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## **Growth and Recovery in a Time of Default**

Lessons from the Role of the Urban Sector  
in Argentina

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### **Abstract**

International narratives on Argentina's recovery from the crisis of 2001-02 tend to emphasize the role of rising commodity prices and growing demand from China. Argentina is said to have been 'lucky', saved by global demand for its agricultural exports. The international narrative has also been used by local agricultural exporters to justify their objections against higher export taxes during periods of high commodity prices. These narratives are not correct. Data on the country's recovery show that it was not led by agricultural exports but was fuelled by urban demand and production. When the Convertibility period ended and the peso was devalued in 2002, price increases for imports stimulated the production of domestic goods and services for consumers. This production in turn generated multiplier effects which supported small and medium-sized firms and helped to create many new jobs. This later produced a revival of the construction and then the manufacturing sectors as well.

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The contribution of the *campo* (rural sector) to the recovery came later in 2004 and thereafter, as the prices of commodities increased and the planting of larger and larger areas to grow soya and other crops had huge payoffs. These exports certainly helped build up the country's reserves and fiscal strength, but they cannot be credited with playing the key role in stimulating the recovery. Agricultural exports later generated much additional income and eventually public revenue, but Argentina's recovery was largely a 'demand-led recovery', located in urban areas where 80 per cent of Argentines work and live.

The Argentine case is significant because it suggests that the urban locus of macroeconomic phenomena in Latin America deserves much more research and appreciation from policymakers. The historical foci in Latin American urban studies have included squatter settlements and infrastructure deficits, social exclusion, civil society mobilization, decentralization, and the 'right to the city' claimed by excluded groups. But these bodies of work have ignored the central fact that more than 60 per cent of GDP in all Latin American countries comes from urban-based economic activities. The economic and social futures of Latin America lie in urban areas which are at once the sites of productivity and the loci of urban poverty. The impacts of high intra-urban inequality are key factors in undermining needed improvements in productivity. The capacity of Latin American economies to withstand the impact of global economic crises and other exogenous events will depend on how economic policy takes into account the constraints and opportunities in urban areas.

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## 1 Introduction

The study of urban growth in Latin America has been dominated since the 1960s by studies of housing and squatter settlements. The discovery of the *barriadas* of Lima (Turner and Fichter 1972), the *favelas* of Rio (Perlman 1976), or the *villas* of Buenos Aires (Hardoy and Satterthwaite 1989) by leading urban scholars presaged more than three decades of intensive operational work by national and municipal governments, often with support from international institutions. A preoccupation with the rapid growth of slums evolved over time into a concern with residential infrastructure, particularly water supply and sanitation, and security of tenure, leading also to a call for 'the right to the city'. It is revealing to note that these themes might be characterized as 'having entered the city through the house and the bathroom,' rather than through the place of work or income generation. This entry point has over time dominated the consideration of the city within Latin America, with some exceptions such as the experiences in Brazil such as Curitiba or Porto Alegre, or in Bogota, Mexico City, and Santiago with public transport. It also fits easily within a list of issues which I have termed the 'global formulation of the urban'.

Looking at urban research and urban practice as a whole, the global formulation of the urban, as reflected in the past policy work of the World Bank, the regional development banks, the Cities Alliance, and most institutions of the United Nations system, currently includes the following propositions:

- Urban demographic growth will continue, regardless of urban economic conditions (UNFPA 2007);
- Urban demographic growth has spread beyond primate cities to secondary urban centres;
- Cities and towns remain the destination of both national and international migrants;
- Urban slum conditions, meaning housing, land, and infrastructure deserve priority attention on the grounds that poor living conditions are a key determinant of urban poverty and also undermine labour productivity (UN Habitat 2003);
- Urban water supply is a major concern, both in terms of aggregate supply with the marginal cost of water increasing in most cities in developing countries and in terms of its distribution, particularly to poor communities;
- Urban sanitation is recognized as playing a key role in controlling water-borne diseases and being a major determinant of urban health status of individuals, households, and communities;
- Insecure land tenure is a dominant feature of slum growth (UN Habitat n.d.);
- Urban land use patterns usually include central business districts and surrounding slum areas expanding out into the metropolitan periphery;
- Urban density of central areas is declining (Angel 2006);
- Most national and local governments do not manage urban land resources efficiently nor do they sufficiently capture increasing land values at a commensurate rate;

- Land markets are highly imperfect and frequently significantly affected by specific local regulations affecting both supply and demand;
- Extension of urban infrastructure has been guided less by public policy than by private investment;
- Urban cultural and physical heritage deserves protection in the face of unmanaged growth;
- Urban governance is weak due to scarce financial and technical capacity of urban governments and a lack of national government attention to urban problems;
- Civil society and community-based organizations can fill the gap of poor public sector performance and can provide many needed service;
- The importance of gender is recognized as significant in urban policies and management, but few internationally-supported operational policies and programmes have actually improved gender equity in cities;
- The management of urban externalities in most cities in poor countries is very weak, specifically reflected in deteriorating urban environmental conditions, particularly in relation to solid waste management and air pollution, and decaying physical infrastructure (Prud'homme, Huntzinger and Kopp 2004);
- Most urban development plans and policies ignore local ecosystem viability and constraints;
- Despite several generations of analytic and policy work on urban public finance, most cities lack a credible sufficient financial base to finance long-term assets, whether public or private;
- Urban safety and security is an increasing problem, reflected in growing crime rates, evictions, and so-called urban natural disasters (UN Habitat 2007);
- A growing share of urban employment and income is provided by the informal sector;
- The efficacy of urban planning as a discipline and tool is thus regarded with increasing scepticism; and
- Many of these problems are reflected in the process of growing urban differences and intra-urban inequality affecting most cities.

This list is not intended to be comprehensive, nor is it ordered in terms of priorities for policy or research. However, this conventional global wisdom about urban issues does suggest a view of the city which largely is independent of time and space and, despite the emphasis on demographic and spatial growth, *is relatively static*. It ignores other changes at different scales, whether at the global, regional, national, or local levels, and fails to acknowledge their impacts on cities through changes in prices, value, and costs.

This view of cities is perceived and articulated as relatively independent and insensitive to major phenomena such as the current global economic crisis, national political change, local ecosystem collapse, or local disasters. Moreover, this formulation does not acknowledge the dependency of local urban conditions on macroeconomic or global financial conditions. Indeed, this formulation is quite striking in its general absence of linkages and the continuing independence of this model of cities from economics or

ecology, whether in the form of global economic forces or the characteristics of local economies such as their sources of capital formation, productivity, employment, and incomes, or in terms of local natural resource endowments and landscape. Most, though not all, urban analysts are not seeing the larger context.<sup>1</sup>

These observations about urban research and policy analyses are particularly problematic when considered in light of the current global economic crisis and its already heavy impact on developing countries. Whether one cites the drop in employment in Brazil, the forced expulsion of 20 million now unemployed urban workers from Chinese cities in December 2008 alone, the decline in the global and regional demand for commodities and manufactured goods produced in cities, or the observed contraction of many domestic economies over the last year, it is apparent that the global economic crisis is undermining the economic growth and development prospects of countries which are already facing growing numbers of poor people living in cities. This is certainly the case in Latin America.

## **2 The case of Argentina: Recovering from the crisis of 2001-02**

Within this context, the case of Argentina is important to understand because its recovery from the crisis of 2001-02 offers significant insights on how urbanized and middle-income countries can actually survive and recover from macroeconomic crises. This experience also suggests new conclusions about the role of urban economies within periods of macroeconomic change. This paper presents this experience, focusing particular attention on the urban economy, and offers some suggestions for broader development policy and macroeconomic debates.

### **2.1 Origins of the crisis**

It is impossible to understand modern Argentina without appreciating the significant development accomplishments of the decade from 1946 to 1955 during the government of General Juan Peron. This period was marked by the construction of a national industry protected by import substitution policies, the expansion and distribution of public services including education, health, social security, and housing, and major improvements in literacy, longevity, and income levels for the vast majority of the population. In the post-war period Argentina could afford the establishment of a welfare state which brought a high level of income and wellbeing to a relatively small population of 35 million people living in a vast national territory.

This period, while remembered nostalgically, nonetheless could not escape either the shifting pressures of either the post-war global economy or the cold war. Political instability reached Argentina in 1955 with the overthrow of Peron who went into an 18-year exile in Spain. He returned to Argentina in very different economic circumstances in 1973, again was elected president but he lived only for a year. His wife, Isabel Peron, became president until the military coup of 24 March 1976 when Argentina entered almost seven years of military dictatorship, massive repression, and

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<sup>1</sup> Exceptions include World Bank (2009) and Asian Development Bank (2008).

the deaths of 30,000 citizens through state-sponsored terrorism. Thousands more left the country to seek safety and exile outside of Argentina.

This history and the military period had several major consequences that contributed to the crisis of 2001. First, the military government literally eliminated the voices of political opposition which might have led to more public debate over economic policies after the return to democracy in 1983. Second, the military government dramatically increased the national debt. Further, the management of the economy under Economy Minister Martinez de Hoz involved a rapid liberalization and opening up of the economy to global trade and competition, leading to a sustained process of de-industrialization in Argentina which contributed to rising unemployment and inequality. Thousands of Argentine factories and businesses closed during the 1980s and 1990s.

The economic legacy of the military period immediately appeared in the 1980s during the presidency of the late Raul Alfonsin as rising debt, fiscal crisis, and eventually uncontrolled hyper-inflation which led to Alfonsin's early exit in 1989. By June 1985 the economy minister, Juan Vital Sourrouille, had introduced new plans for 'shock therapy' with the *Plan Austral* intended to stabilize the economy through devaluation, a fixed exchange rate, and a drop in interest rates. This Plan, however, proved unable to balance the diverse pressures of salaries, prices, foreign trade, and interest rates. Political pressures from agriculture, the unions, and disagreements among the many economic policymakers themselves further complicated a difficult balancing act in an unfavourable economic environment, particularly as the impact of growing debt was beginning to be felt after 1982. In June 1987, the government signed an agreement with the IMF promising to further devalue the currency and to reduce the fiscal pressure on the national budget by privatizing many public enterprises.

This was the backdrop to the ascendancy and presidency of Carlos Menem who promised in 1989 to control inflation and provide economic stability. This stability was assured after 1991 through the pegging of the Argentine peso to the US dollar and the adoption of the Convertibility Law introduced by economy minister Domingo Cavallo. This 'hard peg' allowed security for investors, savers, and led to strong economic growth from 1991 to late 1994 when Argentina felt the impact of the Tequila Crisis in Mexico.

The success of the Convertibility Law was accompanied by the adoption of many measures to further liberalize the Argentine economy, including capital and trade flows, banking regulations which led to the arrival of many foreign banks in the 1990s, and privatization of public services from water, electricity, transportation, telecommunications, garbage collection, and mail. The Argentine privatization programme was the most rapid and comprehensive of any developing country. Indeed, Argentina privatized more public services in two years than Britain did in ten years under Margaret Thatcher. In some sectors such as telecommunications this led to significant and immediate improvements while in others, such as water, they were much slower and incomplete (Azpiazu 1994). Most importantly, the security of the peso tied to the US dollar attracted foreign investment from many sources, particularly from European countries such as Spain, France, and Italy, and contributed to what initially appeared as a vibrant, growing economy. Foreign investors were attracted by monetary security and the promise of an easy expatriation of profits. Spanish companies alone withdrew US\$45 billion during the 1990s (Cecchini and Zicolillo 2002).

This picture began to darken after 1995 as the Tequila Crisis increased the cost of capital for servicing Argentina's debt and its borrowing to cover fiscal deficits. The artificial over-valuation of the peso also hindered the growth of Argentine exports and weakened the external account, as Argentines imported many products. A chronic trade balance deficit developed. External shocks such as the East Asian financial crisis in 1997, the Russia crisis in 1998, and later Brazil which devalued the *real* in 1999 all increased the cost of capital for Argentina. This began to show up in the form of reduced investment, increased unemployment, growing poverty and inequality, difficulties in servicing debt, and in growing fiscal deficits (Frenkel 2002: 33-50; Damill, Frenkel and Maurizio 2002).

Growing economic difficulty led to repeated requests by the Menem government for financial support to the IMF which provided resources to its 'poster child' of the 1990s. The conditions for this support, however, were repeated calls for fiscal adjustment, further market reforms such as the liberalizing of the labour market, and various tax laws and financial regulations. Menem followed most of this advice and, evoking the fear of inflation and monetary instability, continued to promise that despite the country's economic difficulties, the Convertibility Law would be maintained.

As the economy adjusted—in fact contracted—it became increasingly obvious that the government would have serious difficulties in repaying its debt now over US\$180 billion. External markets and rating agencies were conscious of this deteriorating situation, with the country's risk rating dropping by the day. It eventually fell below the risk rating of Nigeria in 1999—clearly a nonsensical comparison—but which demonstrated that, even with its physical and human infrastructure and extraordinary economic potential, global financial markets were only interested in the short-term capacity of Argentina to pay its debt.

It is generally agreed that the Convertibility period can be divided into two stages, the first from 1991 to early 1995, when the economy expanded at a rapid pace, and a second, a deepening recession induced by the Tequila Crisis, which included changes in the labour market, further de-industrialization as many Argentine firms were unable to compete in now open markets, and a deterioration of the income distribution. Capital flows played a key role in this process, supporting growth in the first phase, and then becoming increasingly expensive and hesitant as negative signs appeared about the country's economic performance (Frenkel 2002: 34-5).

If there was increasing international concern about the sustainability of this situation, there were also many domestic indicators of economic and social distress. Unemployment was the most obvious indicator, as the ratio of fulltime employed to population began to fall to a new low in 1996, even below its 1990 level (ibid.: 36). This was worsened by the influx of imported goods and the drop in the domestic demand for labour. It can also be shown that volatility in external financial markets was mechanically transmitted directly to the domestic Argentine economy, because the hard peg to the dollar meant it was impossible to adjust the value of the *peso* as external conditions changed (ibid.: 45). The consequences of these changes in employment and declining real household incomes included school dropouts, crime, and drug use.

By 2000, Argentina's per capita income in purchasing power parity was about US\$12,000, well above any other country in Latin America and exceeded only by Korea among emerging market economies (Cline 2003: 7). The country had the highest

literacy in Latin America and the lowest infant mortality with the exception of Chile. But these aggregate numbers masked the fact that Argentina was quickly becoming a society of separate worlds.

A 1998 press article entitled 'The Distribution of Income: Each Time More Unequal', showed that the top 20 per cent of the population received 53.2 per cent of income, while the poorest 20 per cent received only 4.2 per cent. The data from INDEC showed that the bottom 10 per cent actually received only 1.4 per cent of income, while the top 10 per cent received 35.8 per cent (Bermudez 1998: 22). The 1990s had generated important increases in income for many households, but the combination of increased inequality and differences, poverty, the numbers of people working informally, and the level of delinquency all demonstrated important problems which differed from the self-perception of Argentines in the 1950s or 1960s of their country as a prosperous, largely middle-class society.

In Buenos Aires, middle- and upper-income households benefitting from economic growth under Convertibility increased their consumption with one *peso* equal to one dollar. They moved into some of the more than the then 300 new gated communities surrounding the federal capital district, where they developed suburban life styles resembling the car-dominated cultures of the USA. Their life styles separated them from the mass of urban and, indeed, national population (Svampa 2005, 2001; Castelo 2007; Cohen 2007: 270-313). This was reflected in the growing perception of inequality in access to infrastructure, public services, and the quality of living conditions. An analysis of public expenditures within the federal capital from 1991 to 1997 showed that 11.5 per cent of the population received 68 per cent of public expenditures, creating in effect 'five cities of Buenos Aires' with the distribution of services by neighbourhood correlating strongly with poverty, crime, and environmental quality (Cohen and Debowicz 2001: 3-20).

Within the metropolitan area as a whole, there was a growing spread of squatter settlements, where almost one million people were living without piped water supply and in-house sanitation. This problem was raised as one of the 'great pending issues for Argentina' in an article in early January 2000, where data from SIEMPRO, a programme within the national ministry of social development, was presented to illustrate the growing nexus of slum problems which was making metropolitan Buenos Aires similar to the slum areas of other cities in developing countries (O'Donnell 2000). A front-page story in *La Nacion* in February 2000 reported a 15 per cent growth of the population in *villas miserias* in the wealthier federal capital of some 14,000 people in two years, reaching 100,000 persons (Palacios 2000: 1 and 14).

## **2.2 The crisis unfolds**

By December 2001, the room for manoeuvre by the government of President Fernando de la Rúa had narrowed considerably. There was growing international and domestic recognition that the country could not pay its external debt. Foreign exchange and bank deposits were fleeing the country. Finance minister Cavallo ordered a limitation of withdrawals from personal bank accounts of 250 *pesos* per week, a measure known as the *corralito* which led to street protests and demonstrations, and the declaration of a state of siege by the president. Twenty-six people were killed in Buenos Aires on 18-20



December, and on 20 December, de la Rúa gave up the presidency, escaping the Casa Rosada by helicopter.

The country had three transitional presidents in the 10 days to follow, eventually settling on Eduardo Duhalde, former vice-president under Menem, who helped to stabilize the economic and political situation over the next six months. This process included declaring a default on Argentina's foreign debt, de-valuing the peso from one per US dollar to a floating rate assumed to start at three per dollar, and re-establishing the legitimacy of the central government in a federal country in which individual provinces were even issuing their own currency to meet their bills and other obligations. This situation was closely followed by the international media: the default affected citizens and institutions from many countries, the default appeared to be a dangerous precedent for other debt-ridden countries, and the case of Argentina raised dramatic questions about the value of the advice of the IMF, which in 1999 had heralded Argentina as its poster child.

With hindsight, it is interesting to read the many external critiques of Argentina and its political leadership, all of whom blamed Argentina for the situation. These included people such as Martin Wolf from *The Financial Times*, the editorial page of *The New York Times*, *The Economist*, Jeffrey Sachs, and Paul O'Neill, the US Treasury Secretary. The strident blaming of Argentina for this situation is well-captured in the writing of Jeffrey Sachs (2002) at this time:

I do not know of another nation with Argentina's capacity to abuse, manipulate, freeze, confiscate and periodically replace the national currency and the contracts set in it. The currency board was introduced precisely to break this record. Dollarization would have ended it decisively.

The Duhalde government has shown two very different faces in its first few days. One is rather responsible, calling on the public to accept large shocks and fiscal austerity as the economy reorients to a more realistic exchange rate.

The other is the red-hot Peronism of the past. Mr Duhalde himself has been a leader of this approach, claiming ominously that Argentina's collapse reflects an alliance of political power with financial power at the expense of industry during the past decade. The truth is much more prosaic: the currency board was a good effort that failed.

After further criticizing the new government's attempts to address the crisis, Mr Sachs (2002) concedes:

Devaluation, with the right accompanying policies, might still work. Yet, in practice, we may well be on a course marked by a flagrant violation of property rights, growing confusion and corruption, arbitrariness and escalating social unrest.

### 3 The path to recovery

Looking back, the year 2002 was the worst of times, with only a glimmer of hope that a recovery was on the way. In the first three-quarters of 2002, growth stopped and unemployment grew dramatically, approaching 30 per cent. The economy was also feeling the impact of the January 2002 devaluation of the *peso*, which meant that prices for food and other essential goods were going up. Higher prices pushed more people below the poverty line, with the number reaching by May 2002 an astonishing 56 per cent of the Argentine population below the poverty line. Expenditures within the economy were weak because individuals had their savings locked up in the *corralito* and because the government had few resources to spend.

But the key consequence of this situation was that local producers and firms slowly began to meet local demand, and it was this local production, with its multiplying effects, that triggered what has been described as the first phase of the recovery (Damill et al. 2006). These authors argue that export prices and terms of trade cannot explain the restart of GDP growth, noting that the average price of exports was still falling in 2002 and that the terms of trade dropped further, with improvement only coming in 2003. They conclude that:

Recovery was actually bolstered by the shift in relative prices caused by the devaluation and also by an adequate set of policies that, despite its flaws and ambiguities, nevertheless succeeded in stabilizing the foreign exchange market and domestic prices and recuperating the basic macroeconomic equilibria (idem).

The conclusion therefore from this process is that in this period—from late 2002 through 2003 to the second quarter of 2004—the recovery of the economy was being led by domestic demand, most of it in cities and towns where 80 per cent of the Argentine people lived and worked. As prices stabilized, the private sector took advantage of changes in relative prices and began to produce for the domestic market which could no longer afford so many imported items. Starting in mid-2002, domestic production grew rapidly and absorbed domestic demand. Exports were still weak in this period. Real wages began to increase after the 4th quarter of 2002. Inflation slowed down and dropped to less than 1 per cent for the next two years. Unemployment also dropped due to depreciation of the *peso*. As employment grew, it further stimulated private consumption and generated more employment and higher incomes, helping at the aggregate level to contribute to rise in real wages (Damill et al. 2006: 16).

The recovery in this second phase is remarkable because it was truly domestic and demand-led. Investment grew by 40.9 per cent in this phase and contributed to 55 per cent of the growth of GDP. Investment came from the growing profits of individual firms. Damill et al. point to ‘a wealth effect’ which proved to be particularly important for investment in construction. In fact the construction sector accounted for 56 per cent of the investment in this phase. The other 44 per cent of investment came from investment in needed capital goods. The news was good, as long as the outstanding debt of the country was forgotten.

While businessmen were beginning to feel in the last quarter of 2002 that the economy was turning the corner, the conditions in the country were nevertheless deplorable. On 17 January 2003, *La Nacion* reported in a front page story reported that 50 per cent of

Argentine children under 2 years old suffered from anaemia (Bar 2003: 1, 18). Almost 15 million Argentines, 40 per cent of the population, were not receiving basic nutritional requirements. This study by the *Centro de Estudios sobre Nutricion Infantil* presented data showing that rising food prices and declining incomes had serious worsened the country's food situation, particularly for the poorest sections of the population. Under-weight births dramatically increased the risks of infant mortality. Pictures of malnourished children in Tucuman shown on television and published in the press earlier in 2002 had shocked the country and had impressed on many Argentines that their perception of Argentina being a first world country was far from the reality.

The Tucuman situation had presented three problems for Argentines. First, the level of poverty and malnutrition was severe throughout the country. In new stories of 21<sup>st</sup> November 2002, it was reported that 3 children were dying each day of hunger or of diseases linked to poverty. This was shocking in a country which produced enormous quantities of food. Second, in the province of Tucuman alone 359 children had died of malnutrition since the beginning of 2002, showing the location of the need (Olivan 2002: 24-6). Third, despite both government and civil society efforts to provide aid, institutional obstacles had stopped the delivery of food. *La Nacion* had reported in November 2002 that supplies which had arrived in the Port of Buenos Aires on the 5th of August 2002, were still in the port. The Tucuman situation became highly symbolic, as some newspapers and magazines compared Tucuman to Biafra of the 1960s, an allusion which further shocked and angered many Argentines.

### **3.1 Turning from economics to politics**

By early 2003, with President Duhalde having taken himself out of the running for the presidency in 2003 elections, the country's attention was beginning to focus on who would be the next president. A wholesale rejection of the country's political leadership in 2001 and 2002 was reflected in the phrase '*Que vayan todos!*' or 'Out with everyone!' In May 2003, the country elected Nestor Kirchner, the governor of resource-rich Santa Cruz Province in the south of the country, as its new president.

Kirchner had been very critical of previous governments and the crisis conditions of the country. He had observed in a book in 2003:

The state must recover control of the macroeconomic instruments and support a model of production and work (ibid: 22).

The search is to combine production, work, import substitution, take advantage of technological capacity, deepen traditional exports, consolidate those which can bring large benefits, and, penetrate specific markets in the world... We must make a big investment in public works, infrastructure works to redefine the productive profile of the country for the development of agro-food industries, tourism, energy, mining, software and new technologies as principal motors, without leaving aside support for exports of products from sectors such as textiles, shoes, wineries, or fruit.

We must actively develop agro-industries. Agriculture, livestock, and all the specialties within primary sector activity need machines, technology,

innovation, development and invention, and uninterrupted research for the possibilities of primary products and the development of manufacturing linked to the countryside (ibid.: 30).

In Argentina we must think strategically. We must take into account that there are asymmetries in the international markets, where our products are not competitive. Therefore we must subsidize the producer ... we need industrial policy (ibid.: 33).

He argued:

In the decade of the 1990s the market and the economy disconnected from the State and politics, in a tacit acceptance of the end of history and an explicit acceptance of the theory of trickle-down... I say that trickle-down is a theory of misery. It is true that the market organizes economically, but it does not articulate socially. We need to find 'an intelligent state'.

I believe in a national project. I don't know why this upsets and preoccupies people so much, because the only thing I am saying is that we must construct a national capitalism in Argentina and that we must generate an alternative which permits us to mobilize society (idem.).

We are the only country in the world, along with Russia, which does not manage our own oil and oil reserves (idem.: 41).

I believe firmly in a present State, repairer, protector, promoter, that recovers the control of macroeconomic instruments which were weakened or disappeared during privatization and the Menem period ... if the productive system falls and there is no protection from the state, who is going to do it? Last year we saw pictures of malnourished children, a result of 26 years of neoliberal models and an absent state (ibid.:151).

After being inaugurated on 25 May 2003, Kirchner began an ambitious and focused program of recovery. His inaugural speech marked a turning point in the activism of the Government in addressing the many consequences of the crisis and in seeking major new changes in policies and institutions. Kirchner emphasized the role of economic policy, saying: 'the problems of poverty cannot be solved by social policies but rather by economic policies'.<sup>2</sup> He argued that a sustained annual growth of 4-5 per cent would generate jobs and allow real incomes to double in 15 years. He said that his government would follow prudent fiscal policies, improving tax collection and broadening the tax base. He spoke of 'national capitalism' in which the State would play a greater role in infrastructure, housing, and health care. It is interesting to note that three years later, in 2006, the World Bank commented that: 'The Government has been consistent in its pursuit of these goals and articulate in their elaboration in successive official documents and public speeches' (World Bank 2006).

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<sup>2</sup> Nestor Kirchner's Inaugural Speech, 25 May 2003 (quoted in World Bank 2006: 21).

### 3.2 Sustaining recovery

In contrast to external expectations and predictions in the midst of the crisis of 2002, the economy grew at an increasing rate from 2003 to 2006, with an average of 9 per cent from 2003 to the end of 2005 (Bermudez 2007: 16). On a per capita basis, gross domestic product was 7 per cent higher than in 1999. The leading sectors of growth were the financial sector (22 per cent), construction (18.6 per cent), and manufacturing industries (8.9 per cent). Interestingly, agriculture and livestock only grew at 1.5 per cent in 2006, while it had been 11.5 per cent in 2005. This aggregate growth was supported by high, if somewhat declining gross fixed investment (*idem*).

The initial growth in 2002-03 reflects the use of installed capacity, the legacy of investment going back to Peron, and was somewhat predictable. As consumer demand picked up in 2004, it was further stoked by investments in advertising by many multinational companies, such as Unilever, Danone, Proctor and Gamble, and Johnson and Johnson. In fact investment in advertising increased by 26 per cent in 2004 and was expected to grow at about the same rate in 2005, suggesting that advertising expenditure is a revealing indicator of how multipliers were fed within the domestic market (*Noticias* 2005).

High investment rates continued in 2005-06. In fact the 2006 investment level was the highest in 26 years. Investment was 18.7 per cent higher in 2006, twice as fast as growth of the economy as a whole. Domestic gross fixed investment was 21.7 per cent of GDP, higher than any time since 1998 when it reached 21.1 per cent. These high rates of investment were in turn supported by continuing high rates of private consumption, generating the demand for new goods and services. This heavily urban consumption process fuelled growth rates as well in 2007, reaching 8.5 per cent, before the economy began to cool down in 2008.

## 4 In search of urban policy in a time of crisis

This story contrasts sharply with international narratives on Argentina's recovery from the crisis of 2001-02 which tend to emphasize the role of rising commodity prices and growing demand from China. Argentina is said to have been 'lucky', saved by global demand for its agricultural exports. The international narrative was also later used by local agricultural exporters to justify their objections against higher export taxes during periods of high commodity prices, especially soya in 2008. These narratives are not correct. As presented above, data on the country's recovery from 2002 through 2007 show that it was not led by agricultural exports but was fuelled *first* by urban demand and production. When the Convertibility period ended—and with it the dollar-*peso* parity—and the *peso* was devalued in 2002, price increases for imports stimulated the production of domestic goods and services for consumers. This production in turn generated multiplier effects which supported small and medium-sized firms and helped to create many new jobs. This later produced a revival of the construction and then the manufacturing sectors as well.

The contribution of the *campo* to the recovery came later in 2004 and thereafter, as the prices of commodities increased and the planting of larger and larger areas to grow soya and other crops had huge payoffs. These exports certainly helped build up the country's

reserves and fiscal strength during 2004 to 2008, but they cannot be credited with playing the key role in stimulating the recovery. Agricultural exports generated much additional income and eventually public revenue, but Argentina's recovery was largely a 'demand-led recovery', located in urban areas where 80 per cent of Argentines work and live.

The Argentine case is significant because it suggests that the urban locus of macro-economic phenomena in Latin America deserves much more research and appreciation from policymakers. The historical foci in Latin American urban studies on squatter settlements and infrastructure deficits, social exclusion, civil society mobilization, decentralization, and the 'right to the city' are all important subjects. But these bodies of work have ignored the central fact that more than 60 per cent of GDP in all Latin American countries comes from urban-based economic activities. The economic and social futures of Latin America lie in urban areas which are at once the sites of productivity and the loci of urban poverty.

Given the relatively high productivity of urban-based economic activities in Latin American countries, an important question concerns the constraints to higher productivity growth. These constraints certainly include, among others, infrastructure deficits, selected regulatory controls, the lack of effective urban finance institutions, and mixed performance by local governments, despite the two decades of decentralization of authority to municipal governments.

One of the major constraints to productivity growth, however, is intra-urban inequality itself. As cited above in the case of Buenos Aires, the allocation of public investment resources has contributed to enormous differences in the quality of life and economic opportunities for various urban income groups (Cohen and Debowicz 2001). These patterns also exist in many other cities in Latin America, such as Bogota, Rio de Janeiro, or Mexico City. This form of intra-urban inequality cannot be blamed on the multilateral financial institutions or even on the international private sector. Rather, much of intra-urban inequality is a local product.

The issue of supporting productivity increases is obviously one of the key issues in a period of economic crisis, whether in 2001-02 or in the current global economic crisis. In this regard, it is apparent that investment in urban infrastructure such as water, sanitation, or electricity supports firms seeking to expand their operations, particularly those located on the urban periphery in Latin American cities where infrastructural deficiencies are most pronounced. It also directly helps to create new employment.

It is significant that the G-20 discussions in London in April 2009 devoted almost no recorded attention to urban infrastructure even though most of the 'demand' which governments wish to stimulate exists within cities. In fact, 'place' or 'sites' were largely ignored in the discussion of macroeconomic measures to be taken. Stimulus packages do not occur in cyberspace, they should be firmly rooted on the ground where they can have discernable impacts.

The capacity of Latin American economies to withstand the impact of economic downturns, whether from domestic business cycles or global economic crises, ultimately depends on how economic policy supports multipliers which operate in local urban economies. Urban policy therefore has macroeconomic implications and is far too important to be left to the 'traditional urban disciplines' such as architecture or urban

planning. Effective policy, however, requires local knowledge beyond the expertise of macroeconomists. The challenge of disciplinary collaboration is one more critical dimension of the present global economic crisis.

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