implications has been circumvented by the preceding sort of presidential action. Furthermore, with regards to the preceding it should be clarified that Congressional opposition to such measures has only been half hearted at best as a result of the fact that Menem's party after the October 3, 1993, elections walked away with 43 percent of the popular vote compared to the main opposition, Radical Union (UCR), which obtained only 30 percent of the popular vote.

As a consequence that election has resulted in granting the current government and its Justicialista Party complete control of the Chamber of Deputies, the

Justicialistas won 18 of 24 electoral districts, as well as hold 2/3 of the Senate until 1998 and an absolute majority until 2001. Such an effective dominance of the Argentine political arena tends to bolster the implementation of the government's economic policy and continued near term adherence to it as well. The mechanisms of democracy may have not been cashiered, but rather have been revamped to conform to the current realities of development in the post-Debt Crisis era in conjunction with the demands imposed by the World-System perspective.

In closing it is also worthwhile to mention with regards to the above mentioned facts the issue of the freedom of the press. Sustained criticism of the Menem government and its methods has arisen lately, in part also a result of the economic downswing, this has prompted the government to seek to restrain and/ or gag the independent Argentine press. The Government has thus forwarded to the Argentine Senate a series of proposed legislation that would in effect equate slander with involuntary manslaughter. The proposed legislation, known as the ley Barra (Barra's Law) after Menem's Minister of Justice, counts with the backing of the President and the Minister of the Interior, Carlos Corach.⁴ The proposed

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See, " Sigué la polémica por la ley contra la prensa ", in La Nación. Buenos Aires, Argentina, Jan 9, 1995, pg. 11. Menem has publicly insisted that the proposed legislation sent to the National Senate is not aimed at the press.

legislation aims at inhibiting criticism.

CHAPTER FIVE

CONCLUSION

This study has attempted to address the possibility of erosion of democratic mechanisms as a result of the implementation of drastic economic reform in the Argentine Republic. The theoretical background utilized in this undertaking has been the Modern Political Economy perspective. As a theoretical discipline it defines actors and their objectives as per their need to maximize utility. Presently the Argentine Republic is without a doubt a state which seeks to accomplish the foregoing.

What needs to be defined in this case is the notion of democracy and the need for economic development. The ever expanding international commercial and financial ties of the late twentieth century world have made both Communism and State-Centric development, as well as autarky, economic dinosaurs of another age. The post-Debt Crisis World has forced the Third World and the Developing Countries to seek not only new sources of development financing, but also to adhere to neo-liberal market principles, ie deregulating local markets, lowering of tariffs, privatizing of the state-sector, etc. This has occurred in turn of an ever expanding world dominated by the political and economic interests of the industrialized core nations. These consequently have naturally

come to exert ever increasing demands for adherence to its particular policy objectives and economic priorities from developing nations of the world.

As part of the cyclical nature of history and economics these regions once again are realistically accepting the notions that in order to advance they first must be subservient to the interests of the industrialized states. The core currently is repository of the bulk of the planet's financial wealth, as well as of its technological advances. The hope for many in the developing world is that these nations will succumb to attrition amongst themselves or with aspirants to the so-called core status, and thus by default make room for new developing nations to arise.

Such an issue pertains to the realities which Carlos Menem's Argentina currently faces. The Argentine Republic has gone from being an international isolationist and a sponsor of an alternative path of development (Tercer Camino) than that blazed by the capitalist West, led by the United States, or that advocated by the communist Soviet Union. Argentina has now hitched its proverbial wagon to the notions of free markets which has become the hallmark United States economic policy.

In the process the Menem/ Cavallo team have privatized the Argentine state's vast public sector in the hope of attracting new investment financing, as well as a

means of modernizing the Argentine national infrastructure and economy. To this point in time the neo-Liberal market strategies adopted by the current Argentine Government have resulted in both a substantial repatriation of Argentine capital, which had previously fled overseas during the years of sociopolitical and economic instability, as well as renewed foreign investor financing.

The problem that has arisen is that in order to make the country internationally attractive, and thus internationally competitive, a high social cost is being extracted from sectors of the Argentine electorate, in particular the working and lower middle classes, as well as old-age pensioners. The need to make the country economically viable has resulted in atomizing the national electorate. In essence people tend to vote according to their overall situation.

A highly atomized electorate, in which one party holds controls of at least 40 percent of the popular vote, may come to undermine certain aspects or mechanisms of democracy. This is especially the case if safeguards against political abuse are not implemented and respected by all parties. I refer specifically to those issues associated with the recent constitutional reform. Institutional abuse may arise as a result of the need to continue an economic policy which may have run its course, but whose proponents may not necessarily

have become aware of that situation. Thus, one sector or several of the electorate are forced to bear an ever-increasing and larger share of the burden of maintaining a failing and/or no longer appropriate sociopolitical and economic policy.

The current Government is convinced that in order for the Argentine nation to prosper it must continue to maintain the Argentine peso at an equal rate of exchange with the U.S. dollar. Consequently, it is convinced that it must maintain a sound non-inflationary economic policy which fundamentally prohibits the Government from printing additional currency if it does not have the hard currency or gold reserves to back the new monies. As a consequence of such measures, and in conjunction with the country's much heralded privatization program, the current Government has been able to pump much needed new financing into the previously stagnant Argentine national economy.

An additional issue that needs to be considered is the fact that the Argentine state can ill afford the luxury of devaluing its national coin at this moment in time. The implementation of a devaluation following the lines of the recent Mexican one would undermine international confidence the in whole Argentine economy. Devaluation would make the vast majority of Argentine debt papers and bonds less valuable. This in turn would send definitive shock waves

through the world financial system and in turn could possibly bring about a new series of Latin American devaluations. Under such a situation the Argentine Republic, as well as the rest of the region would find its access to renewed financing even more difficult. Recall that the Argentine public sector has few viable remaining physical assets with which to entice foreign investors. Economic instability could be catastrophic, since the state no longer has in its possession the physical infrastructure necessary to provide employment for the masses as was the case during State-Centric development. The recognition of that possibility has forced the current government to continue not only to back Cavallo's Convertibility Plan, but also to further dollarize the Argentine economy in the hope of maintaining the value of the peso. This is in addition to the need of keeping the dollar liquidity of financial institutions requirement to exchange pesos for dollars.

The privatization measures have largely been implemented by resorting to presidential decrees in order to circumvent Congressional opposition. The electorate has largely supported the Menem/ Cavallo measures, because it has seen marked improvements in the Argentine national economy as new financing has entered the country. Yet, these measures and the need to make Argentina internationally economically viable has resulted in the need to cut operational costs principally

by downsizing previously over bloated industries. This in turn has increased by unemployment and under-employment for sectors of the economy.

Measures as those detailed above can possibly continue to be implemented because reshuffling of the national economy has resulted in the atomization of the Argentine electorate in the process. Furthermore, the lack of political solidarity amongst the nation's different opposition parties strengthens the preceding. This issue is further supported by the fact there exists a strong propensity in the Argentine electorate to be either unwilling to take a definitive stance or, worse still, a large percentage, approximately 25 percent according to this study's electoral survey, willing to impose harsher policies on their compatriots. It is precisely the strong tendency in the electorate for swing votes that upsets the balance of stability in the Argentine sociopolitical and economic arena.

Menem's control of his country's political arena following the October 3, 1993, elections has necessitated that the Radical Party, as the country's main opposition, to essentially capitulate to the desires of government in order to avoid a further deterioration of its national position. This is a fact that was further strengthened by the April 1994, Constitutional Assembly elections. Though the government party's percentage of the overall popular vote dropped from

approximately 43 percent to 37.7 percent, the main opposition's percentage dropped from 30 percent to 19.9 percent. In overall terms a much worse political defeat was suffered by the opposition than by the Government. National political opposition has consequently been fragmented by Menem's success into six main national opposition parties, whereas in the past it had always been exclusively a bi-polar electorate.¹

With a mere 40 percent of the popular vote Mr. Menem will most likely be reelected to the Argentine presidency in May of 1995, because of the atomization of the Argentine Republic's opposition parties. With 40 percent of the popular vote Menem could consequently come to impose even harsher terms on the Argentine working class in order to continue to maintain the competitiveness of Argentine industry internationally, as well as safeguard the financial interests of the international banking and investment community by maintaining the Argentine peso at parity with the U.S. dollar as a means of promoting principally foreign investment.

In essence it becomes a situation in which national investment increases as foreign savings and government savings

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As a result of the April 10, 1994, elections the Justicialista Party obtains 37.7 percent of the vote, Unión Cívica Radical obtains 19.9 percent, Frente Grande 12.7 percent, Modín 9.1 percent, Unidad Socialista 2.0 percent, Partido Demócrata Progresista 1.7 percent, UCEDE 1.6 percent, and 4.5 percent blank votes.

increase. Under such a scenario the Argentine domestic marketplace's value could tend to decline in importance, which is not really a relevant issue if one compares its relative size to that of the Brazilian marketplace. In exchange the Argentine Republic would become an export oriented economy, servicing Brazil's consumer market as a result of increased ties brought about by MERCOSUR, internationally competitive because of low production costs with a highly skilled labor force. In the process Argentine labor and the middle class would be forced to accept the wages offered in most cases, because of the rate of their dollar indebtedness brought about by recent widespread and easy access to credit financing. This sort of issue could play a fundamental role in deciding the outcome of the Presidential Election of May 1995. In turn the result of that electoral contest will determine whether democracy as is currently known in the Argentine Republic shall continue as before or shall be modified for the new millennium.

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