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# The Political Economy of Productivity in Argentina

## Interpretation and Illustration

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**Inter-American Development Bank**  
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## **Abstract\***

This paper examines how the main characteristics of Argentina's policymaking process (PMP) affect the productivity of its economy using the conceptual framework presented in Murillo, Scartascini and Tommasi (2008), Stein et al. (2008), Spiller and Tommasi (2007), and IDB (2005). First, the paper complements existing descriptions of the PMP by considering private agents and elaborating on structural characteristics possibly conducive to policymaking instability. Second, the paper illustrates the (negative) impact of Argentina's low-quality and myopic PMP equilibrium on productivity by examining two key areas: provision of infrastructure services and agricultural policy. Finally, the paper explores the PMP at the local level of government (municipalities and local communities), finding that it mimics the flaws observed at the federal level.

**JEL Classifications:** P16, O43

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## 1. Summary and Main Conclusions

A key feature of economic development in Argentina has been its high economic volatility, which encompasses periods of high economic growth and high productivity gains followed by periods of persistent underperformance ending in severe crisis, damaging overall productivity. Considering the last four decades, the overall balance of economic growth and social progress has been highly disappointing.

Exploring the reasons for this outcome is a complex task. In this study we highlight several key economic and institutional features that may represent an important part of the problem. Our approach to identifying those features is threefold. First, we review the literature on the policymaking process in Argentina, which provides a solid starting point for understanding the connections of public institutions, politics and the workings of the economic system. Second, we focus on productivity issues at the overall and sector level. Two case studies on the infrastructure and the agricultural sectors allow us to illustrate the outcomes of the sector activity under the associated policymaking process (PMP) and their feedback in the field. At this point we were able to make a first inference on the relation between the cyclical dynamics of the economic process and the key features of the PMP. Third, we discuss the role of non-governmental actors in the PMP and augmented the previous PMP description in an attempt to account for feedback mechanisms.

Our point of departure is that Argentina's "historical" social and economic structure shaped the way in which social groups formed and interacted in the Argentine PMP. Moreover, the imprint of the "closed-import substituting-cyclical economy" has remained intertwined in the current functioning of the PMP, amplifying the economic cycles through political and fiscal institutions. This feature prevails in spite of several important changes both regarding the economic and institutional base after the 1980s and new social actors entering the scenario since the 1990s.

In brief, the dynamics of this process can be described in the following terms: the inherited structural characteristics of Argentina's PMP, along with its institutions and underpinnings, has fostered a political-economic equilibrium in which the interactions between the public sector and private agents are dominated by short-term considerations. In the event of a shock, governments (guided by a strong presidency) tend to adopt reactive, short-term policies, redistributing assets (through the exchange rate, subsidies, public expenditures, etc.) rather than

taking a longer-term outlook. In this context, agents in the private sector react to these policies with a somewhat similar short-term perspective. This equilibrium is quite stable and is supported by a belief system dominated by short-term considerations (*corto-placismo*) and ideological volatility.

Our case studies have also contributed to the identification of two major negative consequences of this behavior. On the one hand, economic opportunism and (subtle) confiscation of private assets by public authorities have spread as a crisis remedy mechanism over time, reducing investment particularly in infrastructure sectors where projects require a longer term to develop. In particular, it becomes clear why economic agents would avoid investing in activities that are too specific and entail sunk costs, as their quasi-rents would most likely be confiscated when needed to address short-run pressures.

On the other hand, recurrent crises have caused the misuse of resources, reallocating them from productive sectors to unproductive activities through fiscal mechanisms, constraining the growth of very competitive sectors like the agro-industry. No feature of the operation of the agricultural sector seems to contribute directly to the pattern of short-term policy decisions. On the contrary, business cycles of agricultural production and exports are smoother than those of manufacturing. Nonetheless, governments have repeatedly collected revenues from the agricultural sector through extraordinary taxes such as export duties and they have usually done so without facing strong opposition. Past success in duty collection may have encouraged politicians in office to consider the sector a secure source of financing for their objectives and even their mistakes. The negative effects of such policies, nevertheless, might have had more global manifestations than in the case of technology or primary goods production, inhibiting agro-industrial growth.

Moreover, the importance of provincial political powers makes fiscal bargains particularly difficult to strike, with consequent implications for the quality of fiscal and macroeconomic policy. This situation allows the executive to “purchase” policies through distorted fiscal federalism and other political channels. In “normal” times, exchanging votes for fiscal funds is the most common strategy. A third case study is thus devoted to illustrating that this inability to reach long-term agreements, which induces short-term oriented policies and agents’ behavior, is reproduced in the local policy arena. We show that the coordination among small local municipalities needed to provide key local and regional public goods demanded by

SMEs is subject to top-down initiatives, depends on discretionary decisions, and is often unstable in the long run due to decisions on fiscal resources. Such coordination is more likely to succeed, however, when it is linked to strong personal commitment by leaders.

Based on our evidence and on the available literature on non-governmental actors in Argentina we focus our analysis of the *augmented* PMP on three actors: the entrepreneurial associations, the labor unions, and the recently emergent *piqueteros*. These groups, rather than atomistic individuals, constitute the actual winners and losers from a given set of policies. In particular, ideological compatibilities, ingrained party loyalties, and/or patron-client networks often characterize their relationship with the PMP.

Manufacturing and agricultural business associations influence the PMP with rather formal and open demands expressed by their leaders. Although lobbying is widespread, their main channel of action is networking and the appointment of representatives in key government positions. Nevertheless, due to the internal heterogeneity of these associations, each sector has strong incentives to negotiate separately with the government and seek its own benefits. Therefore, individual reasoning precedes any collective approach. Indeed, economy-wide associations are ephemeral (responding to a common threat) and their participation in the PMP is extremely informal. In this context, more concentrated and organized sectors, capable of minimizing collective action problems, are able to obtain specific benefits through political action. Without establishing any causality, the instability seen in the political and business cycles goes together with the instability and fragmentation in businesses' representation. The phase of the economic cycle, the proximity to elections and the predominance of the Executive Power also alter the participation of businesses in the PMP.

In contrast, labor unions have been decisive actors in Argentina's PMP, even though in different times their unrest has noticeably varied and different unions have been more or less belligerent. Partisan loyalty to the Partido Justicialista (PJ) and union relations PJ leaders are the main factor determining their political activity. Furthermore, unions operate beyond their link to the PJ in order to obtain benefits in exchange of political support. In this process, it is fundamental for labor unions to hold on to the pillars of their political power: health care funds, sectoral monopoly for representation with compulsory affiliation, and collective bargaining at the industry level. Compared with the business sector, labor unions have a stronger, more homogeneous, collective and open participation in the PMP.

Since the mid-1990s, the situation created by decreasing labor activism and rising unemployment has prompted various changes in social forces. Among the new socially meaningful groups, the *movimiento piquetero* became particularly relevant. The *piqueteros*' visibility and influence rested on their particular form of protest: first blocking country roads and city streets, and subsequently negotiating their withdrawal with political authorities. The immediate objectives of this tactic were to secure new jobs and new or increased government subsidies. With the decline of *piquetero* activity, and following the economic recovery that took place after 2003, some of the old dynamics involving the unions and PJ administrations were restored.

Finally, our augmented PMP considers the role of political parties and the influence exerted by the public opinion. In most contemporary democracies, including Argentina, political parties are key players in the policymaking process. However, the ability of Argentine parties to articulate and aggregate the interests of distinct groups in society is somewhat limited. As observed in the heterogeneous composition inside each business association, this is characteristic of the political parties, each representing a wide spectrum of individuals and politicians. An important consequence of the tendency of Argentine parties (and particularly the PJ) to portray themselves as sole representatives of the “national interest”—and their unwillingness to adhere to distinct ideological perspectives, is that political competition is usually reduced to a competitive struggle for office. More importantly, the parties' deliberate disavowal of any concrete policy aims or even links with broad socioeconomic groups tends to create difficulties for them once they assume power. The main problem with this pattern of political competition is that alternation in office tends to be highly correlated with economic cycles.

Moreover, because incumbent politicians can anticipate when economic conditions are likely to become sour, they tend to create political business cycles. As a result, instead of creating a “buffer” between economic and political conditions, the Argentine party system creates a “feedback” effect that frequently amplifies the consequences of economic downturns.

Regarding public opinion, our study underscores the swings in political and economic matters that would suggest the presence of “ideological entrapment,” where the average voter still believes that the government can solve the country's problems, even though he/she does not have much trust in the government currently in office.



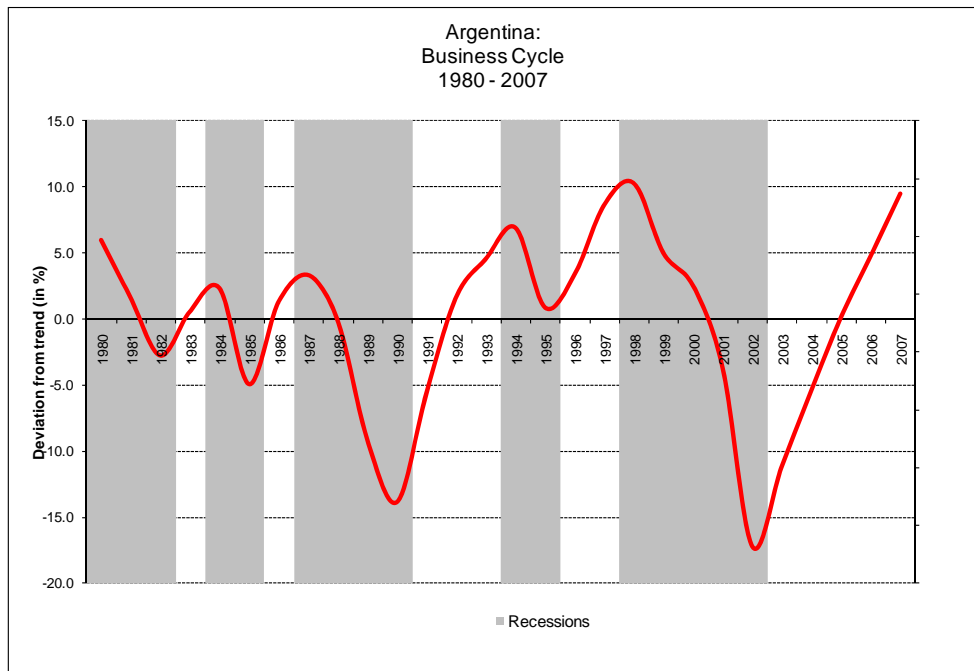
In synthesis, the augmented PMP provides a more complete vision of the workings behind the economic and political system dominated almost exclusively by short-term considerations and characterized by economic cycles that severely undermine productivity and growth.

## **2. Productivity and Growth in Argentina: Recent Evolution**

In spite of spasmodic economic behavior, Argentina is still recognized as a medium-income, intermediate developing country in the international arena. In the early 1900s the country was one of the most promising economies in the world, distinguished by its agricultural endowment and an educated population enjoying equality of opportunities in the context of continuous economic growth and social promotion. In contrast, over the last 40 years Argentina has been characterized by sizable economic fluctuations and recurrent macroeconomic crises that hindered its growth capacity and productivity (see Figure 1 below). The whole system evolved towards very poor welfare results and, over time, each crisis took a toll on basic social promotion institutions: public education deteriorated severely; infrastructure services and public expenditures were biased to benefit middle-income households in central cities; health and social housing services failed their targets; informality spread out in the labor market and urban poverty grew in peripheral areas of larger cities, following internal migrations from the interior of the country to the Greater Buenos Aires area (GBA). Recurrent efforts to restore growth have not been accompanied by any special attention to the productivity issue.

This pattern coexisted with public policies of different sign. In the 1990s Argentina set in motion a wide-ranging program of structural reforms involving privatization, deregulation of the economy and external trade liberalization. Achievements on macroeconomic stability and rather sophisticated reforms were strong enough to stimulate economic activity and new investment. From 1991 until 1998, GDP grew at 5.7 percent each year, total investment as a percentage of GDP grew from 19 percent in 1993 to 21 percent in 1998, and total foreign direct investment (FDI) grew by 30 percent. Tradable sectors increased their labor productivity by 6 per year, and non-tradable sectors also increased their labor productivity by 2.1 percent annually over the same period.

**Figure 1. Argentina's Business Cycle**



*Note:* The figure shows the cyclical component of GDP, using the Hodrick-Prescott (HP) filter. Percentages in the chart show the deviation from the long-run trend of the series.

*Source:* Authors' estimates based on data from National Accounts of Ministry of the Economy (MECON).

As of late 1998, the country started a period characterized by GDP stagnation and difficulties in sustaining economic reform efforts. External shocks (mainly Brazil's devaluation in 1999 and lower commodity prices since 1999), along with serious errors in domestic policies, led to increasing dissatisfaction among businesses and brought about a discussion of the country's competitiveness in both the short and long run. Lack of productivity was identified as the major problem. Moreover, the public discussion unveiled a deep controversy on the kind of instruments that would be adequate and feasible to promote competitiveness and the roles of the private and public sectors in growth. The macroeconomic crisis ended the discussion abruptly: the major devaluation of the peso in 2002 created a new scenario where the real exchange rate once again became the key issue in defining productivity and competitiveness.

Since 2003 Argentina's economy has been growing very fast (between 8 and 9 percent annually on average until 2008). At the same time, the unemployment rate, which remained at distressingly high levels throughout the 1990s, plunged from 23 percent in 2003 to 8 percent in 2008. The level of investment, as a percentage of GDP, also recovered over the period. Yet, FDI

(which, *ceteris paribus*, summarizes the international community’s view of domestic business prospects) remained below the level seen in the 1990s, while other countries in the regions such as Colombia, Chile and Peru tripled their FDI.

Regarding productivity, Table 1 summarizes the evolution of total factor productivity (TFP) in these two decades. At the aggregate level, while Argentina’s productivity losses in the 1980s undermined the country’s long-run competitiveness, the growth period in the 1990s, characterized by a qualitative change led by the “business economy,” restored productivity growth.

**Table 1. TFP for Argentina: 1980s and 1990s**

	Annual TFP (% growth)		TFP Contribution to GDP growth (% of total)
	1980s	1990s	90s
Business 1/	-2.3%	3.0%	57%
Global	-1.8%	2.1%	45%

1/ All sectors except agriculture, housing and government.

*Note:* TFP estimates correspond to the econometric method for calculation of growth sources.

*Source:* FIEL (2002).

In this last period, over half of the growth rate was explained by the increase in TFP, i.e., by a wide set of actions taking place at the enterprise level that ranged from technology adoption to management re-organization translating into real cost reductions. In particular, labor qualification increased perceptibly and became a new source of growth. Physical capital accumulation turned out to be the main engine of growth for large companies and a very important factor for Small and Medium Enterprises (SMEs) as well. Companies achieved a significant reduction in real costs, which, even in the absence of other investments, would have implied an important increase in value added.<sup>1</sup>

The comparison between the productivity growth rate for the global and business economy shows that the latter led growth. Considering that separate estimates for agriculture and housing indicated high TFP growth for these sectors as well, the analysis suggests that the TFP of public administration exhibited a poor performance during the period.

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<sup>1</sup> However, the overall average increase of factorial productivity was not the result of generalized improvements for all companies. Instead, it was characterized by a significant variance between successful and failing business with quite different performance.

Summarizing, and considering a slightly longer perspective, Table 2 shows that Argentina could be described as an economy with medium to low growth rates combined with very low productivity improvement. Moreover, a key feature of the Argentine economic development has been its high economic volatility, which encompasses periods of high economic growth and high productivity gains, turning out to be unsustainable in the long run, thus followed by periods of persistent underperformance ending in severe crises that further hit productivity.

**Table 2. Growth and Productivity in Argentina, 1961-2006**

Period	GDP %	TFP %
1961-1970	4.4	1.2
1971-1980	2.6	-0.1
1981-1990	-0.8	-1.3
1991-2000	4.1	1.4
2001-2006	4.1	1.0
1961-2006	2.7	0.4

*Source:* MECON and Coremberg et al. (2007).

### **3. The Argentine Policymaking Process (PMP)**

This section examines the factors determining the incapacity of the Argentine PMP to generate policies that are stable, adaptable and credible. In what follows, we first present a brief description of Argentina's PMP, including its main public and private actors and the venues where they interact, followed by an account of its actual workings. Second, we discuss the structural/ideological characteristics of Argentina's *augmented* PMP. In particular, we study how the country's historical social structure shaped the way in which social groups formed and interacted. We argue that these inherited structural characteristics fostered a political-economic equilibrium in which the interactions between the public sector and private agents are dominated by short-term considerations (*corto-placismo*) and ideological volatility.

#### ***3.1 Argentine Political Institutions***

The 1853/60 Argentine Constitution instituted a Federal Republic, where the Executive Branch, the Congress and the Judiciary represented the primary institutions. Nevertheless, probably for historical reasons, provincial governors retained considerable power. Therefore, the chain of institutional authority starts with the president and continues with the governorship. The former holds broad powers, and while the Constitution provides for a system of checks and balances by

Congress and the Supreme Court, they have worked poorly in practice. Governors, on the other side, have represented a more relevant counterweight to the presidential authority than the Congress or the Judiciary (De Luca, 2008). In doing so, they have become decisive players in national politics and the PMP (Spiller and Tommasi, 2008).

Furthermore, the country's electoral rules have fostered a weak and "non-professional" Congress. Its members, who (tend to) respond to provincial party elites, have neither the expertise nor the incentives to initiate influential legislation, to control public administration, to invest in strengthening congressional institutions or even to build long-term legislative careers. Electoral rules thus transfer power away from Congress and national parties toward principal political patrons, contributing to the shortening of legislators' political horizons, which in turn affects the incentives of the rest of the polity (Saiegh, 2008).

The Argentine Judiciary has also worked weakly, and in several cases its actions have been easily politicized. In spite of numerous reforming efforts, it remains ill-organized (Cristini, 1999). The inability of the Courts to effectively enforce the laws and the Constitution itself thus tends to further reduce the value of statutory policymaking and of the legislative branch.

### ***3.2 Non-Governmental Actors***

Interest groups have always played a key role in shaping public policy in Argentina, especially through their representation in large peak associations. These include the General Confederation of Labor (*Confederación General del Trabajo*, CGT), the Argentine Industrial Union (*Unión Industrial Argentina*, UIA), the Association of Argentine Banks (*Asociación de Bancos Argentinos*, ADEBA) and the Argentine Rural Society (*Sociedad Rural Argentina*, SRA), among others. It should be noted, though, that in recent years the influence of peak associations has waned considerably. Therefore, in addition to these traditional power holders (*factores de poder*), the Argentine political scenario has also been populated with alternative organizations such as the Confederation of Argentine Workers (*Confederación de Trabajadores Argentinos*, CTA), the General Economic Confederation (*Confederación General Económica*, CGE) and the Argentine Agrarian Federation (*Federación Agraria Argentina*, FAA), who gained influence episodically. More recently, even less organized groups such as the "piqueteros" (representing unemployed urban workers) have expanded their action.

These politically influential actors have different mechanisms to voice their concerns and to shape the PMP. For example, many of the economic reforms of the 1990s resulted from negotiations between the executive and key players involved in the process (Llanos, 2002; Corrales, 2002; Bambaci, Saront and Tommasi, 2002). As Bambaci, Saront and Tommasi (2002) note, the “reformist” coalition, composed by influential labor groups inside the PJ, imposed limits on the reform agenda in terms of design, sequencing, horse-trading, and compensations. Likewise, the findings of Iaryczower, Spiller and Tommasi (2006) suggest that in Argentina, in addition to direct actions (such as strikes or lockouts), interest groups can also affect policy through the result of court decisions. Nonetheless, in terms of “venue shopping,” policy actors in Argentina have traditionally targeted the executive branch—particularly the Ministries of Economy and Labor—as their privileged point of entry into the PMP.

Given the absence of laws regulating most types of lobbying, these groups usually do not employ highly institutionalized strategies when trying to influence policy. The repertoire includes such diverse arrangements as “neo-corporatist” bargaining schemes, the direct appointment of a group’s representative into the cabinet, or more traditional but still non-institutionalized forms of pressure such as strikes, lockouts and street mobilizations.

### ***3.3 The Workings of the Argentine PMP***

Public policies are often the result of a decision-making process that involves multiple political actors who interact in a variety of ways, as shaped by some institutional characteristics (Spiller and Tommasi, 2008; Spiller, Stein and Tommasi, 2008: 2). In Argentina, the relevant policymaking actors, such as the president, the governors and the interest groups, lack an institutionalized arena in which they can make intertemporal policy agreements. Additionally, they cannot delegate the implementation of potential policy agreements to a professional bureaucracy, which has several intrinsic weaknesses in Argentina. Nor can they rely on the (full) enforcement of contracts by the judiciary.

Therefore, policymaking becomes the outcome of a non-cooperative game in which each actor behaves opportunistically and tries to maximize short-term benefits. The importance of provincial political powers makes fiscal bargains particularly difficult to strike, with consequent implications for the quality of fiscal and macroeconomic policy. This situation allows the

executive to “purchase” policies (through distorted fiscal federalism and other political channels). In “normal” times, exchanging votes for fiscal funds is the most common strategy.

### ***3.4 The Augmented PMP***

The original analysis by Spiller and Tommasi (2008) mainly focuses on the interactions between governmental actors themselves and on the internal workings of the institutions within which policies are formulated. Simply put, their analysis focuses on one side of the political equation determining the provision of public policies: institutional capacity. As Przeworski (2008) notes, though, to fully understand the political equilibrium of which policies are part, one must also look beyond institutional actors into society at large. In this sense, the political responses of interest groups and the general public constitute the other, reinforcing, side. Their reactions depend on the actual impact of the policies, their interpretations of those policies, and their varying political capabilities (Nelson, 1984). Therefore, an important set of factors determining the capacity of the PMP to generate policies that are stable, adaptable and credible is the scope and nature of the government’s political *support base* (Nelson, 1984).<sup>2</sup>

These groups, rather than atomistic individuals, constitute the actual winners and losers from a given set of policies. Ideological compatibilities, ingrained party loyalties, and/or patron/client networks often characterize their relationship with the PMP. Therefore, an assessment of who are the winning and losing groups as a result of particular policies is essential to understanding the actual workings of the PMP in any given country.

### ***3.5 Structural Features of Argentina’s Augmented PMP***

O’Donnell (1977) studied the role of these groups in Argentina. He stressed how certain features of Argentina’s insertion into world markets gave rise to the country’s peculiarity in comparison with the rest of Latin America. In particular, he distinguished two idiosyncratic features of Argentina’s economic and social structures. First, the country’s agrarian expansion led to the emergence of a politically significant working class, with larger economic and organizational resources than those of the rest of Latin America. Second, the country’s main export products, cereals and beef, were “wage goods,” foodstuffs that constituted the main consumption items of

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<sup>2</sup> As Nelson (1984) notes, the concept of *support base* should not be confounded with popularity. While the latter often fluctuates, and predictably depends on the government’s short-term policies, the former refers to socially meaningful groups.

the labor sector (O'Donnell, 1977). Consequently, four major socially meaningful groups emerged in Argentina: producers of tradable goods, producers of non-tradable goods, a well-organized labor movement, and owners of small businesses. Each of these groups had a stake in four major markets: exports, food, labor, and foreign currency (Bates, 1988).

As O'Donnell (1977) notes, in the period between 1956 and 1977 Argentine governments intervened in these markets, setting prices and thereby trying to determine the real value of incomes. In his view, the key factor that most governments sought to manipulate in order to please different groups was the price of foreign exchange. Groups' differing demands underlay the dilemma behind Argentina's economic policies.

On the one hand, popular urban interests favored an overvalued domestic currency, which allowed them to reduce the real price (relative to their own income) of tradable goods (including grain and beef) that they consumed. Of course, the interests of rural producers were in direct conflict with those of the urban consumer. On the other hand, the two remaining socially meaningful groups (producers of non-tradable goods and the owners of small businesses) preferred to pay lower real wages. In that regard, when food prices rose, they faced stronger demands for wage increases, and should then have favored overvalued currencies. However, unlike small businesses, corporations tended to be more reliant on imported parts and equipment and thus had a greater need for foreign exchange.

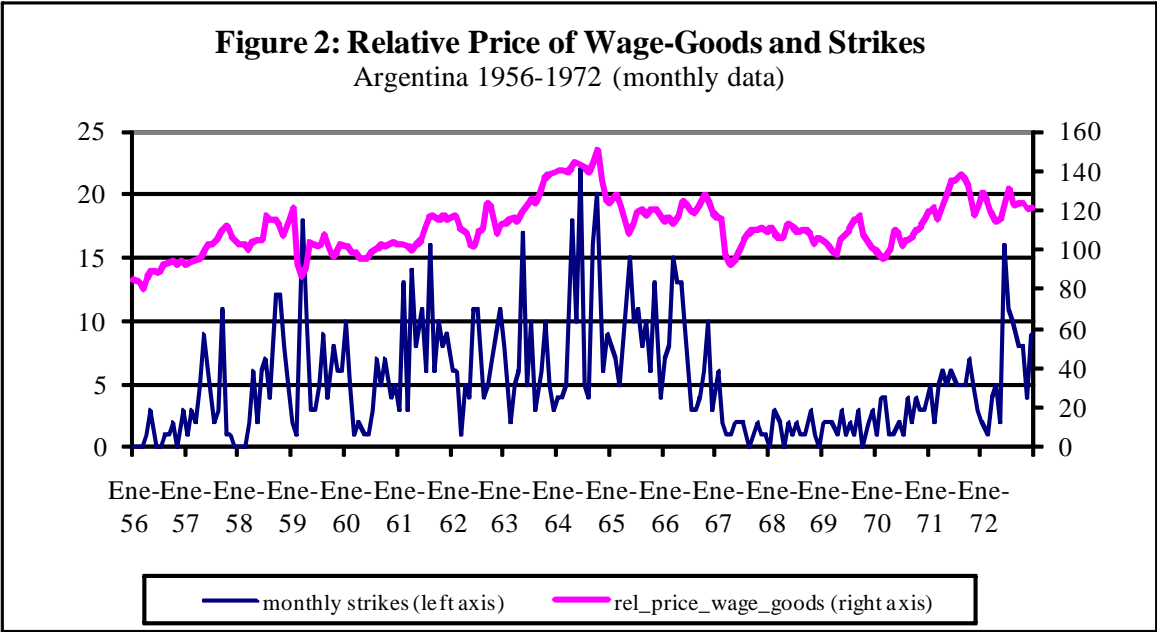
In addition, in comparison with small businesses, labor comprised a smaller percentage of corporations' costs and they might be in a better position to pass on cost increases in the form of higher product prices. Therefore, in this sense corporations might have faced a greater cost and reaped fewer benefits from overvaluation of the national currency than small businesses did.

Responding to groups' needs and shifting alliances among groups thus created Argentina's pendulum economic policies, as summarized by O'Donnell (1977): in order to replenish their reserves of foreign exchange, producers of manufacturing (import substitution) goods and high income urban sectors (linked to import substitutes and non-tradable goods) would separate themselves from other members of the urban coalition, align themselves with the rural sector, and demand that the government devalue the national currency. Over time, however, devaluation itself became untenable. As foreign buyers competed with domestic consumers for meat and grain, inflationary pressures arose. Given the country's well-organized labor movement, workers then went on strike, demanding higher wages to compensate for the erosion



of their nominal wages, which in turn increased demand for a change in government policy. As urban unrest became untenable, the producers of non-tradable goods would swing back into the urban coalition, thus completing the pendulum’s move (Bates 1988).

This dynamics can be illustrated in Figure 2 , borrowed from O’Donnell (2000), which shows the pattern of strikes relative to the domestic price of wage goods in Argentina between 1956 and 1972 (the correlation of these two series is 0.41).



This political economy perspective coincides with a common point of view among macroeconomists, as many authors have developed the idea of Argentina as a closed economy in that period, subject to recurrent “stop-go cycles.” Yet, the changes of the Argentine economy over the last 30 years suggest that the wage-good constraint as identified by O’Donnell is less binding now, as more than 30 percent of Argentine exports (and more than 50 percent of the agricultural exports) are related to soybean products, which are consumed only at very low levels domestically. In addition, the emergence during the 1980s and 1990s of public expenditure as the main mechanism to compensate winners and losers from the effects of recurrent stabilization programs (FIEL, 1987 and 2001a) and the upsurge of new groups related to technological change and foreign direct investment, suggest various changes in social forces as well.

These changes have led some authors to suggest a *Requiem* for the stop-and-go paradigm (Gerchunoff, 2005). In any case, this perspective should still recognize how the structural

conditions that characterized the country between the 1940s and 1970s might have had a lasting impact through the poor institutions and short-term oriented behavior that those conditions helped to install as the existing (myopic and opportunistic) equilibrium.

### ***3.6 Economic Structure, Cycles and Diversification of the Argentine Economy***

The 1960s were the last decade when Argentina reported a satisfactory period of economic growth. Thereafter, stop and go cycles that characterized the economy since World War II acquired very negative features, exacerbated by both macroeconomic and political instability. When democracy was finally restored in the early 1980s, the need for structural reforms was apparent and several timid initiatives were undertaken until the early 1990s, when the launching of the Convertibility Plan sought for a “short-cut” to solve the recurrent problems of high inflation and slow growth. This plan included various chapters of reform, from privatization of public services to the opening-up of the economy.

It is true that under the ideas of the Washington Consensus, most of the countries in Latin America adopted structural reforms to modernize their economies during the 1990s, but it is also true that by then Argentina had displayed one of the most unsatisfactory experiences of growth in comparison with other middle-income countries of the region. Thus, the success of the structural reform became crucial to the “re-launching” of Argentina. Consequently, the cumulative efforts to modernize the economy during the 1980s and 1990s, though diverse in scope and scale, were designed to allow the economy to operate on a more efficient basis.

Unfortunately, many policy changes were built on circumstantial political support gained in Congress through transitory alliances (involving different political fractions of the main parties, particularly within the hegemonic PJ).<sup>3</sup> Consequently, when errors in providing macroeconomic consistency for the reform provoked the 2001-02 crisis, this fragile political consensus was broken and successive governments brought about policy reversals on many fronts as witnessed in the 2000s.

In contrast with the lack of consistency in economic policy, since the late 1980s Argentina’s economic structure has evolved in response to signals from the international market. In the 1990s, the country was finally able to exploit its historic comparative advantages in agribusiness along with the enhancement of industrial developments in basic manufactures (e.g.,

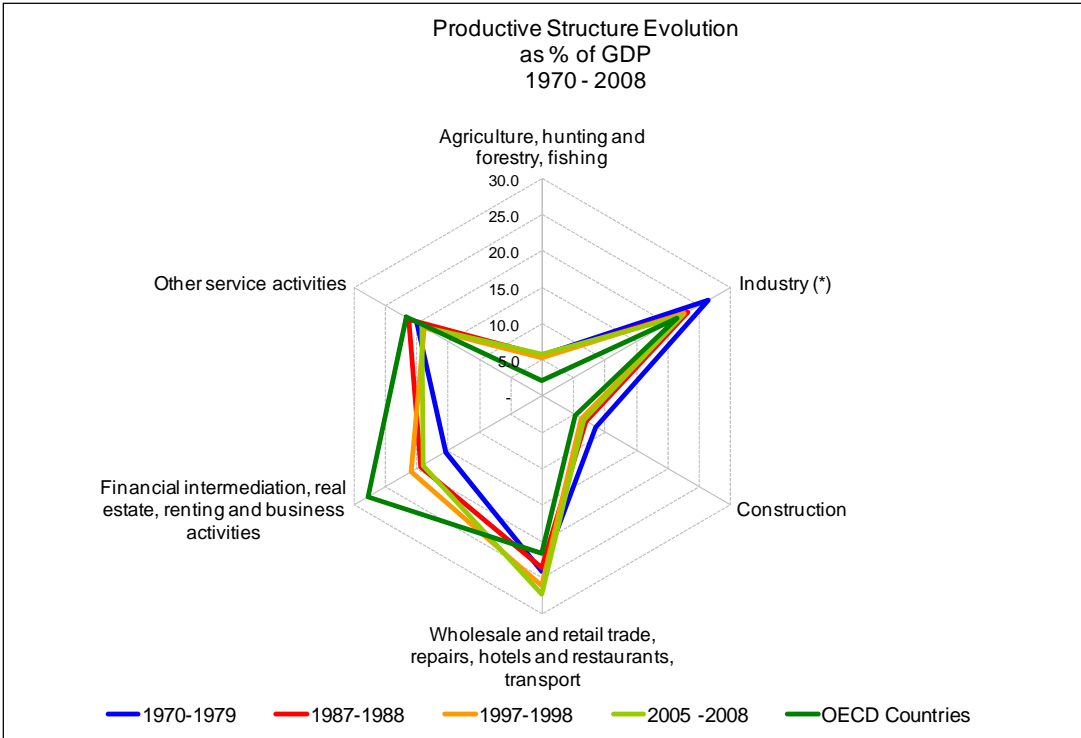
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<sup>3</sup> For a very interesting description of the political process behind the pro-market reform in the 1990s see Acuña, Galiani and Tommasi. (2006).

steel and petrochemicals). New investments in mining and energy also contributed to take full advantage of natural resource endowments.

The improved alignment of production patterns with resource endowments in Argentina since the 1970s is illustrated by the convergence of the overall economic sector composition to the OECD average. Considering the importance of each sector within the GDP, Figure 3 shows the evolution of the country’s sectoral pattern during the last 40 years. The most important change has been the increasing importance of business-related services, such as Finance, Logistics and Transport and Infrastructure, which in the past had been considered binding structural constraints.

**Figure 3. Argentina’s Productive Structure: Evolution and Comparison with OECD**



Source: Authors’ compilation based on data from Organization for Economic Co-operation and Development and MECON.

However, growth episodes and new investment were not important enough to modify the workings of the political equilibrium. Two recent studies<sup>4</sup> have compiled a list of characteristics that, while not exclusive to Argentina among Latin American countries, have persisted long

<sup>4</sup> Sánchez and Butler (2008) and Chisari et al. (2007).

enough to represent true barriers to growth, particularly in the case of infrastructure and financial sectors. Most relevant for our own work, both studies emphasize the importance of government failures as compared to structural constraints. In particular, they explore recurrent episodes of macroeconomic crises and the lack of capacity to implement policies to cope with external shocks, and identify related institutional problems.

In synthesis, even though the Argentine economy evolved over time, achieving some modern features, those changes were insufficient to overcome the shortcomings of institutional, economic and social interactions reflected in a fragile and unsatisfactory political equilibrium and PMP.

### ***3.7 Socially Meaningful Groups and the Argentine Policymaking Process***

Economic policies of the last 25 years can only be fully understood in relation to longer-term factors, such as the role of labor unions and the intimate association between the workers' movement and Peronism.

Labor unions' influence in the PMP is strongly determined by their internal organization and their relationship with the main political actors. According to Murillo (2001), three elements determine the relationship between unions and governments in Latin American countries: partisan loyalty, competition among union leaders and competition between unions to increase their number of members. Murillo's main hypothesis is that partisan loyalty promotes unions' cooperation with the government unless competition between union leaders moves them to be more conflictive in order to gain power.

In Argentina, unions have historically performed as main political actors since the first PJ government (1946-55) guaranteed them sectoral monopoly, compulsory membership, collective bargaining and, later on, the control of a significant flow of public resources through compulsory contributions to their health care funds (*obras sociales*).<sup>5</sup> The new role acquired by unions gave a corporatist flavor to the political structure of the country.

Thus, labor unions have traditionally been allied to—or even part of—the PJ, naming representatives in its electoral lists.<sup>6</sup> Given these advantages, unions seem to be a much stronger and more influential political actor than business associations. The main factor undermining

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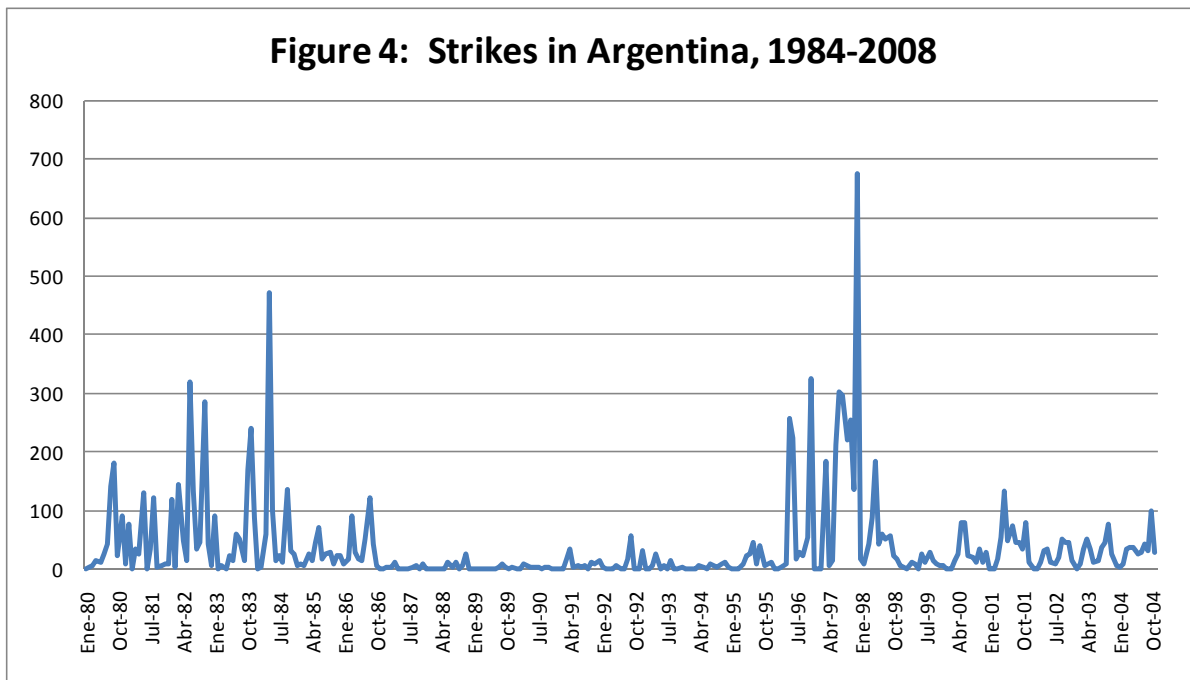
<sup>5</sup> These flows currently equal 9 percent of salaries (3 percent contributed by the employee and 6 percent by the employer). Some unions also receive other contributions from employees and/or employers.

<sup>6</sup> Even when the PJ was banned (1956-1972), its power was maintained through unions.

business' political action—namely, the heterogeneity of interests—does not greatly affect unions, given that their economic policy objectives are much more homogeneous: wage increases and the control of public resources and health care funds.

Since unions' partisan loyalty is essentially to the PJ, the political sign of the ongoing government (either PJ or not) is one of the main determinants of public unions' actions. For example, a total of 13 general strikes occurred during governments of the opposing Partido Radical in the 1980s, while only two took place during the Menem's administration.<sup>7</sup>

This mode of interaction can be seen in Figure 4, which shows the pattern of strikes between 1984 and 2008.

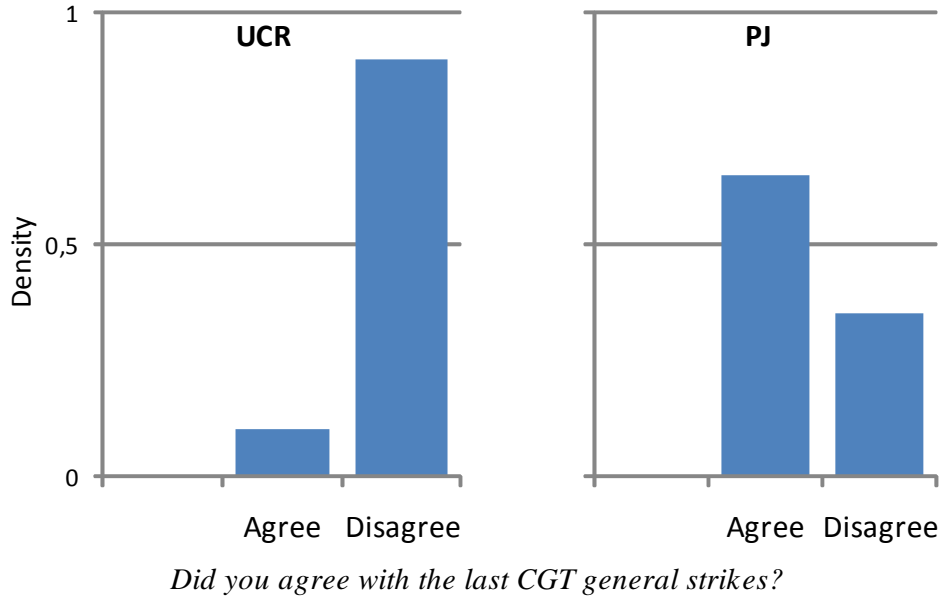


As can be clearly seen, union leaders reduced their militancy and organized significantly fewer strikes during PJ administrations (July 1989 to December 1999, January 2002 to present). The partisanship attached to those demonstrations was apparent to most Argentines. A public opinion poll conducted in July of 1986 asked the respondents if the general strikes were justified. Figure 5 shows the answers given by respondents of different political backgrounds, indicating that the assessment of those general strikes varies significantly according to whether the

<sup>7</sup> One of the last general strikes took place in 1995 when the government attempted to reduce labor taxes paid by employers. As a result of the negotiations all but health insurance funds contributions were cut.

respondent identifies with the PJ or the Radical Civic Union (UCR). More generally, this evidence illustrates the partisan nature of labor disputes in Argentina.

**Figure 5: Justification of general strikes according to political background, 1986**



This affiliation made it possible for the Menem administration to implement a series of market-oriented reforms during the early 1990s facing much lower resistance from labor unions than a non-PJ government would have encountered. In fact, Murillo (2001) notes that parties allied with unions have a comparative advantage in implementing these kinds of reforms by creating less uncertainty among workers. Yet, it is also clear that maintaining unions' support required other kind of incentives or benefits from the government, such as the Participatory Ownership Program (*Programa de Propiedad Participada*, or PPP), which allowed unions to obtain a nearly 10 percent share of privatized enterprises; the control of the regulatory bureau of health insurance (ANSSAL); the cleaning up of the unions' health insurance funds debt; unions' presence in the health insurance fund for the retired (PAMI) and in the lists of legislative candidates of the PJ (see Fair, 2008). Labor unions recognized a tradeoff where the government could reduce labor conflicts and advance with the deregulation of the labor market (including unions' representatives' support in Congress) in exchange for a series compensations which allowed them to maintain a strong position (Etchemendy, 2004; Murillo, 2001). Thus, pro-market reforms were significantly less profound in the labor market than in other areas.

Summarizing, labor unions have been decisive actors in Argentina's PMP, even though at different times their unrest has varied noticeably and different unions have been more or less belligerent. Partisan loyalty to the PJ and the relationship with its leaders is the main factor determining their political activity. Furthermore, as illustrated in the example of Menem's administration, unions operate beyond their link to the PJ in order to obtain benefits in exchange of political support. In this process, it is fundamental for labor unions to hold on to the pillars of their political power: health care funds, sectoral monopoly with compulsory membership, and collective bargaining at the industry level. Compared to the business sector, unions have a stronger, more homogeneous, collective and open participation in the PMP.

The *decoupling* between labor activism and actual macroeconomic conditions promoted by the unions' partisan loyalties also had an effect on the behavior of other socially meaningful groups. Under non-Peronist administrations, the producers of non-tradable goods and the owners of small businesses responded to labor unrest in the historically identified fashion: they would oscillate in their alliances with popular urban interests and rural producers.

Unlike labor unions, though, none of the business associations in Argentina has an affiliation with any of the country's political parties. Indeed, businesses mostly participate as sectoral associations. Manufacturing and agriculture exhibit the strongest organizations, while less influential organizations represent the financial sector, construction and commerce. In some sectors several associations expressing different interests coexist (such as SRA, CRA, FAA and Coninagro in agriculture). In others, such as manufacturing or construction, a single association encompasses factions with very different interests. Moreover, the distinctive trait of manufacturing sector actors is their heterogeneity, a consequence of different industries' responses to the same policy decision. For example, one of the most important divisions is between domestic market-oriented industries and export-oriented industries. Business size is also a source of different interests among manufacturers (Lewis, 2000).<sup>8</sup>

Given the difficulty to channel individual demands through unified representatives, each sector association or faction within it was induced to engage in individual negotiations in order to achieve the best possible outcome according to their interests. Etchemendy (2004) and Lissin (2008) coincide in pointing out that this characteristic was strategically used by Menem's

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<sup>8</sup> UIA attempted to deal with these problems by creating new rules of association in 1980 allowing minorities to have representation in its board. This boosted the UIA's political dominance by encouraging affiliation of manufacturing firms that were previously part of other business associations (CGE and CGI).

administration to strengthen its position.<sup>9</sup> In fact, Schneider (2005) characterizes business associations in Argentina as weak, in contrast to stronger ones existing in countries such as Mexico, Chile or Colombia. After the liberalizing policies of the late 1970s and the economic instability of the 1980s, the manufacturing lobby never regained the strength it had in the 1950s and 1960s. These actors had to deal with a great amount of regulatory uncertainty and the lack of a long-term policy (see Lewis, 2000).

Throughout history, economy-wide associations turned to be even more heterogeneous than the sectoral associations and therefore unable to take a stand toward public policies. They only showed some degree of cohesion when facing a common threat, such as a context of extremely high economic or political uncertainty (Lissin, 2008). Consequently, common positions are only transitory and agreements are broken up as soon as the common perceived threat disappears. Even though several of these agreements achieved a certain degree of formalization (particularly Acción Coordinadora de las Instituciones Empresarias Libres, or ACIEL, from 1958 to 1973 and La Asamblea Permanente de Entidades Gremiales Empresarias APEGE, 1975-76), most of them, like “*Miniempresaria*” and those created since the return to democracy, have generally been informal and characterized by their difficulty in speaking with a single voice for all participants (Viguera, 2000).<sup>10</sup> In Schneider’s terms, economy-wide associations had a very dispersed, informal and opaque input into the PMP.<sup>11</sup> In the few episodes

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<sup>9</sup> Etchemendy argues that, in this context, politically stronger and more concentrated industries such as oil, steel and automobiles managed to obtain some sort of benefit or “compensation” in their negotiations with the government, given their capacity to threaten the latter’s political sustainability.

<sup>10</sup> In 1984, the strong opposition to the wages and price controls in force, made the UIA, the SRA and the CAC get together even with the CGT (the hegemonic association of labor unions, see below) to create the so called “Group of 11.” This alliance affected the *radical* government’s course of action which, in 1985, created the CES as a negotiation arena with representation of manufacturers and workers. Later on, the Group of 11 became the “Group of 17,” and finally, the “Group of 8” composed of the Argentine Rural Society (SRA), the Argentine Industrial Union (UIA), the Argentine Rural Confederation (CRA), the Argentine Bank Association (ABRA), the Argentine Construction Union (UAC), the Argentine Chamber of Commerce (CAC) and the Buenos Aires Stock Exchange. In 1986 when the Radical government negotiated with the private sector in the Social and Economic Conference (*Conferencia Económica Social*, CES), where unions and the manufacturing sector had representation but the agricultural sector did not. In this conflict, the agricultural organizations managed to make the government create a separate negotiation council, the *Consejo Agropecuario de Emergencia Económica* and appoint the SRA’s choice as Secretary of Agriculture. Other examples were a protest against the creation of a parallel exchange rate during the *Plan Primavera* in 1987, a series of demands made in 2001 concerning the termination of the fixed exchange rate regime (*Convertibilidad*) and the recent conflict regarding a new scheme of export taxes on agricultural commodities in 2008 (still unresolved).

<sup>11</sup> Following Schneider (2005), three dimensions should be considered. Participation can be collective and organized or dispersed and individual; inputs can be formal and open or informal and opaque; and participation can take place through different channels (deliberative or consulting councils, corporatist bargaining, lobbying, campaign and party finance, networks and appointments to government positions and outright corruption).



when governments perceived one of these alliances as a threat, they usually tried to break it by negotiating separately with each member (Lissin, 2008).

Concerning the channels through which businesses influence the Argentine PMP, the most important is networking with the government and the appointment of businesspersons in key positions, such as the Secretariats of Industry and Agriculture. This type of behavior is probably related with the predominance of the Executive Power as the main target of lobbying and of negotiations initiated by private actors.<sup>12</sup> While numerous examples exist, one of the most striking was probably the arrival of José Ber Gelbard, leader of the Peronist-linked CGE, to the Ministry of Economy during the PJ government in 1973. Gelbard started up an economic plan and launched a “social pact” formulated by the CGE itself. Two years later, when economic problems intensified, opponents of Peronism regained strength, UIA reappeared and APEGE was born. This type of events shows how deep deterioration in economic performance affects actors linked to the government and allows others to emerge or reassert themselves. Examples include the appointment of an agricultural executive (Eduardo Figueras) as Secretary of Agriculture in 1986, the appointment of a UIA representative (Eduardo Eurnekian) as Secretary of Industry in 1988 during intense criticism of the Primavera Plan, and appointment of another UIA leader (De Mendiguren) to the Ministry of Production in 2002. The latter one can be regarded as the most successful intervention of an economy-wide alliance, the *Grupo Productivo*, although it should be noted that this alliance was dominated by the manufacturing sector.<sup>13</sup>

Finally, an example of successful networking that did not involve appointments was the case of the *Grupo María*, better known as the “captains of manufacturing” (“*capitanes de la industria*”). While failing to obtain desired responses from the Minister of Economy, in 1984 and 1985 the group managed to access the government through the Minister of Foreign Relations, up to the point of being part of some presidential tours in the following years.

Besides their organization, political strength and economic cycles affect the influence of private actors in the PMP. While this might be a common issue around the world, the lack of

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<sup>12</sup> Episodes in which demands go to the Congress are rare. Two examples can be mentioned: the industrial sector’s intention to introduce a project of law through the Commission of Industry in order to reduce the scope of economic openness in 1991 and, recently, the episode with the “125 Resolution” in which the ballot in Congress defined the non application of mobile taxes on agricultural exports in 2008.

<sup>13</sup> The *Grupo Productivo* was created in 1998 by the UIA, CRA and the CAC aiming to develop an economic plan to face the ongoing recession and weakening of domestic manufacturers. This group managed to take its own man to the new Ministry of Production, but since he represented the manufacturing sector, conflicts with CRA arose and the *Grupo Productivo* was ended in 2002 (Dossi, 2008).

long-term policies surely reinforces this condition. The political cycle could determine not only associations' bargaining power but also their very existence. The first PJ government, for instance, revoked the UIA's legal status, accusing it of violating its status as a non-political organization because it supported the anti-Peronist front in the presidential election (Acuña, 1990). The UIA was able to reappear after Peron's government was overthrown in 1955. Likewise, the CGE was dissolved by military governments in 1955 and 1976 because of its close links with Peronism.

Election times seem to be particularly sensitive in the relationship between private and public actors, both before and after the election. *A priori*, the greater the government's need for electoral support from the private sector, the more likely the government will be to give some kind of benefit in exchange. Viguera mentions how Menem's government changed its position towards the manufacturing sector when approaching the 1991 election in order to obtain its political support. *A posteriori*, the result of the election for the incumbent party deeply affects its bargaining. In 1987, the Unión Cívica Radical (UCR) was defeated in the legislative election and was left with no choice but to give up to multiple sectoral claims, making the planned execution of the economic plan impossible.<sup>14</sup>

The government's bargaining power additionally seems to depend heavily on the phase of the economic cycle. In this game, a government with strength to negotiate can more effectively defend itself from sectoral demands.<sup>15</sup> So, in times of economic prosperity, industrial actors' strategy towards the government seems to be limited to precise demands that do not question the economic plans as a whole. Conversely, in times of economic turmoil, the government is weaker and more likely to yield to sectoral demands. The appointment of private sector representatives to government positions, for instance, is generally related to some episode of economic unrest.

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<sup>14</sup> In this episode, the manufacturing sector was able to continue profiting from the manufacturing exports promotion programs that were supposed to be terminated by the Plan Primavera that same year (Viguera, 1998). In addition, each industry conducted its own lobbying and, according to Viguera, it was the negotiation power of each sector that determined the equilibrium that arose from the trade opening policy in 1988. At the same time, Peronism achieved free sectoral wage negotiations (Acuña, 1990). Later on, this fact led business associations to consider themselves to be released from ongoing price controls.

<sup>15</sup> Acuña (1990) mentions how the Ministry of Economy, headed by José Alfredo Martínez de Hoz in 1976, was insulated from such claims. Similarly, Viguera (1998) recalls the early years of Convertibility, when the plan's success allowed the Ministry of Economy to be inflexible when faced with sectoral demands and the protests from the UIA regarding cuts in import taxes. Beginning in 1992, a growing trade deficit softened the government's position on trade openness, and many of the manufacturing sector's demands—such as administrative barriers, quick responses to dumping claims, and the modification of the effective exchange rate through taxes (“tasa de estadística”)—were at least partially satisfied. Moreover, after the “tequila effect” crisis in 1995, import taxes were raised.

In light of these circumstances, manufacturing and agricultural business associations organize to influence the PMP with rather formal and open demands expressed by their leaders. Although lobbying is widespread, their main channel of action is networking and the appointment of representatives to key government positions. Nevertheless, as heterogeneity is the main trait of these organizations, since many policies affect members of the associations very differently, sectors have strong incentives to negotiate separately with the government and seek their own benefits. Therefore, individual organizations' interests take precedence over any collective approach. Moreover, economy-wide associations are ephemeral and their participation in the PMP extremely informal. Different sectors—or actors within the same sector—form alliances on the basis of a common threat rather than a genuine and constructive confluence of interests. Consequently, when the threat is neutralized or simply disappears, coalitions weaken or are even destroyed and the prevailing pattern of heterogeneity of interests resumes. In this context, more concentrated and organized sectors, capable of minimizing collective action problems, are able to obtain specific benefits through political action. Although causality is not yet established, the instability of political and business cycles has been accompanied by instability and fragmentation in businesses' representation. The phase of the economic cycle, proximity to elections and the predominance of the Executive Power also alter the participation of business in the PMP.

Since the mid-1990s, the situation created by decreasing labor activism and rising unemployment has prompted various changes in social forces. Among the new socially meaningful groups, the *movimiento piquetero* became particularly relevant. The official emergence of the movement can be traced to the privatization of major state-owned oil industries in the southern cities of Cutral C6 and Plaza Huincul, Neuqu6n. The *Cutralcazo* in 1997, as it was known, succeeded in putting the growing number of unemployed at the center of the national political scene (Auyero, 2003).

The *piqueteros'* ability to make their demands heard rested on their particular form of protest: blocking country roads and city streets first and subsequently negotiating their withdrawal with political authorities. The immediate objectives of this tactic were to secure new jobs, access new government subsidies, or increase existing ones. Hence, the importance of public expenditures as the main mechanism to compensate winners and losers from the effects of recurrent stabilization programs became salient. As *piquetero* organizations grew to an estimated

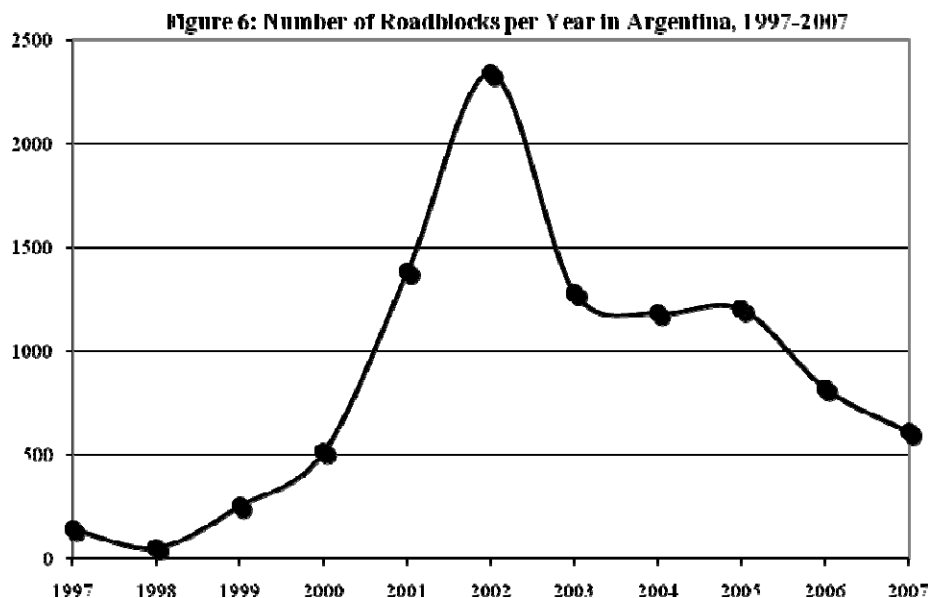
300,000 total membership, so did the number of cash transfers to the unemployed. During the Menem administration, approximately 100,000 government subsidies were distributed. These subsidies increased to approximately 2 million under Duhalde, in the aftermath of the 2001-02 crisis, covering close to 15 percent of the economically active population. Under Néstor Kirchner, the subsidies were directly handled by the leaders of certain *piquetero* organizations who were also incorporated into the national administration.

The *piquetero* movement's increased involvement in the PMP is related with changes in its composition. The collapse of the Alianza government in December 2001 led to the radicalization of segments of the *piquetero* movement (Burdman, 2002). The new *piquetero* constituency was composed of younger unemployed workers, many of whom rejected the vertical organization of traditional Argentine labor institutions dominated by Peronism. On the other hand, the decentralization of social policy initiated by President Menem had created the conditions for the emergence of new patron-client exchange networks (Lódola, 2005). Therefore, as Alcañiz and Scheier (2007) note, while the sharp increase in unemployment and a decentralized Argentine welfare system prompted the political organization of unemployed workers, preexisting partisan networks linking unemployed workers to institutionalized political forces determined the specific development of *piquetero* coalitions. In particular, many of the organizations were eventually co-opted by the leadership of the Peronist party.<sup>16</sup>

Figure 6 shows the level of *piquetero* activism, measured by the number of roadblocks between 1997 and 2005. The pattern of protests shows some important similarities with that of strikes: there is a surge of activity during the de la Rúa Administration and a subsequent and marked decline after 2003. Moreover, as Ponce (2007) notes, internal changes within the structure of the PJ accompanying the decline of the influence of Eduardo Duhalde have also affected the activity of the *piquetero* movement. With the decline of the *piquetero* activity, and following the economic recovery after 2003, some of the old dynamics involving the unions and PJ administrations were restored.

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<sup>16</sup> The unemployment program known as *Plan Trabajar* is a good case in point. The plan was originally created as an emergency employment program to deal with increasing unemployment. However, as Lódola (2005) points out, the federal distribution of resources was later associated with “electoral targeting” and the frequency of popular protest. Lódola's analysis of the federal allocation of Plan Trabajar for the period 1996-2001 reveals that during the Menem administration funds were targeted to Peronist municipalities.



Source: Massetti (2006).

It seemed that the 2001-2002 crisis (characterized by the *cacerolazos* and summoned up in the clamorous demand “*Que se vayan todos*”—roughly translated as “Out with them all”) would lead to a break with the structural conditions behind the political stop-and-go cycle. However, none of these leadership changes materialized. If anything, there are good reasons to believe that some of the characteristics of Argentina’s PMP under the Peronist administrations in the current decade—particularly its inability to produce stable policies and enduring policy commitments—can still be explained by some of the traditional societal pendulum dynamics identified above. The agricultural crisis of March 2008 and the nationalization of the country’s private pension system in October of that year are good cases in point.

### ***3.8 How Economic Cycles Affect the PMP (Linkage through Political Parties)***

In most contemporary democracies, political parties are key players in the policymaking process. Argentina is no exception. However, the ability of Argentine parties to articulate and aggregate the interests of distinct groups in society is somewhat limited. In particular, most parties in Argentina are not programmatic: the country’s two traditional and largest parties, the PJ and the UCR, share the same (average) location at the center of the left/right spectrum of the ideological space, although these parties do represent a wide spectrum of individuals and politicians (Saiegh, 2009).

The failure of political cleavages in Argentina to develop along socioeconomic lines provides the best explanation for the country's lack of clear programmatic parties. Indeed, one of the main characteristics of Radicalism, Peronism, and (perhaps to a lesser extent) other major electoral parties (Frente Grande, Coalición Cívica, etc.) since the re-democratization of the 1980s, has been their reluctance to stress any explicit political program. In the case of the PJ, this feature has so far been extreme and permanent.<sup>17</sup> There are good reasons for this. Since most of these parties express a coalition of interests, their leaders generally did not wish to risk their chance to increase their influence by chance to advance their influence by tying themselves to specific sectoral interests. Even the PJ, which has strong ties to labor unions, has often sought to sidestep sectoral differences and to enhance the party's aggregative and coalitional character.

More recently, the main distinction in Argentine politics has been between the "ins" and "outs." This distinction emerged after the fall of the de la Rúa administration, and reflects the notion that no party other than the PJ has any real chance of controlling the national government. The role played by the PJ in resolving the succession crisis after the *Alianza* debacle contributed to its predominance after 2001 and its identification as the only party assuring "governability." This identification has further weakened competitive politics in Argentina since, at least in the short run, it has enabled the PJ to swamp all electoral opposition.<sup>18</sup>

An important consequence of the tendency of Argentine parties (and particularly the PJ) to portray themselves as sole representatives of the "national interest" and their unwillingness to adhere to distinct ideological perspectives, is that political competition is usually reduced to a competitive struggle for office. More importantly, the parties' deliberate disavowal of any concrete policy aims or even links with broad socioeconomic groups tends to create difficulties for them once they assume power. The PJ, for instance, party represents a wide range of social classes and regional and economic interests. The battles among them must therefore take place largely within the party's own ranks. In consequence, the ability of Argentina's main parties to maintain their popular support usually depends on the use of the bureaucracy and political

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<sup>17</sup> The use of websites by political parties has been quite widespread during the last several years in Argentina, and that has meant an improved communication regarding programmatic bases and proposals. The Coalición Cívica, for instance, has recently offered "contracts" to voters whereby it commits to specific policy measures. Both Recrear and Propuesta Republicana (PRO) have worked quite extensively regarding the preparation and exposition of their programs and proposals in their websites. To a lesser extent, the Radical party has done so as well. The important exception, though, is the PJ, which has governed the country during 18 of 25 years since the restoration of democracy.

<sup>18</sup> The election of Néstor Kirchner as president in 2003, leading one of the three PJ factions competing in the general elections, took place in this context. For whatever reason—a belief in his own decisions, a matter of personal political style, or some other strategic motive—Kirchner came down hard on those who raised objections to his policies.

patronage. In other words, once in office, the system of control of both the UCR and the PJ has been a function of their continuing ability to spend. During good economic times the party in government thrives, while the opposition grows stronger during economic downturns.

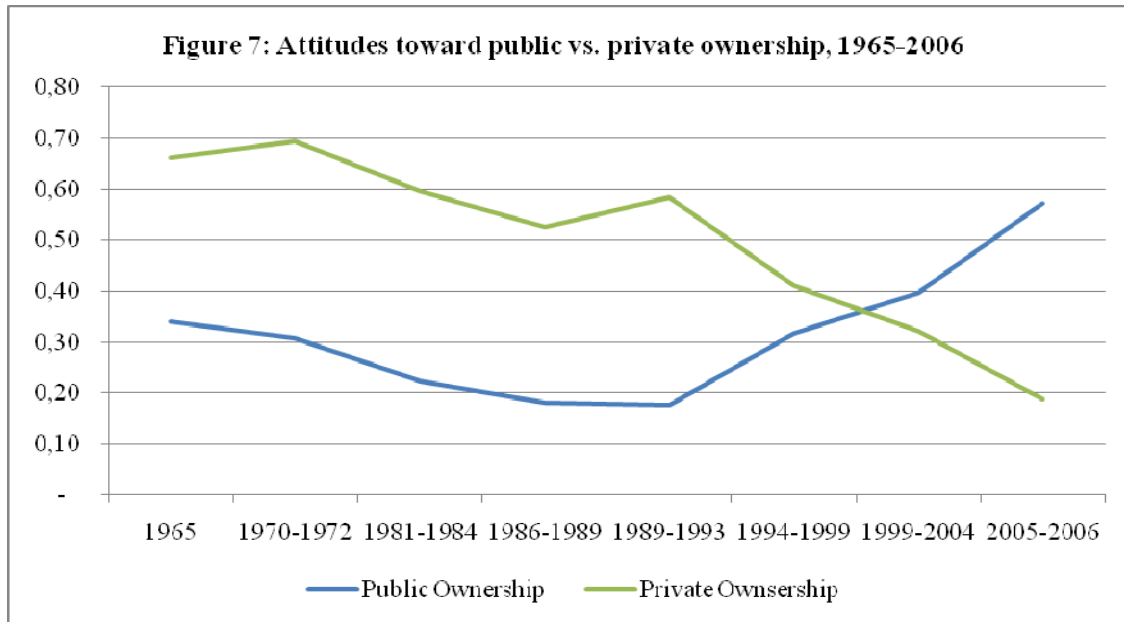
The main problem with this pattern of political competition is that the alternation in office tends to be highly correlated with economic cycles. Moreover, because incumbent politicians can anticipate when economic conditions are likely to become sour, they tend to create political business cycles. As a result, instead of creating a “buffer” between economic and political conditions, Argentina’s party system creates a “feedback” effect that frequently amplifies the consequences of economic downturns.

### ***3.9 The Political Economy of Productivity: The Role of Ideology***

Argentina’s structural conditions have had a lasting impact through the poor institutions and short-term oriented behavior that helped to create the existing (myopic and opportunistic) equilibrium. Besides having an effect on the way in which social groups have formed and interacted, though, the country’s “historical” social structure has also shaped the ideological framework of its leadership. In particular, whether as a rationalization of economic interests, or conversely, as the principles that structure social interactions, the ideological leanings of Argentina’s leading political and social actors (“*líderes de opinion*”) have certainly mattered for the adoption of public policies.

With regards to its effects on the country’s productivity, the most important factor is the extent to which attitudes and rhetoric extolling the virtues of capitalism are widespread among these actors (Di Tella and MacCulloch, 2007). Moreover, the evidence suggests that currents of opinion in Argentina have tended to display “ideological” volatility. Figure 7 shows the attitudes towards private and public ownership of business in Argentine society between 1965 and 2005.



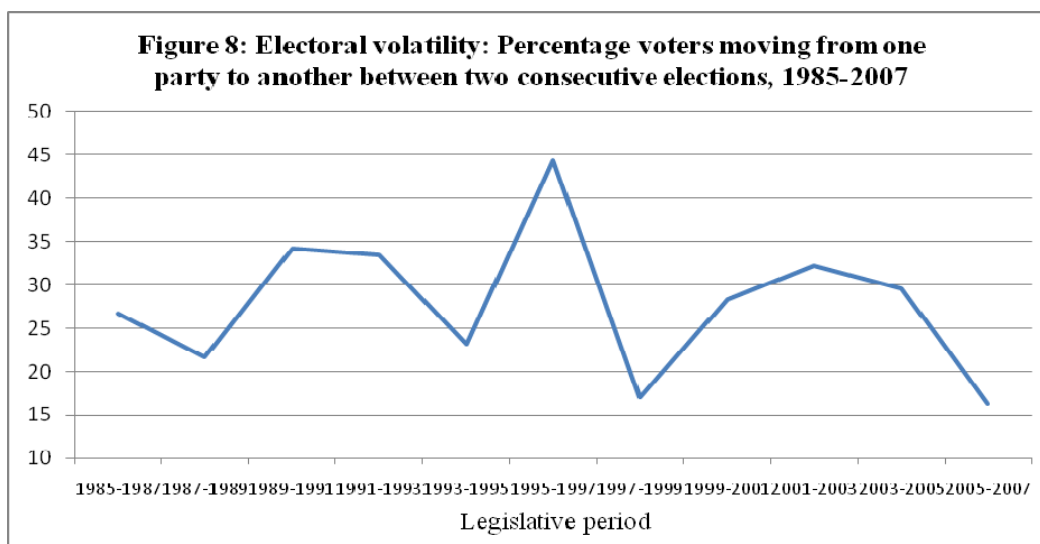


*Sources:* International Political Science Association (IPSA, 1965); Centro de Investigaciones Motivacionales y Sociales (1970); IPSA (1972); IPSA (1981); Gallup (1984); IPSA (1986); ESTUDIOS (1988); SOMERC (1989); World Values Survey (1989-1993; 1994-1999; 1999-2004; 2005-2006).

It is clear from the figure that Argentines have changed their attitudes towards the role of the government in the economy. In particular, private ownership of business was seen very favorably until the early 1990s, when most of the public utilities were in the government’s hands. In contrast, there seems to be a “backlash” against private ownership after the privatization process of the 1990s (whether due to the performance of the reformed sectors or due to other reasons such as increased unemployment and perceived corruption).

The volatility of public attitudes can also be observed in the electoral arena. Figure 8 below shows the degree of change in voting behavior between elections in Argentina during 1985-2007. Before reading those numbers, though, we should bear in mind that mature democracies such as Germany or Belgium exhibit levels of volatility around 7 percent, that volatility in Spain during the transition between 1979 and 1996 was 15 percent, and that the Latin American average between 1983 and 2003 has been 25 percent. Thus, the figure indicates that electoral volatility in Argentina, although relatively low (around 20 percent) during the first two elections following the democratic transition in 1983, has since then generally exceeded the regional average.





Source: Rodríguez (2008).

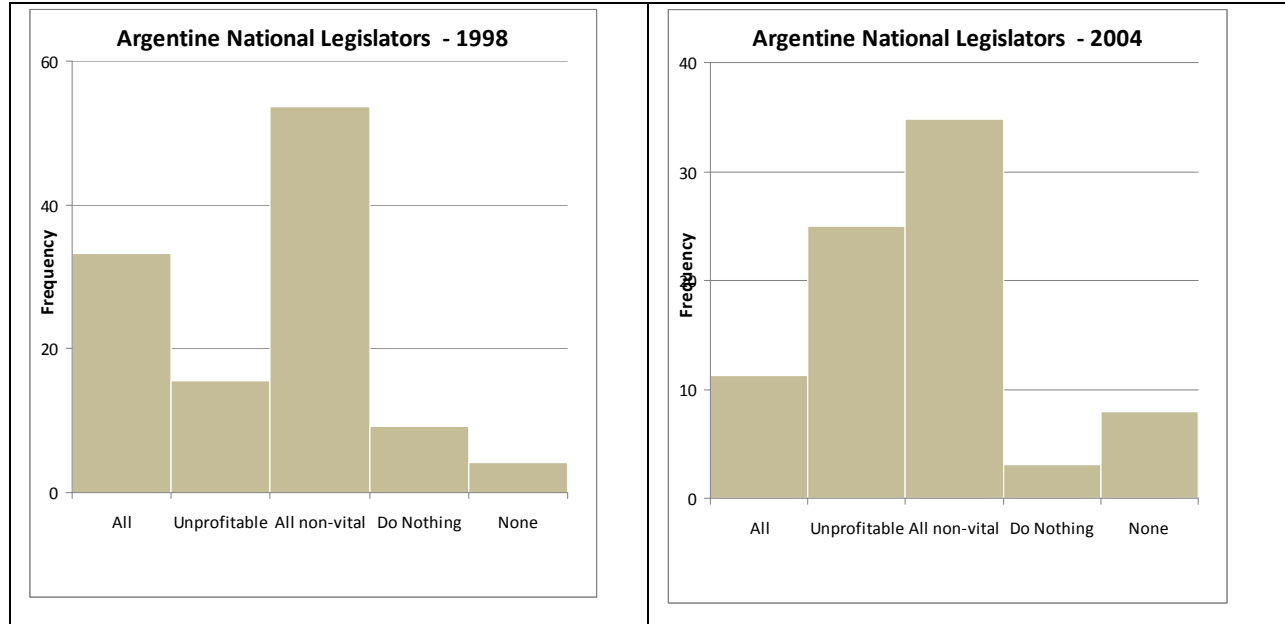
Indeed, except in the two mid-term elections under Menem's presidency (i.e., in 1993 and 1997), electoral volatility rose to the 30-40 percent range until 2003. In fact, the lower rates of electoral volatility in the last several years constitute an artifact of the strength of the PJ in the face of a highly fragmented opposition.

As Figure 8 suggests, the electoral mechanism tended to reproduce the instability of the ideological positions of the population at the elite level. Another way to examine this is to explicitly examine the attitudes of elected officials. One source of such data comes from interviews with legislators conducted by the Instituto de Estudios de Iberoamérica y Portugal of the University of Salamanca. Their researchers established the Latin American Parliamentary Elites (PELA) project and conducted four waves of surveys in the lower chambers of 18 Latin American countries since 1994.

Figure 9 suggests that Argentine politicians show increasing signs of statism, reflected in changes in support for privatization of public utilities. Compared with Figure 8, this figure shows that the ideological swings of the legislators are quite similar to those in the general population. While in 1998 more than 30 percent of respondents stated that all public utilities should be privatized, less than 15 held the same opinion six years later. In contrast, the number of respondents who said that none of the utilities should be privatized more than doubled during the same period.<sup>19</sup>

<sup>19</sup> Similar results emerge regarding their attitudes with respect to the efficacy of state regulation of prices (details not reported here for the sake of brevity).

**Figure 9. Politicians' Opinions on Privatization, 1998 and 2004**  
 (Responses to the question “Which of the following criteria best summarizes your attitude towards the privatization of public utilities?”)



Source: PELA (1998 and 2004).

### 3.10 Bringing It All Together

The inherited structural characteristics of Argentina’s PMP, along with its institutional underpinnings, have fostered a political-economic equilibrium in which interactions between the public and private agents are dominated by short-term considerations. In the event of a shock, governments tend to adopt reactive, short-term policies, redistributing assets (through the exchange rate, subsidies, public expenditures, etc.) rather than taking a longer-term outlook. In this context, agents in the private sector react to these policies with a somewhat similar short-term perspective. This equilibrium is quite stable and is supported by a belief system dominated by short-term thinking (*corto-placismo*) and ideological volatility supporting those policy swings.

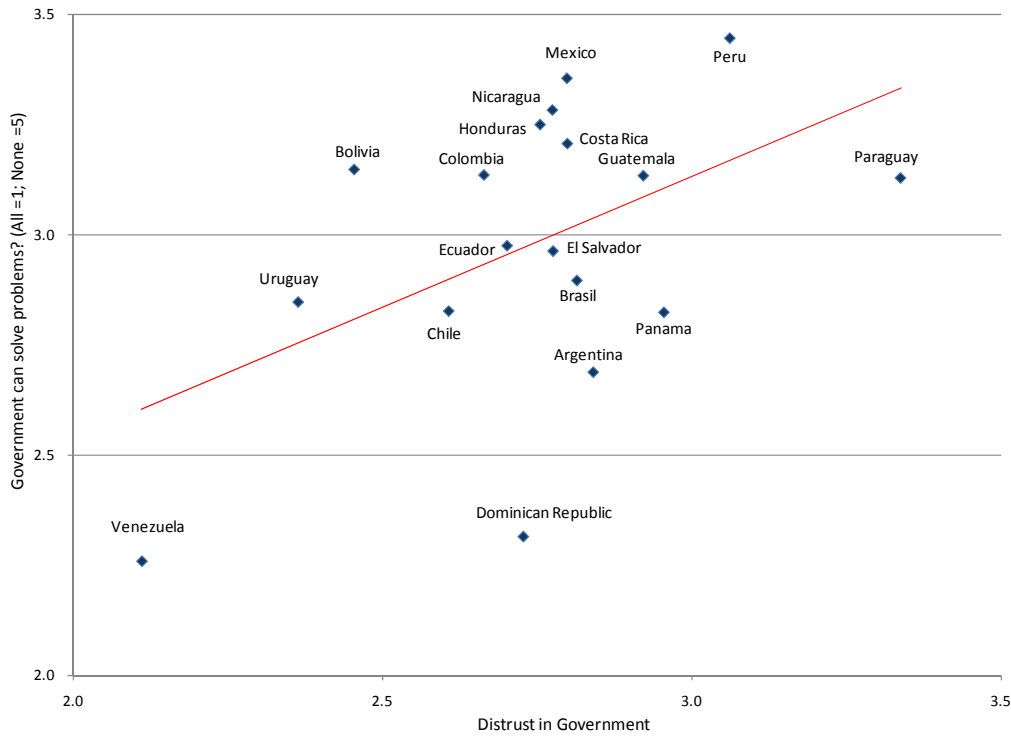
This description of the *augmented* Argentine PMP squares well with some recent scholarship on the role played by belief systems and ideology in sustaining socially undesirable equilibria. For example, Aghion et al. (2008) find that in a cross-section of countries, government regulation is strongly negatively correlated with measures of social capital such as

trust in others and/or trust in political institutions. To explain this correlation, they present a model based on the idea that investment in social capital (i.e., establishing long-term reciprocal relationships with others) makes people both more productive and more civic. In contrast, people who do not invest in social capital and therefore reject intertemporal cooperation impose a negative externality on others when they produce. As Aghion et al. (2008) note, when individuals distrust others, they fear a negative externality from others' actions. Therefore, they call for heavier public regulation, restricting entry into productive activities. But regulation is implemented by public officials, who demand bribes when they themselves may not be civically oriented and/or inclined to engage in intertemporal cooperative agreements. Regulation and corruption then deter investment in socially beneficial activities in the first place, which may lead to a self-fulfilling equilibrium of high regulation and low social capital.

In light of these arguments, it is understandable why in the Argentine social and macro environment, characterized by sizeable shocks and the recurrent instability of policies, economic agents' equilibrium behavior entails lower levels of investment in socially beneficial activities. In particular, it becomes clear why these agents would avoid investing in those activities that are too specific and entail sunk costs, as their quasi-rents would most likely be confiscated when needed to solve short-run pressures.

The model in Aghion et al. (2008) also predicts that distrust influences not just regulation itself, but the demand for regulation. Figure 10 below shows the relationship between trust in the government and the belief in the ability of the public sector to resolve society's problems for a cross-section of Latin American countries, using data from the 2007 Latinobarómetro survey. The basic measure of distrust is constructed using the following question: "How much trust do you have in the government?" The answers range from "A lot" (1) to "None" (4). The other question in the survey asks, "Would you say that the State can solve all problems / the majority of the problems / quite a lot of problems / only a few problems / the state cannot solve any problems?" The responses range from "All problems" (1) to "None" (5). We take the average country-level of distrust and state problem-solving abilities.

**Figure 10. Trust in Government and in Regulation in Latin American Countries, 2007**



Source: Latinobarómetro, 2007.

As the figure shows, in the Argentine case, levels of distrust in the government should be associated (if they reflected the average standard in Latin America) with a more skeptical view of the ability of the public sector to solve society’s problems. Nonetheless, the average respondent still believes that the Argentine government can solve the country’s problems (as much as Panamanians do, and only less than Venezuelans and Dominicans), even though he/she does not have a lot of trust in the government.

How can this paradox be explained? A recent paper by Benabou (2008) provides some interesting insights. He develops a model of ideologies as collectively sustained distortions in beliefs concerning the proper scope of governments versus markets. In the model he assumes that individuals trade off the value of remaining hopeful about their future prospects versus the costs of misinformed decisions when they process and interpret signals regarding the efficacy of public provision of services such as health and education. Because future outcomes depend on whether other citizens respond to unpleasant facts with realism or denial, endogenous social cognitions emerge. Therefore, an equilibrium in which people embrace a statist ideology exists. Yet, this equilibrium coexists with another one in which people acknowledged the limitations of

interventionism. Conversely, an equilibrium associated with appropriate responses to market failures coexists with one dominated by a blind faith in the invisible hand (Benabou, 2008).

This view of ideological “entrapment” squares well with the public opinion swings of Argentine voters and politicians documented above. In line with some of the main ideas in Benabou’s model, one can posit that collective reality avoidance and adherence to comforting myths have been the norm in contemporary Argentine politics.<sup>20</sup> And the interaction of this ideological configuration with the low social capital outcome described by Aghion et al. (2008) seems to have fostered a very particular policymaking equilibrium that characterizes Argentina’s policymaking process.

#### **4. The Political Economy of Productivity: General Hypotheses and Illustrations from Two Case Studies**

In the previous sections we have provided a general framework for understanding the link between productivity and the augmented PMP. Here we illustrate, by means of two specific areas of policy, the manifestation of the short-term and confiscatory bias of the national PMP and its negative impact on productivity.

##### ***4.1. Infrastructure Services and their Regulatory Regime***

Public policies towards infrastructure services and public utilities (including energy, water and sanitation, transportation and telecommunications) display deep contrasts across countries and over time, showing varying degrees of state-participation, intrusive regulation, and rejection or promotion of competitive environments. Many times, these differences are explained by previous domestic experiences which entail “status-quo biases” (Fernández and Rodrik, 1991), only (and partially) overcome by some consensus built after significant failures of the existing arrangements and in the midst of international waves favoring some arrangement over others. Thus, while we find countries with different policies at each point in time, the learning and

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<sup>20</sup> The swings in beliefs seen in Argentina seem to contradict the rigidity attributed to ideology (which would be manifested by rigidity in perceptions of the merits of various policies despite falsifying evidence). Yet, the instability in the opinions and points of view in Argentina documented in the paper (regarding price regulation and state ownership) might correspond to somewhat superficial or instrumental features of secondary or functional status vis-à-vis a more permanent (and ideological) views regarding the moral quality of competition and competitors, the importance of luck vs. merit in attaining prosperity, the correspondence between civil rights and obligations, etc. Thus, the swings observed would reflect some confusion about the way in which some goals could be attained, or even about the feasibility of certain goals (for instance, the chance of attaining immediate improvements in the standard of living without any efforts or sacrifices).

imitation processes are important factors leading to partial improvements and convergence over time. Regarding the provision of infrastructure services, the adoption of policies setting clear and complementary roles for the state and third parties (private investors) regarding design/planning, regulation, provision and supervision/control, has become the most common one over the last two decades both in Latin America and around the world: many of the experiences differ about details and quality of the rules and interventions, and there are counterexamples where countries refuse to take part on this evolution, but this is the new benchmark guiding the existing reforms.

At first glance, Argentina could be considered to fit the following description: direct government intervention, with provision of services by through public firms until the late 1980s, gave way to major reforms. Those reforms called for a significant role for private investors, once previous restrictions for free investment were lifted and regulatory frameworks to control monopolistic abuses were drafted into law, among other measures. These changes in turn allowed to recoup investment, improve indicators of quality, coverage, fiscal impact, productive efficiency and overall costs. A history of bad public management, leading to collapsing services at the end of the 1980s, in the midst of world-wide pro-market reforms, was a perfect recipe to gain political support for a much improved set of rules favoring increased productivity of infrastructure investments and of the economy overall.

Yet, this is not the end of the story. Since 2002, and after another deep macroeconomic crisis (in some dimensions even more serious than that of the late 1980s), general dissatisfaction with the market-oriented reforms of the previous decade reached its climax, which allowed a new administration to increase the state's role in the allocation of resources, including direct participation in the provision of infrastructure and energy services.

So, is this policy instability the result of the alternation of governments with different temporal perspectives, who are followers of unstable moods by the general voters? Or, on the contrary, is it the outcome of an environment where decisions are made with a short-term orientation but facing different constraints regarding the room to exploit short-term benefits in an unsustainable way?

It is possible that some of the market-oriented reformers of the early 1990s had long-term goals as part of a larger sequence of structural reforms that could eventually become self-sustaining. It is also possible, however, that (most) politicians in those days were as interested in the short-term benefits to be obtained from such reform as are the current politicians whose

policies seem to be guided by opportunistic views that become unsustainable over time. Politicians both then and now have made decisions that received political support at the time and that provided them with political benefits in that environment, particularly vis-à-vis opposing positions. This is not surprising, as long-run oriented reforms also need political support when they are enacted. However, once reforms result in the accumulation of sunk capital or funds, new short-run “temptations” lead to changes in policy that find sufficient political support (or indifference). This tendency is illustrated by the recent counter-reform in the pension system, whereby the current administration with one stroke captured US\$30 billion accumulated since the capitalization reform of 1994.

The question arises of why is the “status quo bias” not stronger in resisting inefficient reforms than efficient reforms. While not every country moves from pay-as-you-go to capitalization regimes (particularly because of the high fiscal cost during the transition), no country moves from capitalization to a pay-as-you-go pension regime...except Argentina in 2008.

While various investment and infrastructure management reforms over the last 20 years have varied greatly in their respective contributions to productivity, policies in each area may have represented equilibriums where short-term pressures are centrally taken into account and exploited. Differences among policies have arisen from which “transfer” at each point in time has allowed politicians more degrees of freedom to secure their power and, possibly, to pursue populist policies:

- In the first case (the early 1990s pro-market reform), selling public firms and signing long-term contracts with promises for transparent and stable rules induced private investments that could avoid the collapse of infrastructure services and allowed public debt repayment and higher fiscal spending than with the previous status quo.
- In the second case (the early 2000s de facto counter-reform), freezing tariffs and regaining public powers for the direct and centralized decision on investments (either after terminating existing contracts or just through new interventionist regulation justified under the initial emergency situation in 2002 and 2003) transferred quasi-rents to final consumers and increased political control through discretionary use of powers vis-à-vis private

providers of services, governors and local leaders needing investment in their territories, among other measures.

Thus, the recent evolution of regulatory policy and outcomes regarding infrastructure in Argentina (perfectly illustrated with the energy sector), provides partial support for the last hypothesis, which is also consistent with the overall PMP used to explain the nature of policies adopted in the country: the instability in policies that we have seen in the energy sector (as well as in infrastructure services more generally) reflects the equilibrium of a dynamic game in which politicians are oriented by short-term interests and exploit public opinion at each point in time so as to gain short-term benefits, with little importance given to the long-term effect of their behavior, but where the nature of such short-term policy depends on the type of rents that can be appropriated or politically used.

The evidence available does not necessarily prove this hypothesis, and the truth may be that pro-market reformers in the 1990s were long-run oriented but inefficient in designing reforms assuring their long-run sustainability. Nonetheless, that inefficiency may result from the poor institutional setting, which makes it particularly difficult to reach long-term and sustainable agreements and transactions.<sup>21</sup>

#### *4.1.1. Evolution of Public Policy towards Infrastructure Services*

The recent history of infrastructure reforms and counter-reforms seen in Argentina can be divided into three sub-periods. First, until 1990, virtually all public utilities were controlled by the state, either at the national level (telecom, natural gas, train transportation, etc.), shared with provinces at different horizontal or vertical levels (motor-transportation, electricity), or fully decentralized to provinces and local governments (water and sanitation).

Second, since 1990, and after the privatization of the national telecom ENTEL in November of that year, Argentina implemented a wide-ranging program for the privatization or concession of its state-owned companies, which included market-oriented reforms through concessions in industries such as natural gas and electricity in 1992, train transportation between

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<sup>21</sup> The example of the pension system does not fit this description, though, as the 1994 reform did indeed entail a short-term fiscal sacrifice for the government, and the benefits (including fostering a competitive domestic capital market) would be increasing over time but not particularly noticeably during the immediate years after the enactment of the capitalization reform. In that regard, while the current counter-reform in the pension system is clearly a sign of short-termism and also an example of the difficulties to sustain efficient long-term reforms, there seems to be a difference in the degree of myopic sight of the two Peronist administrations involved (Menem in 1994 and Kirchner in 2008).



1993 and 1995, and finally airports and postal services in 1997. The program also included selling various public firms in other industries not characterized as infrastructure. As a result, the share of state-owned companies in GDP decreased from 18 percent in 1991 to less than 1 percent in by 2002. With details varying across sectors, these transfers of property or management were part of more general pro-market oriented reforms, where competition was fostered in some segments of the reformed sectors (such as in generation of electricity, production of natural gas and petroleum), and a new set of rules (regulatory frameworks) was established. As discussed in FIEL (1999), the quality of each reform varied significantly, but (virtually) all of them introduced modifications leading to a more coherent allocation of responsibilities and incentives for efficient operation. The overall experience was less than perfect, but the results delivered were fairly good and better than many believe (see Urbiztondo, 2004).

Third, after the 2001-2002 crisis, and particularly since 2003, a new statist and interventionist stage began, characterized by the termination of previous concession contracts (as with the postal service, various water and train operations, etc.), the promotion of local investors with close ties to government officials (in the telecom sector, transportation of electricity, and more recently the production of petroleum and natural gas), and direct control of investments through specific funds and subsidies managed by the state. This has meant so far a “de facto counter-reform,” since there has been no formal definition of the new policy or its intended permanence over time.

The efficiency of these various arrangements can be discovered by looking at some indicators. Until the 1990s, public production became so inefficient that it compromised public finances, generating 41 percent of fiscal expenditure and almost half of the huge consolidated public sector deficit (10.7 percent of GDP in 1988). Such inefficient management was not unique to the public utilities, but extended to most public policies, leading to a major macroeconomic crisis, which included two hyperinflation episodes in 1989 and 1990. Policy preferences then moved sharply in the opposite direction, mandating a more important role for private investors under a more stable and efficient set of rules.

The privatization process of the 1990s included immediate and sharp reduction of the public deficit, an increase in private investment in infrastructure, and a reduction of public employment. In addition, the foreign debt burden of the foreign debt was reduced through a debt-capitalization scheme, while additional temporary financing was obtained for the government.

New investors participating in the process included former state suppliers from European countries as well as a set of multinational corporations. Of the main European Union countries, Spain represented 65 percent of FDI flows in 1999, followed by the United Kingdom (15 percent), France (7 percent), Germany (5 percent) and Portugal (4 percent).<sup>22</sup> FDI into Argentina itself increased significantly over the decade, leading Latin America in FDI as a percentage of GDP.

The privatization process also involved workers and their unions through a program of participatory ownership (*Programa de Propiedad Participada*, PPP). This program represented the price that policymakers had to pay in order to gain political support or at least tolerance from the workers affected.

Considering the changes in policy from the second to the third stages identified above, following the 2001-2002 crisis and the Emergency Law which delegated the renegotiation of contracts with public utilities to the Executive Branch, tariffs were frozen at their previous nominal levels measured in pesos, which meant a major reduction in real terms: since then, even after cumulative inflation of 115 percent and 250 percent (retail and wholesale, respectively) by mid-2008, only two (out of 50) contracts were redefined. While many providers' tariffs remain frozen, some concessions have been terminated, and no general criteria have been explicitly advanced other than "increased participation of the state."

Once the new political administration headed by President Néstor Kirchner took office in May 2003, this intervention became *de facto* permanent, and new set of rules (not necessarily explicitly recognized in some cases) became increasingly obvious. In particular, the new policy disregarded most principles generally agreed upon for sound regulation, thus slowly undoing the previous pro-market reform. In the end, the salient features of the new regulatory policy after 2003 are the following:

- Discrimination between old and new capital (confiscating *de facto* investments sunk in the past).

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<sup>22</sup> Spain was a very active participant. In the period 1995-1999, FDI in Latin America was concentrated in four countries: Argentina, Brazil, Chile and Colombia. The sectoral distribution of Spanish investment focused on a very limited range of activities, particularly telecommunications (Telefónica), aviation (Iberia), banks (BBV and Santander, among others), electricity (Endesa, Iberdrola) and oil (Repsol). Consequently, in the early 2000s some Spanish firms ranked among the principal suppliers of public services in Mercosur.

- Divorce of supply and demand signals (provoking excess demand for energy, leading to cuts in exports and increasing imports).
- Bilateral negotiation of private investments (slowing the process and discouraging competition and efficiency).
- Politicization of the regulatory process (fully centralizing instrumentation of regulatory policy).

#### *4.1.2. Some Performance Indicators*

From the heavy central interventions of the 1970s and 1980s, to the general de-regulation and privatization of the 1990s, and back (in a different way) to heavy interventions in the last five years, performance under such different models has also shown sharp contrasts. Those different outcomes can be computed regarding various indicators of performance such as subsidies, quality, coverage, tariffs, and productivity growth.

One common characteristic of the “public provision periods” (until 1989 and after 2003) is that tariffs are set at artificially low levels, which in spite of large compensating subsidies (either to finance some minimum investment or even to cover operating expenses) provoke lower investment, deterioration of quality, and slower increases in coverage. Ultimately, the impact on productivity of the various arrangements is also noticeable. The various charts and figures below illustrate these assessments (although without the intention of undertaking a full account of the results obtained under each “model” identified before).

Furthermore, as these indicators show, two important issues should be noticed. First, maintaining and expanding services that were collapsing at the end of the 1980s required investments that were not feasible for the public sector (which was financially distressed, as shown by the two hyperinflation episodes in particular), meaning that the counterfactual to the pro-market reform at that time was a further deterioration of services that entailed an enormous political cost. Second, after the economic contraction between 1998 and 2002 (which involved a 30 percent cumulative decline in GDP), and following overinvestment in certain infrastructure sectors in the 1990s (such as electrical generation, which led to a 50 percent real reduction in the wholesale price of energy in the first five years after the pro-market reform), existing capacity was enough to delay significant investments—and maintain artificially low tariffs—without major immediate distress.

*Tariffs.* Considering the three sub-periods, tariff structures and levels have been quite unstable in real terms. During the 80s and 2000s they were depressed (i.e., insufficient) and penalized industrial and commercial users, but in the 1990s were temporarily corrected. The overall pattern during the 1980s is shown in Table 3 below. The table indicates that real tariffs followed a downward trend, which, given other obvious indications of serious and increasing internal inefficiency, was signaling an artificial and economically unsustainable situation prior to the reforms of the 1990s reforms. As discussed below, that situation was reflected in reduced levels of investment and especially in increasing operational deficits, as discussed below).<sup>23</sup>

**Table 3. Tariffs under Public Provision before Taxes, 1980-1991**

	Telecom	Natural Gas	W&S	Electricity
1980	100.0	100.0	100.0	100.0
1981	107.4	103.8	88.1	99.7
1982	73.7	84.6	53.0	69.5
1983	55.0	89.4	40.4	73.7
1984	53.8	78.2	36.5	70.2
1985	50.5	93.0	32.6	74.0
1986	50.7	102.0	51.4	82.1
1987	43.2	105.2	60.5	75.4
1988	41.7	88.4	49.6	76.7
1989	26.6	63.6	53.3	69.5
1990		68.2	42.3	74.8
1991		88.0	43.9	74.5
Avg. 80-89	60.3	90.8	56.5	79.1
1989/Avg.80s	44%	70%	94%	88%
1991/Avg.80s		97%	78%	94%

*Note:* Index 1980=100, constant values (wholesale deflated, IPM).

*Source:* FIEL (1992), based on SIGEP (Sindicatura General de Empresas Públicas). ENTEL: National Telephone Company; GAS: Natural Gas Public Company; OSN: Water and Sewerage Company (Greater Buenos Aires Area); SEGBA: Electricity Services for GBA.

<sup>23</sup> Since late 2008, and after having been frozen since 2001, residential tariffs have been sharply increased in both natural gas and electricity at the national level. At the same time, however, public subsidies have been reduced for wholesale energy. Nonetheless, 73 percent of residential users and 45 percent of wholesale users saw no increase in their tariffs. A small share of residential users (under 5 percent) and of wholesale users (under 15 percent) has faced increases of more than 200 percent in one of the two services. It should further be noted that, with only minor exceptions, such increases have yet to encompass the still-frozen rates of natural gas and electricity distribution and transportation companies and electricity regulated by the national government. Additionally absent is the definition of a new set of rules to adjust prices in the future, thus disrupting incentives for long-term investment.

As for the last 15 years, the electricity sector examples in Table 4 illustrate a general pattern: during the 1990s, final tariffs for residential users in Argentina became higher in dollar terms, and higher than those faced by industrial users (which corresponds to solid principles regarding cost-reflection and is the norm internationally), and yet they both proved to be within the margins of the experience in other Latin American countries. The striking feature in Argentina, though, is the instability of such electricity tariffs: for residential users, they were the second highest in 1996 and the lowest in 2002 and 2005, whereas for industrial users, they were the highest in 1990 and the lowest in 2002.

**Table 4. Residential and Industrial Electrical Tariffs (USD/kWh), Selected Years**

	Residential US\$/kWh				Industrial US\$/kWh			
	1990	1996	2002	2005	1990	1996	2002	2005
Argentina	0.04	0.12	0.04	0.04	0.09	0.09	0.02	0.05
Bolivia	0.07	0.08	0.06	0.07	0.07	0.09	0.04	0.05
Chile	0.14	0.15	0.08	0.12	0.08	0.08	0.06	0.08
Colombia	0.04	0.05	0.07	0.10	0.07	0.10	0.06	0.09
Ecuador	0.02	0.03	0.09	0.09	0.04	0.06	0.08	0.10
Peru	0.02	0.16	0.11	0.13	0.08	0.06	0.07	0.07
Uruguay	0.11	0.17	0.10	0.14	0.08	0.09	0.05	0.06
Venezuela	0.02	0.02	0.06	0.05	0.02	0.02	0.03	0.03
Simple average	0.06	0.10	0.08	0.09	0.07	0.07	0.05	0.07
Median	0.04	0.10	0.08	0.09	0.08	0.09	0.06	0.07
Minimum	0.02	0.02	0.04	0.04	0.02	0.02	0.02	0.03
Maximum	0.14	0.17	0.11	0.14	0.09	0.10	0.08	0.10

*Source:* Organización Latinoamericana de Energía (OLADE, 2004 and 2005).

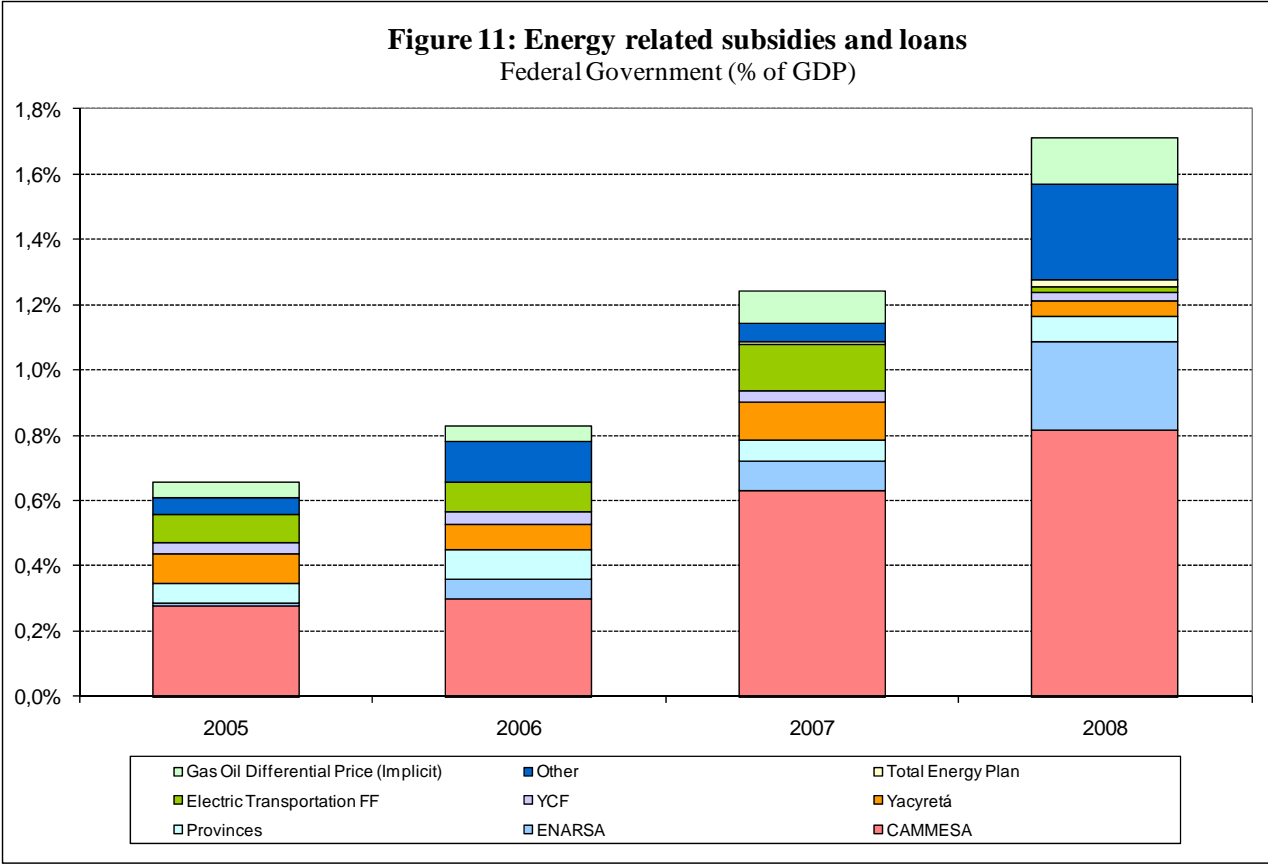
*Note:* Argentina's residential tariff in 1990 is taken from Bastos and Abdala (1993), much lower than the 9 cents reported by Foster and Yepes (2005).

*Public deficit and subsidies.* Both in the 1980s (particularly at the end of the period) and since 2005, many of the costs of infrastructure services were not fully perceived by users, as tariffs remained artificially low and part of the income needed to run them came from subsidies paid by the state. This represented a very regressive solution in the context of low levels of coverage among the poor and a tax structure that is not particularly progressive, as was the case with inflationary taxes in the late 1980s. Table 5 below shows the huge imbalance in 1989 and even 1990, particularly in the energy and communication sectors, which has displayed a sharp and general decline since 1991.

**Table 5. Evolution of Net Return of Public Firms in Argentina  
as Percentage of GDP, 1989-1995**

	1989	1990	1991	1992	1993	1994	1995
Energy	-1.62%	-1.03%	-0.34%	-0.17%	-0.18%	-0.01%	-0.07%
Transportation	-0.64%	-0.55%	-0.32%	-0.31%	-0.36%	-0.02%	-0.03%
Communications	-1.35%	-0.29%	0.04%	0.02%	-0.05%	-0.01%	-0.15%
Water and Sewerage	0.12%	0.02%	0.03%	0.02%	-0.01%	0.00%	-0.01%
<b>Total national infrastructure firms</b>	<b>-3.50%</b>	<b>-1.86%</b>	<b>-0.59%</b>	<b>-0.45%</b>	<b>-0.59%</b>	<b>-0.05%</b>	<b>-0.25%</b>
Other national firms	-1.75%	-1.04%	-0.57%	-0.56%	-0.58%	-0.39%	-0.52%
Provincial firms	-0.21%	-0.17%	0.00%	-0.11%	-0.12%	-0.08%	-0.56%
<b>Total General</b>	<b>-5.46%</b>	<b>-3.07%</b>	<b>-1.17%</b>	<b>-1.12%</b>	<b>-1.29%</b>	<b>-0.51%</b>	<b>-1.33%</b>

Figure 11 below, at the same time, shows that the subsidies related with energy jumped from 0.7 percent of GDP in 2005 to 1.2 percent of GDP in 2007 and 1.7 percent of GDP in 2008, which is already a higher figure than that prevailing in 1989.



*Investment.* Since 2002, investment in public utilities, particularly in the energy sector, has contracted strongly. Instead of comparing monetary magnitudes or shares to GDP, one can see the derived “real” (and more relevant) indicators such as energy reserves, transportation capacity, and installed generation capacity, etc. In summary:

- Proven reserves of petroleum and natural gas decreased strongly from 1980 until 1992 (18 percent and 16 percent, respectively), grew significantly from 1992 until 2001 (43 percent and 41 percent, respectively), and again collapsed after 2001 (9 percent and 42 percent, respectively, until 2007).
- Natural gas transport capacity has been virtually frozen since 2002. While capacity increased 68 percent between 1993 and 2001 (from 72 to 121 MMm3/day), it grew less than 9 percent between 2001 and 2006, leading to restrictions on interruptible supply (in the winter peak season).
- Electrical generation capacity virtually stopped growing after 2001. Capacity increased 65 between 1992 and 2001 (from 14 to 23.2 MW), but only 5

percent between 2001 and 2007. The resulting shortages led both industrial and commercial users to invest in far less efficient self-generation plants, which are more expensive due to their small size, and run with the most expensive liquid fuels—the only ones available.

*Quality and coverage.* The coverage and quality of the services privatized or given in concession have also shown clear improvements during the 1990s, as pointed out by the following two illustrations. First, considering quality in the electricity sector, the average duration of interruptions or shortages per user decreased from 11 hours between 1985 and 1988 to a range between 4 and 8 hours during the last 15 years (Bastos and Abdala, 1993; Urbiztondo and Cont, 2008). Second, regarding coverage, one indicator is obtained in the natural gas sector, as shown in Table 6 below: the growth rate of distributed natural gas was higher during the pro-market reform period (1992-2001) than before (1970-1991) and after (2001-2006). The latter period shows a faster growth rate only in the amount of gas delivered, but this is the result of both a higher growth rate of the economy and artificially lower tariffs.

**Table 6. Growth of Natural Gas Distribution Network in Various Sub-periods, 1970-2006 (annual averages)**

<b>Sub-period</b>	<b>Gas delivered</b>	<b># of Users</b>	<b>Extension of network</b>
1970-1991	2.5%	2.5%	3.1%
1992-2001	3.0%	3.6%	6.8%
2001-2006	5.7%	2.5%	2.0%

*Source:* Authors' calculations based on NERA Economic Consulting (1997) and Ente Nacional Regulador de Gas (ENARGAS.)

*Productivity.* The economic literature contains ample evidence about the positive role played by infrastructure in reducing production costs and fostering economic growth.<sup>24</sup> Of course, once productivity in the provision of infrastructure services increases, faster expansion at lower cost is

<sup>24</sup> See Calderón and Servén (2004). This percentage is only matched by the countries comprising the Middle East and Northern Africa. In the case of Latin America, for example, deficient infrastructure is one of the greatest sources of concern for private companies, as can be seen in the World Bank's Investment Climate Survey: 55 percent of companies consider inadequate infrastructure an obstacle to investment. They estimate that over half of firms' productivity can be explained by variables related to infrastructure.



possible, and thus the availability of better and cheaper infrastructure for all users, which helps to increase productivity across all sectors of the economy.

In Argentina, the pro-market reforms of the 1990s led to improvements in productivity in general, particularly regarding infrastructure services. As Table 7 shows, during the growth episode in 1993-98 the factors explaining the value-added growth in each sector differed, but capital investment and TFP growth were the main ones behind the favorable evolution of infrastructure services (Electricity, Natural Gas and Water, Transport and Telecommunications).

**Table 7. Change in Value Added and Labor, Capital and TFP Contribution  
(Millions of \$ 1993), 1993-1998**

Sector (selected)	Change VA	Contribution			% of firms with positive TFP
		L	K	TFP	
Food, Beverages and Tobacco	-16.3	2.5	4.2	-23.0	35%
Metal Products	26.8	3.1	-0.3	23.9	50%
Electricity, gas and water	26.3	-0.3	20.7	5.9	58%
Transport	38.7	-2.1	9.0	31.8	75%
Telecommunications	254.3	-4.1	74.2	184.2	78%
<b>TOTAL</b>	<b>14.8</b>	<b>3.5</b>	<b>7.1</b>	<b>4.2</b>	<b>47%</b>

*Source:* FIEL based on National Survey of Large Enterprises (NSLE), 1993-1998.

#### 4.1.3 Final Remarks

As discussed above, Argentine public policy towards infrastructure and public utilities, as illustrated by the energy sector, looks particularly unstable. Indeed, this instability is perhaps more notable than the relative merits and defects of each interim policy followed in the 1980s, 1990s or 2000s. That instability may invite several explanations, including sharply varying conceptions regarding the role of the state, the importance of clear and efficient rules, and the weight given to long-term effects under various administrations and political contexts. The hypothesis we offer, however, differs from those mentioned above.

We posit that this instability could result from changes in the constraints faced by political actors as opposed to radical changes in either their preferences or long-run perspectives. In our view, a permanent interest in exploiting short-term preferences might be the main driver of quite different regulatory policies depending on the possibility of confiscating sunk

investments without causing serious and visible damage to the quality and availability of goods and services. As we argue here, such oscillating regulatory policies could well be the outcome of a stable political game where preferences are very myopic, which in equilibrium requires the accumulation of assets which could be sold (if they are public) or confiscated (if they are private), something served with sharp changes favoring and attacking private investment as those seen in Argentina over the last 20 years.

The evidence presented above shows that both drastically opposed policies in the early 90s and since 2002/2003 were politically demanded and supported by the public opinion, and that both of them meant short-term benefits for the implementing politicians. No long-run stability (in terms of a political economy perspective, that is, regarding the creation of constituencies with sufficient power to defend the reform, the shaping of the reforms to minimize politically dangerous complaints, perfecting over time the privatization process and regulatory practice, etc.) was in fact inserted into the design of seemingly long-term reforms. From a political economy perspective, no constituencies were created that were sufficiently powerful to defend the reform, and reforms were not designed to minimize politically dangerous complaints; in particular, no commitment was made to perfect the privatization process and regulatory practice over time. Thus, while these changing policies have constituted the equilibrium, the impact on productivity—both in the infrastructure sectors and more generally—is quite disappointing. We can detect differences over sub-periods, but we miss the main damage coming out from such instability: a limited ability to induce productivity enhancing efforts even when the rules try to favor such behavior.

#### ***4.2. Agricultural Conflicts in Argentina and their Effects on Productivity***

For the last 20 years, agricultural productivity has been growing around the world. Argentina has played an important role in this development by being one of the leading countries in the adoption of GMOs (genetically modified organisms, distributed through seeds) and “zero tillage” methods.<sup>25</sup> Agricultural growth was accompanied by important changes in the structure of the sector (in the Pampas), including the emergence of new very dynamic private actors linked to episodes of rapid technology adoption (Lema, 2006; FIEL, 2001b; Regúnaga et al., 2008).

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<sup>25</sup> Zero tillage is a planting system to improve soil conservation where the new crop is planted in the stubble of the previous crop with even less soil disturbance than with minimum tillage methods.

In contrast, public actors have been decreasingly interested in this sector. The legal institutions that helped to organize the agro-industrial markets in the mid-1960s have not been modernized, and the government actors directly involved in the making of agricultural policy have lost most of their influence at the federal and provincial levels. In practice, agricultural policy has been generally dominated by macroeconomic needs.

The agricultural case allows us to show that macroeconomic policies, combined with poor agricultural policies, have biased technology adoption towards low capital-intensive investments by producers, affecting the production pattern and the overall productivity of the agro-industrial system. Even though agriculture productivity at first glance seems relatively unaffected by myopic and opportunistic policies aiming to capture rents from the land, a more general and integrated perspective shows that the costs are significant, as the main distortion is related with the poor development of agro-industrial activities.

We posit that the organization of the production activities through flexible contractual arrangements and the participation of various actors such as machinery contractors, tenants and capital investors have been private responses to distortionary policy incentives (and macro crises) that have long prevailed in Argentina. At the same time, the possibility of taxing the agricultural sector without facing strong opposition, despite its clear effect on its profitability through confiscation of agricultural income (especially land-based rents), has facilitated, in our view, a dynamic equilibrium in which politicians are oriented by short-term interests.

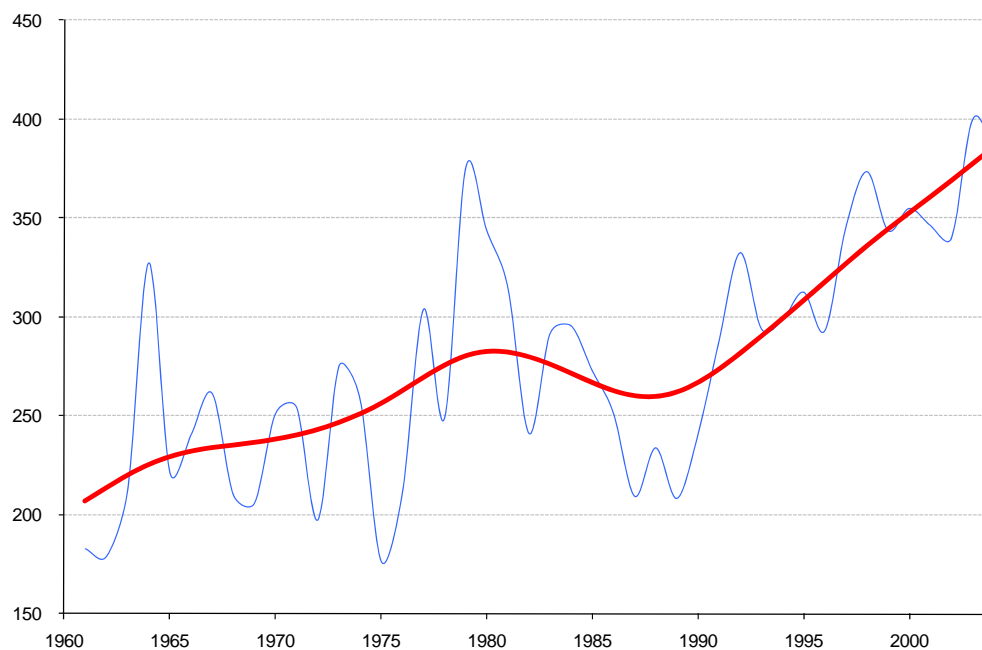
#### *4.2.1. The Importance of the Agricultural Sector within the General PMP*

We have identified two relevant issues regarding the PMP in the agricultural sector. The first involves the influence of the agricultural sector's development and its specific PMP on the general process. The second inversely involves the impact of the general PMP on productivity and growth in the agricultural sector.

In spite of the declining importance of the (primary) agricultural sector in terms of GDP since the 1950s (at present, this share is around 6-8 percent at the primary level and 18 percent including manufactures based on agriculture), its dynamic behavior greatly contributed to the growth of the "business economy" and has represented a highly significant potential source of fiscal revenues. Figure 12 below shows the evolution of per capita revenues of the main agricultural activities in the Pampas. A clear acceleration of growth can be noticed since the

early 1990s. Technology adoption was a key ingredient explaining this growth pattern as will be shown below.

**Figure 12. Agricultural Production Value per Capita: Annual Value of Grain and Livestock Production per Capita, in Constant USD (2001)**



*Note:* Per capita production of the primary grain-livestock sector, valued at market prices, considering border or domestic prices according to product market destination (domestic market or exports, respectively). The red line represents the Hodrick-Prescott filtered trend.

*Source:* Authors' estimates based on market information and data from Secretaría de Agricultura, Ganadería, Pesca y Alimentos (SAGPyA).

Despite policy-derived restrictions and often short-term inadequate conducts, Argentina is structurally a nation with food surplus. Any potential conflict between wage-goods and exports has faded since the 1980s, when soybean and soybean byproducts became the main export products. The “green revolution” has also made possible significant surpluses of wheat and corn.

At the same time, however, Argentinean agriculture does not exhibit the characteristics of an abundant natural resource sector that, being exhaustible or composing the main production of the country, subjects it to international price fluctuations and risks that cannot be pooled in the economy. Instead, the agricultural sector is interrelated with the rest of the economy, and the linkages are quite important. For instance, sectoral employment (direct and indirect) represents

approximately 36 percent of total employment, including both primary and industrial activities (Nogués and Porto, 2007).

Finally, the characteristics of this important sector appear to facilitate the continuation of a short-term decision-making process, as agriculture provides a source of easily collected funds through “extraordinary” taxes when a crisis arises.

Macroeconomic policy has two main impacts on the agricultural sector. The first is a trade policy biased in favor of manufactures: effective protection in Argentina has been negative for agricultural activities over the long run.

The second impact involves the imposition of export duties or differential exchange rates on the sector. This has in turn amplified the effects of the negative protection stemming from high tariffs benefiting the manufacturing sector. Rural-urban transfer via export duties and differential rates prevailed well into the 1970s and 1980s, making it difficult for the farmers to modernize. These policy schemes to transfer income among sectors, including the State, have been re-installed in the 2000s. Since 2002, export duties grew to represent about 60 percent of total tax collection on exports and slightly more than 1.5 percent of GDP (representing half of the Argentine fiscal surplus objective at the time).

#### *4.2.2. The Role and Productivity of the Agricultural Sector*

The agricultural activity has been subject to export duties that have reduced its returns to levels sometimes well below the costs of production. Nonetheless, agricultural production has displayed substantial growth in the last three decades, and its productivity has kept pace with the international trend. Since the 1990s, the availability of new technology and a more favorable business climate have resulted in outstanding agricultural productivity has been outstanding. Over the 1980-99 period, TFP in agriculture grew at an annual rate of 2.2 percent, which compares very favorably with 0.95 percent in the United States and 1.29 percent in Australia (FIEL, 2001b).

To interpret how technology adoption developed in the farming sector independently of local economic scenarios, we must keep in mind that international markets have historically registered a long-run downward trend in the prices of farm commodities. Recognizing this trend, Argentinean producers have like others attempted to adopt new technologies that would enable them to remain competitive internationally.

There are important differences between the 1980s, the 1990s and the 2000s. These differences may be interpreted in terms of the available technologies and new private participants. In the 1980s, soybean production expanded following the international development of oil and feed markets, whereas the surge of “service contractors” allowed the introduction of new machinery, improving crop results and creating a new market for cropping services. In the 1990s, new GM seeds, particularly soybean, had a significant impact on the pattern of production in the Pampas. At the same time, new managers reorganized production and widened the financing sources for the sector, attracting investors from urban centers. Finally, in the 2000s these managers became entrepreneurs who built up international companies specialized in agricultural management. Currently, these new private actors coexist with small farmers that exhibit different productivity levels. However, technology adoption was general and the new actors helped to complete a rather complex but *flexible system* where all sort of contracts are available.

Some numbers help to illustrate the results of this evolution. Since the mid-1980s harvested hectares grew from 20 to 26 million (with some land counted twice for bearing more than one harvest), and crop volumes increased from 40 to 90 million tons. Productivity per hectare improved slightly in cattle production but climbed significantly in grain and oilseeds. Producers viewed the 1990s as a period of relatively low intervention, and they faced the forces of international markets largely on their own. For the first time in Argentina’s history, cattle production developed with only very mild fluctuations, private investment in machinery and infrastructure (storage capacity, feed lot facilities) increased, and fertilizers were adopted. The return to interventionist policies in the 2000s, however recreated the scenario of producer uncertainty and accelerated the adoption of soybeans at the expense of cattle. This phenomenon took place at a time when international commodity prices were quickly rising, and grain price was no exception. In fact, grain prices rose so quickly that even marginal areas were put into grain production at the expenses of cattle, sugar and regional products. The effect was so important as to displace part of the economic activity and urbanization growth from the Buenos Aires area towards Rosario and Córdoba in the center of the country. These changes involved new private and public actors (farmers from outside the Pampas and local governments in and out of the region), while traditional entrepreneurial representatives (such as the SRA) maintained their power.

More interestingly, data from the 2002 agricultural census allows us to estimate the rate of replacement between types of production in the five main provinces of the Pampas. As expected, soybean and cattle production compete for land, and for every three hectares devoted to soybean production in the margin, one head of cattle is lost.

The evidence presented above suggests the following stylized facts:

- a) As cattle-raising is a relatively capital-intensive form of agricultural production with little flexibility over time, reallocation of cattle production towards marginal areas or outright reduction of cattle stock is the producer's response to increased uncertainty due to public policy intervention.
- b) As a result of (a), the share of row crops in production is increased but is itself influenced by the availability of alternative technologies, as producers will prefer crops exhibiting cost-reducing technologies to crops tied to yield-increasing technologies.<sup>26</sup>

This behavior conforms to a rational response in the presence of increasing uncertainty by reducing types of production that are more exposed to taxation/confiscation. In the first instance, cattle production is reduced due to its less flexible and more capital-intensive nature. In the second instance, the production of wheat and corn is reduced, as these crops are characterized by yield-increasing rather than cost-reducing technologies.

In summary, export duties—or even the threat of imposing such duties—affect the agriculture firm's product portfolio choice and the quality and level of its investments. On the one hand, export duties discourage productivity-enhancing investments and the proportion of land devoted to crops related to them, like corn and wheat. On the other hand, they reduce the relative value of future profits to current returns, and henceforth negatively influence the long-run capital stock, mainly cattle. Consistent with these ideas, cost-reducing technologies such as zero tillage were adopted faster in Argentina in comparison with other producing countries such

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<sup>26</sup> A technological innovation is yield-increasing if it increases yields per fixed factor without modifying optimal variable costs per fixed factor. So a yield-increasing technology relies on increased variable inputs because it will expand the marginal physical product of inputs and therefore their application rate. Classic examples are modern seed varieties best employed with a package of chemical fertilizers and pesticides or irrigation that stimulate increased use of labor and fertilizers. A cost-reducing technological innovation, by contrast, reduces optimal variable costs per fixed factor but does not increase yields per fixed factor. So a cost-reducing technology saves variable inputs. Examples of this second type of innovation are genetic selection for pest-resistant crop traits and the development of more efficient types of livestock feed.

as the United States (Trigo and Cap, 2006). In the case of grain storage, which proved to be a binding constraint when the available harvest increased, producers quickly incorporated low-cost solutions (with smaller sunk costs) solutions like “bag silos.” Originally intended to help producers handle the transition to a new operating environment, those practices were ultimately adopted on a permanent basis. Yet, for the reasons pointed out above, various inefficiencies and biases still coexist with a very dynamic and productivity-enhancing primary sector.

#### *4.2.3. Underperformance of Argentine Agro-Industrial Development*

While productivity at the agricultural producer level has kept growing at a relatively strong pace, the negative consequences from inadequate policies nonetheless have a significant impact on Argentinean development. Policy discrimination and uncertainty imprinted a volatile composition to agricultural production and biased technology adoption, inhibiting a stable supply to the next actors in the chain of production: the agro-industrial sector.

To understand this damage, notice first that two activities dominate the agro-industry scenario: the traditional meat packers industry and the growing and internationally relevant vegetable oil industry. So, when compared to other countries with similar resource endowment, Argentinean agro-industry looks less developed and shows unexploited opportunities. Thus, in spite of being a competitive producer of corn, Argentina has not developed a relevant export activities in poultry and pork; prepared foods represent a very low share in total agro-industrial exports; and very specialized products or non-food products derived from agricultural goods supply are rarely manufactured and exported—among other deficiencies.

Illustrating these patterns, Table 8 below shows, for selected countries, the current importance of agro-industrial exports in total exports, agro-industrial exports per hectare of agricultural land, agro-industrial exports per capita, and the share of higher value added agro-industrial exports on total agro-industrial exports.



**Table 8. Processed Food and Agro-Based Products**

Average 2001 - 2005

Country	% of Total Exports	USD per hectare of agr. land	USD per capita	% of high value added / Total Food
Argentina	26.2	62.0	233.0	14.2
Australia	7.0	12.0	309.0	58.9
Brazil	11.3	34.0	57.0	9.3
Canadá	2.8	121.0	280.0	72.4
New Zealand	24.5	242.0	1,369.0	37.3
Uruguay	22.1	36.0	171.0	27.7

*Note:* Details on High Value Added Agro-based products is presented in the Statistical Annex.  
*Source:* Authors' compilation based on ITC / UNCTAD / WTO data.

The contrast is suggestive: while Argentina displays a higher share of agro-industrial exports in relation to total exports, it shows medium to low values in all other indicators. Particularly revealing is the lower share of higher value added products as compared to the other countries.

Finally, Table 9 presents an indicator of product diversification for agricultural exports, agro-based manufactures and leather products. In this case, Argentina is one of the less diversified exporters.

**Table 9. Argentina: Comparative Export Performance**

Product Diversification

Equivalent number of products 1/

	Fresh food and raw agro-based	Processed food and agro-based	Leather and leather products
Argentina	10	5	2
Australia	13	10	2
Brazil	7	7	6
Canada	23	39	15
New Zealand	15	10	3
Uruguay	5	10	1

1/ Inverse of Herfindahl index, based on SITC Rev. 3.

*Source:* Authors' compilation based on Trade Performance Index: ITC / UNCTAD / WTO.

The limited development of the agro-industrial sector may have deprived the country of a natural source of growth. The strategy that was actually followed, i.e., that of developing import-substituting manufacturing activity whose growth was partly financed through trade protection and subsidies transferred from the agricultural sector, has not shown good results.

#### *4.2.4. The Policymaking Process of the Agricultural Sector*

Considering the adverse implications of Argentinean macroeconomic policy for agricultural producers, the natural question is why were producers unable to avoid this burden by exerting pressure on successive governments in office to obtain more favorable treatment.

Several hypotheses have been proposed, and the most relevant and best documented are the following. First, under the endogenous tariff theory, the group of agricultural producers does not achieve the required characteristics (for instance, concentration and homogeneity) to conform a pressure group, and thus they are overcome by manufacturing and urban concentrated interest groups. Second, cattle breeders and large producers have heavily influenced policy design over time, and many members of these groups were at the same time well-known citizens with a say in public matters. The Argentine Rural Society (SRA) was a clear example of this kind of representation throughout the country's history. However, over time, the influence of cattlemen diminished due to the increasing importance of row crops in agricultural production, the division of large properties through inheritance, and the surge of competing producers' associations in locations nearer to producers. Finally, the increasing importance of alternative representatives of agricultural producers—and the lack of convergence between the interests of medium and medium-large producers as compared to small producers—made it very difficult to achieve a unique policy agenda. Moreover, governments occasionally “bought” the support of producers' associations by enacting policies appealing to their individual agendas. Nevertheless, there were critical episodes when the producers' associations came together to press for policy changes, most recently in 1993 and 2008.

It should also be noted that some mechanisms and practices have helped to compensate for policies that discriminate against agricultural producers. Probably the most important one is the sector's degree of elusion and evasion of other types of taxation, such as income tax or VAT.

As described above, private actors have been relevant in the technology adoption that has responded to changes in policy. This role has grown steadily since the 1990s with associations like the Argentine Association of Consortia for Regional Agricultural Extension (AACREA), or

representatives of agro-industrial chains (the Sunflower Argentine Association, ASAGIR; the Soybean Argentine Association; the Argentine Agroindustrial Forum; etc.).

The traditional representatives of the interest groups in the sector, like the Argentine Rural Society (SRA), the Argentine Rural Confederation (CRA), the Argentine Agrarian Federation (FAA) and the Inter-cooperative Agricultural Confederation (CONINAGRO), have only acted sporadically depending on specific policies that affected their members, but they have undertaken no serious effort to construct a minimal common agenda. Only under very onerous conditions of agricultural policy have these groups pressed their claims before the government. The recent episode of rejection of variable export duties provides an example in this regard, as the proposed adoption of mobile/variable export duties in March 2008 resulted in a dramatic open crisis. Producer riots extended for more than three months, paralyzing part of the economic activity in the country. Decisions made by the Executive were firmly opposed by the sector, and the President attempted to have those duties revalidated through Congress, where the initiative was ultimately rejected. At the time of writing, no stable solution has been reached regarding this and other issues protested by producers.

A similar story of long-term decline may be told about public actors managing agricultural policy such as the Secretariat for Agriculture, Livestock, Fisheries and Food (SAGPYA) or congressmen from provinces of the Pampas. They have lost their ability to influence policies over time due to the nature of the policies applied (taxes instead of technical promotion or better regulation) and lack of knowledge on new conditions in the sector.

Since 2003, the permanence and increase of export duties on agro-industrial products and the implementation of protectionist policies for urban food consumption has exerted a highly distortionary impact on investment and sector growth, engendering an exceedingly negative business climate.

#### *4.2.5. Concluding Remarks*

In this case study we have analyzed the evidence and literature available over a period of time where at least two regimes of agricultural policy were in place. In the 1980s, and since 2001, export duties have often been used address various macroeconomic problems, but they have generally been enacted after a major devaluation of the peso. In the 1990s, however, the sector faced true market conditions, and policy discrimination—though still present—was minimized

mainly to the negative effective protection stemming from tariff preference to the manufacturing sector. Each regime induced a different pattern of investment. While investment in fixed capital assets and a smoothing of the cattle cycle characterized the market-friendly episode, periods of policy discrimination toward the sector were characterized by reduction of cattle stock and rapid adoption of cost-reducing technologies.

No particular feature of the operation of the agricultural sector in the Pampas seems to contribute directly to the pattern of short-term policy decisions and consequent instability that characterizes the country. On the contrary, the business cycles of agricultural production and exports are smoother than those of manufacturing production. Paradoxically, the possibility of collecting substantial public revenues from the sector through extraordinary taxation such as export duties without facing strong opposition—and without a collapse in observed investments at the primary level—might encouraged politicians in office to rely on one secure source of financing for their objectives and even for their mistakes.

Large numbers of producers, different establishment sizes and differing technology levels, among other factors, have prevented the growing number of producers' associations from presenting a joint policy reform agenda. Only under very critical situations, like the recent episode of variable export duties, has this occurred.

Nevertheless, bad policies always have bad results, and in the case of Argentina these consequences are found in the relatively lower sophistication of the country's agro-industrial activities in comparison with countries with similar natural advantages.

While export taxes are highly distortionary, their effects are not always immediately shown in the average indicators. In fact, this lack of readily apparent impact has made such taxes attractive to public opinion, as they apparently only affect windfall gains by producers that can be distributed without cost to the society; confiscatory policies are reflected primarily in the value of land. Furthermore, sunk investments other than land (whose accumulation is unavoidable ex-ante and can thus be "perfectly" confiscated), might turn out to be lower in the agricultural sector than in the rest of the economy (examples of this include zero tillage and bag silos). Thus, while Argentina's agricultural sector has repeatedly been subject to confiscatory policies, the impact of those policies on agricultural productivity—considering only direct effects on the primary sector—could be relatively small due to the "unique features" of the sector.

## **5. Public Goods and Local Governments: Drawbacks Consistent with National PMP**

In this section we propose that the main characteristics of Argentina's national-level PMP are replicated in the local policy arena. Concretely, we show that coordination among small local municipalities, though quite necessary for providing key local and regional public goods demanded by SMEs, tends to be very limited.

Local governments' (LGs) difficulties in reaching successful coordination and cooperation have several causes. On one hand, the efforts made are limited by the short-term bias emerging from the national PMP and dependence, both in terms of resources and legal restrictions, on higher levels of government. On the other hand, intrinsic features of the local arena (limited technical capacities, exacerbated localism, etc.) might add obstacles to productivity enhancement. Overall, as shown here, local actors also behave with short-term biases. In that regard, we show that the negative features of the national PMP imply, and are consistent with, sacrifices in productivity emerging from short-term biases and insufficient provision of public goods by LGs.

Our approach is the following. First, we assume that the fragmentation of LGs (*infra-municipalismo*) requires successful coordination at the local level in order to provide some local or regional public goods (including infrastructure, promotion of technology adoption, exports, cluster promotion, associative policies, information collection and dissemination, etc.), which have minimum scales beyond the size of the smallest LGs, and are particularly important to allow various decentralized decisions and investment efforts by private actors, ultimately leading to improvements in productivity. Second, we examine various coordination efforts involving LGs to assess their contribution to the provision of those local or regional public goods. In doing so, we notice that such efforts have mostly been ineffective. Taking a closer look at a small group of those cases, we draw some possible hypotheses about their failures and successes. Finally, we conclude.

### **5.1. General Overview**

LGs are not negligible in terms of consolidated fiscal accounts—they undertake 10 percent of total public expenditure and almost 15 percent of public infrastructure spending, most of which is financed by transfers from higher levels of government. Clearly, the lack of taxation authority

limits LGs' possible influence on economic activity, with both benefits and drawbacks for politicians. While *intendentes* (hereafter called "mayors") do not need much financing from their voters, they lack the ability to garner political support by initiating projects. Moreover, in addition to the negative impact of conflictual vertical relations between governments at national, provincial and local levels, the latter is characterized by "*infra-municipalismo*"—the existence of a huge number of very small local governments. In fact, more than 82 percent of LGs have fewer than 10,000 inhabitants.

Regarding local development policies undertaken by LGs, some authors argue that they have emerged as the only viable line of action during economic crises due to the passivity of national and provincial administrations (Villar, 2007; Cravacuore, 2007). In many cases, municipalities offered solutions to citizens' demands even when those claims exceeded the scope of municipal powers or resources, only later asking higher levels of Government either to play their role or to decentralize political, economic and administrative authority.

There is consensus among researchers that insufficient or inappropriate financing, infrastructure, human capital and management, and a lack of planning—among other problems faced by LGs—may be solved by complementing each other and/or gaining economies of scale. To date, although there have been many attempts at cooperation (see Table 10), sustainable and effective cooperation on local development has been the exception rather than the rule.

The characteristics of the cooperation-coordination agreements display the expected results. As cooperation initiatives depends on the willingness of the parties involved, they do not succeed when they have been imposed by the circumstances and undertaken without much conviction in an environment of insufficient social capital. The success of such initiatives depends as on the presence of certain conditions and capabilities. Perhaps foremost among them is obtaining legal recognition for any entity resulting from an initiative, as such recognition is required to obtain and audit resources, sign agreements and represent consortium members.

**Table 10. LG experiences of Cooperation by Province**

Province	Experiences	Inactive*	Previous to 2000	Cases of superposition**
Bs.As.	23	23	11	25
Cordoba	4	4	1	0
Corrientes	10	10	7	16
Chaco	8	8	0	1
Chubut	2	2	0	0
Entre Rios	6	6	s/d	2
Formosa	1	1	0	0
Jujuy	4	4	0	3
La Pampa	1	1	0	0
Mendoza	5	5	1	0
Misiones	3	3	0	0
Neuquen	4	4	2	6
Río Negro	3	3	2	0
Salta	3	3	0	0
Santa Fe	9	9	3	21
<b>Total</b>	<b>86</b>	<b>86</b>	<b>27</b>	<b>74</b>

*Note:* Some interprovincial LG cooperation experiences are not mentioned.

\* Those that have been entirely dismantled.

\*\*Number of LGs taking part in more than one cooperation experience.

*Sources:* Based on Secretaría de Asuntos Municipales/Ministerio del Interior and Villar (2007).

A review of the main features of a large share of initiatives has enabled us to select a small number of them for closer study and still reach comprehensive conclusions. Various dimensions have been considered in the selection process. First, we looked for diversity regarding provinces, as their legal frameworks might vary. Second, we considered whether a particular case was representative of a repeated experience. Third, we took into account the presumed success of each case. Out of all the cases considered, however, we could find only one that seemed to be successful (for the time being), which should be kept in mind in order to weight the corresponding frequencies in the country at large.

Several, if not most, of the development coordination initiatives have been designed at the federal or provincial levels (e.g., micro-regions<sup>27</sup> and productive corridors), thus lacking local support and generating doubts about both their effects and their inter-temporal continuity. The fact that some LGs have engaged in different coordination efforts, even with the same objective,

<sup>27</sup> A micro-region is a voluntary association of municipalities to manage services, formed on the basis of proximity and relational criteria.

should also be highlighted. In the center of the Province of Buenos Aires, for instance, there are municipalities involved with up to three different coordination mechanisms.<sup>28</sup>

The institutional characteristics and attributes of the municipalities that cooperate are also relevant. The Province of Córdoba, which is the most affected by *infra-municipalismo*, gives generous powers to its municipalities and fosters flexible regionalization alternatives<sup>29</sup>—seems to have generated a favorable climate for sustaining association initiatives, with presumably positive effects on productivity.<sup>30</sup> The search for political projection—beyond local or even regional levels—by the main promoter(s) of the initiative appears to be an additional ingredient for success.<sup>31</sup> At the same time, however, the accumulation of power at the local level is difficult to achieve when some political players fear a challenge to their own dominated spaces (or “backyards”). Ideally, a mayor’s efforts to promote a project should not imply competition with neighboring mayors or provincial authorities. This is seldom the case, however. Given the instability of the national PMP—whose deficiencies include but are not limited to a lack of permanent institutions and the absence of clear and sustainable long-run oriented rules—the political strategies of local leaders are extremely locally-biased, short-sighted and competitive, minimizing cooperation with neighbors. Even associations with institutions based on generation of knowledge and research have been difficult. Municipal authorities end up being seen as one more source of subsidies for firms, and each municipality generally works with firms on its own. Thus, even lobbying efforts prove unproductive (Cravacuore, 2007).

## **5.2 Cases Considered**

### **5.2.1 Associativism and Productivity: The ENINDER Case**

The ENINDER (Intermunicipal Entity for Regional Development, or Ente Intermunicipal para el Desarrollo Regional) was officially constituted in 2000 following an initiative undertaken by the mayors of five cities in the Province of Córdoba (see Figure 13). It is a legally independent public entity with the capacity to contract public and private legal obligations. Although the body initially acted in response to a request from the Provincial Government, it continued even when

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<sup>28</sup> This could be a sign, on the one hand, of reduced operability of the cooperation mechanisms involved. On the other hand, this could also reflect complexity in the design of cooperative agreements and/or a lack of planning.

<sup>29</sup> Córdoba also seeks to limit problems arising from “infra-municipalismo” by creating micro-regions, though this process has generally not succeeded so far.

<sup>30</sup> The fact that the province’s Constitution dates only from 2001 might probably explain a more decentralized and LG-oriented approach.

<sup>31</sup> See, for example, Cravacuore (2007) and Villar (2007).



the commitment ceased as a consequence of the 2001 economic crisis. Its continued existence thus depended on the will of municipal governments and their constituents, as agreements had to be confirmed by their Municipal Councils.<sup>32</sup>

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<sup>32</sup> In 1999, following a decision by former governor De la Sota (PJ), cooperation agreements between LGs materialized. At the same, there began a direct relationship between the provincial Executive and LGs, which previously required intermediation by the provincial Senate. The latter development represented a turning point, as the main promoter of ENINDER (the then and current mayor of Villa María, Mr. Eduardo Acastello) was later on a minister of the provincial government as well as an influential politician in the province. In fact, the initial capital of ENINDER was composed of non-refundable funds from the provincial Treasury.

**Figure 13. Córdoba Province – ENINDER LGs**



Villa María	S. M. Laspiur	Olaeta
General Deheza	San Esteban	Arroyo Cabral
La Carlota	Asunta	Etruria
Las Perdices	Alicia	Chazón
Alejandro Roca	Colonia San Bartolomé Colonia	Bengolea
Huanchilla	Prosperidad	General Cabrera
Ausonia	El Arañado	Chucul
La Palestina	El Fortín	Ucacha
Los Cisnes	Las Varas	Villa Reducción
Luca	Las Varillas	Silvio Pellico
Santa Eufemia	Sacanta	Arroyo Algodón
Ticino	Quebracho Herrado	Pozo del Molle
Tío Pujio	Villa Nueva	Colonia Marina
El Rastreador	Los Zorros	La Laguna
Pacheco de Melo	Carnerillo	Pasco
La Playosa	Charras	

The entity has grown from five founding members (representing a population of about 115,000 in 2001) to include 47 municipalities and communes with a total population of 215,000 inhabitants at present. *Infra-municipalismo* in the region is patent, as average population is little over 4,550 inhabitants per LG, falling to only 3,025 inhabitants when Villa María is left aside.

ENINDER' LGs are located in the neighborhood of the agro-food industrial corridor of the province of Córdoba. The food industry, particularly dairy products, accounts for the highest number of companies in the region, especially dairy products. Agro-machinery is the other relevant economic activity in the area.

The purpose of the Association is to assist its members, either directly or through third parties; provide public services; construct public works; design joint financing strategies; foster private investment; recover credits; reduce costs; increase tax collection; systematize, robotize and locate undertakings; and engage in any other task connected with the improvement of the zone and its inhabitants' well-being. In pursuit of these goals, the Association engages in joint management and actions to strengthen local and regional development, as well as community-related purchases. The overall intention of the body is to create the best possible conditions for private sector activity. Additionally, the Association has successfully lobbied for federal financing and other resources and has engendered links with the local knowledge sector.

ENINDER has always been strongly propelled by local political leaders, and this impulse which persisted independently of leaders' political affiliation, showing that initial competition and even antagonism between mayors was overcome by the expected benefits of the associative process.<sup>33</sup> After almost 10 years of existence, however, ENINDER's continued success is not ensured, as it still depends largely on individuals rather than institutional stability. Villa María's mayor still plays an extremely powerful role, while several of the other mayors could be called "amateur politicians."

The case of ENINDER clearly shows a successful coordination effort among municipalities with the purpose of promoting development. Even though the precise results cannot be measured (not least because the counterfactual has not been discussed), they seem to be quite positive regarding public works, facilitation of trade activities, reduction of firms' costs

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<sup>33</sup> At present, for example, the mayors of Villa María and Las Pérdices represent Unión por Córdoba (PJ), while a mayor from UCR is the head of General Deheza (Vicepresident) and La Carlota (Secretary) is governed by the Unión del Centro Democrático. At the same time, although there's a high rate of reelection between local authorities, at present, almost 35 percent of the mayors are in office for the first time.

and execution of projects connected with strengthening the activities of dairy farms and related industries. It is also worth noting that the agreement could bypass political differences and displace localism in the search for economic development. Yet, while this case suggests that cooperation among LGs can indeed take place, it gives some positive expectations regarding the possibility for such cooperation, the ENINDER experience's unique traits might make it difficult to replicate.

### *5.2.2. CIDETER: A Cluster and the Public Policies that Promoted It*

In the center-south of the Province of Santa Fe, the south of Córdoba and the north of Buenos Aires, there are over 700 small and medium companies that manufacture agricultural machinery and parts. In 1994, a group of them created CIDETER (Regional Center of Research and Technological Development or Centro de Investigación y Desarrollo Tecnológico Regional) to bring together SMEs in the sector. Only in 2000, however was CIDETER legally recognized. Previous cooperation experiments help to explain its success, particularly CONSUR-Santa Fe, an export consortium made up of five firms in the same sector that were managed by the same people that later managed CIDETER.

The number of participating firms grew to 343 in 2007, representing slightly less than half of the 722 companies in the sector. Almost one third of the companies are found within a 50km radius centered on the cities of Las Parejas (where CIDETER is based), Armstrong, Las Rosas (Santa Fe province) and Marcos Juárez (Córdoba). According to CIDETER, and shown in Figure 14, all the parts required in the manufacturing of agricultural machinery can be found in a 100km radius, which is mentioned as a key factor for success. It should also be noted that CIDETER firms are located in medium or small cities. The three municipalities in Santa Fe have populations between 10,000 and 13,000, while Marcos Juárez is over 24,000.

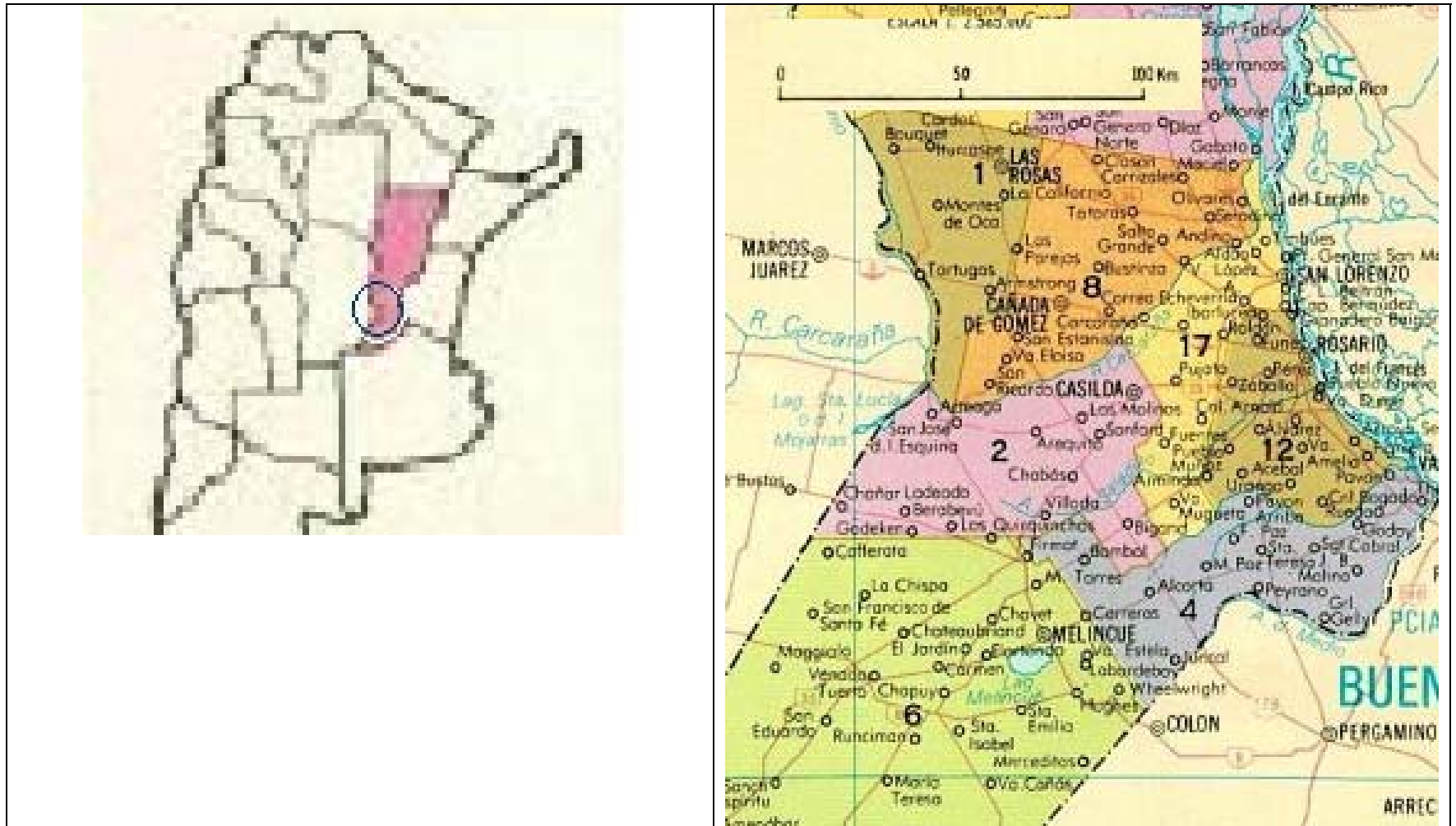
CIDETER has both commercial and productive objectives. It undertakes activities to foster the commercialization of member companies' products of the member-companies, both to domestic and foreign markets and promotes associations to improve product quality and

innovation. CIDETER additionally works to increase productive investments, encourage the integration of the productive chain, and facilitate worker training.<sup>34</sup>

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<sup>34</sup> An example of success and innovation in this cluster is Proaso, a company created in 2005 by 15 associates from this area who sought to design, manufacture and commercialize innovative agricultural machinery. Its first project was an axial harvester with 85 percent domestic parts that was designed to minimize damage to grain and achieve higher yields than traditional reapers. A model was completed in 2007 and won the Tenaris 2008 Award, which will shortly allow production to begin.

Figure 14. CIDETER location



These activities are basically financed by accessing different public, generally National-level resources. Table 11 shows the approved and in-process projects for the 2003-2007 period: El Fondo Tecnológico Argentino (FONTAR), a unit of the national Ministry of Science, Technology and Productive Innovation, (MinCyT)—has contributed 91 percent of financing in this period through Non-Refundable Contributions and fiscal credit and loan programs. If the Program for Company Restructuring (also within MinCyT) is added, the percentage rises to 93.4 percent. When resources from the Secretariat for Small and Medium Enterprises (Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional, SEPyMe) are added, direct financing from national resources reaches 94.4 percent. Provincial resources are scarce, and municipal resources seem non-existent.

In short, then, the objectives promoted by the public sector are basically linked with technological and productive innovation, and its financing comes mainly from the National Government. LGs' participation, though formally called for in programs such as PI-TEC (*Proyectos integrados de aglomerados productivos*), has been largely limited to consultation. The provincial government, for its part, has provided through its Science and Technology Secretariat technical support in applications for PI-TEC subsidies.

**Table 11. Total Approved and in Execution Projects, 2003-2007**

Financing Source	Institution	Type	Amount (\$)	Share
ANR	FONTAR	Non reimbursable	23,472,260	29.2%
PI-TEC		funding	22,143,800	27.5%
CF (F)		Tax Credit	20,283,708	25.2%
CAEFFIP		Loan	7,222,055	9.0%
PRE	SECyT / IADB	Non reimbursable funding	2,012,065	2.5%
CFI - Sta Fe	CFI	Loan	3,103,839	3.9%
ADIMRA TICs	ADIMRA / IADB	Loan	1,111,500	1.4%
CF (S)	SEPyME	Tax Credit	847,844	1.1%
Innovation Law			259,942	0.3%
<b>Total</b>			<b>80,457,013</b>	<b>100.0%</b>

Source: Authors' compilation based on MinCyT data.

Municipalities seem to lack the human and technical resources to offer significant support in the same areas as provinces and the National government. Therefore, support from LGs is

usually driven by the particular demands made by CIDETER in areas where the cluster considers that they can be helpful, such as granting the lands to build the technological center (as happened in Las Parejas). Furthermore, the relationship among municipalities is competitive rather than cooperative. In fact, once the construction of the technological center in Las Parejas started, the mayor of Armstrong wanted to build his own center in his city; the cluster then agreed to provide part of the related services in that district. Constitutional restrictions on LG powers in Santa Fe may also explain why LGs have little or no influence over the creation and management of the cluster.

Recently, though, the draft of the Law for Regionalization in the Province of Santa Fe designated the city of Venado Tuerto as head of one of the regions, and this measure could stimulate inter-municipal cooperation in the area where most of the cluster companies operate. Moreover, Santa Fe is only province with an export consortium law (N°12119, 2003) establishing benefits for such entities made up of SMEs and cooperatives of the same or complementary sectors.<sup>35</sup>

In this way, in the case of CIDETER the business sector has been able to coordinate itself to generate synergies through the creation of a cluster, mainly financed through subsidies granted by the National government. LGs have played only a secondary role, becoming involved on an individual basis and only when compelled by circumstances to do so. LGs have not proposed any coordination initiatives to favor the development of a highly promising sector, not even through coordinated lobbying before higher levels of Government. The limited powers of municipalities in Santa Fe present an additional constraint on efforts to improve local development, especially through cooperation. In this environment, the dependence of private initiatives on national-level resources and public policies might undermine their continuity.

### *5.2.3 Productive Corridors in Buenos Aires*

In the early 1990s, the government of Buenos Aires Province identified a group of regional areas with different degrees of economic linkages, gave them economic support and some (weak) degree of institutionalization. During the first part of the decade, 92 municipalities were gathered

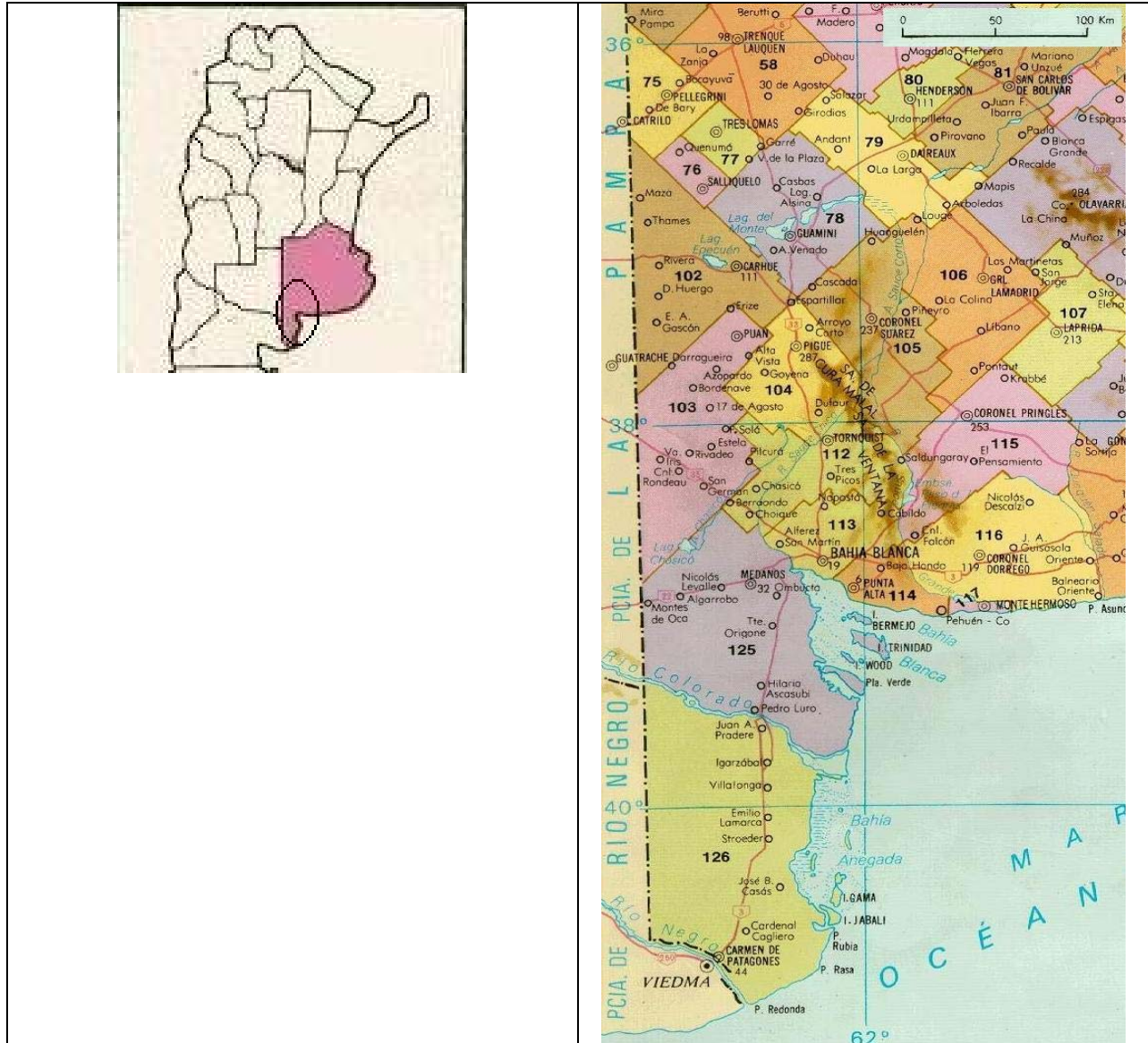
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<sup>35</sup> Some of the benefits include tax and fee exemptions for the formation of consortia, credits and guarantees provided for by National and Provincial legislation, technical and scientific assistance, training of businesspeople in foreign commerce, and support for participation in fairs, trade missions and expositions. An export consortium operates in the Departments of Las Parejas and Armstrong.



together in 13 consortia (Choconi, 2003), one of them being the Productive Consortium of the Southwest (COPROSO), shown in Figure 15.

**Figure 15. COPROSO Area**



LGs experienced considerable difficulties in overcoming their weakness in their isolated negotiations with the provincial government. Moreover, decentralization did not extend to allowing LGs to generate their own revenues; most municipal resources come from co-

participation in tax revenues and from discretionary grants.<sup>36</sup> These grants are also subject to informal agreements depending on financial shortages, each municipality's bargaining power and, of course, its political ties with the governor. All these mechanisms create great dependence on and subordination to the provincial level, especially among local governments with low negotiation power (i.e., electoral relevance).

This situation discouraged the possibility of implementing associative strategies that would enhance the consortia's lobbying capacity. Therefore, consortia existed as long as there were national and provincial programs targeted to them. In addition, consortia's legal structure lacked the juridical capacity to generate or manage other resources, sharply hurting their potential success. COPROSO, created in May 1993, benefited from huge resources from the Federal and Provincial Governments to build a road to the Port of Quequén for the purpose of facilitating primary production for export. Nevertheless, the economic incompatibility between districts, especially the tourism-oriented and primary sector-oriented ones, made it almost impossible to reach an agreement on the distribution of available funding, and therefore many projects died in the planning stages. Long distances between members are also mentioned by actors as one of the main factors leading to the failure of consortia.

The rapid failure of consortia resulted above all, however, from a lack of technical capacity and political vision. Additionally, there is strong evidence of mismanagement of consortium resources.<sup>37</sup> Previous records show that productive corridors did not tend to operate as a jurisdiction independent from the municipality, that they did not execute common policies and that the small amount of activity that took place was mainly linked to small and economically irrelevant projects.

The lack of a regional standpoint was also reflected in the fact that the approval of the projects was based on individual feasibility rather than a regional development plan to encourage productive linkages. Moreover, there was no control or follow-up mechanism for the projects, and there was no public access to information related to them. Municipalities involved lacked the

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<sup>36</sup> It is worth noting that in Buenos Aires, municipalities lack autonomy. Although they have very recently been allowed to associate in consortia, they do so under a strict legal framework and depend on provincial-level resources. Therefore, this case is closer to what occurs in Santa Fe than in Córdoba.

<sup>37</sup> In September 2001, in a report from SIGEN (the National Auditing Bureau), the internal audit agency states that the COPROSO had unexecuted funding, showed irregularities in its accountability, did not have an adequate technical and administrative capacity and showed delays in the execution of productive projects. Furthermore, according to a ruling published in the Official Gazette in September 2002, two former presidents of the COPROSO Administration Council were fined for not fulfilling regulations related to the accountability of the 2000 fiscal year. This event triggered the dissolution of the already inoperative COPROSO in 2002.

legal capacity to achieve joint goals, since they did not have a possibility to give a legal status to their joint bodies administrating cooperation agreements. Only in May 1999 did Law N° 12.288 grant LGs a general framework that was helpful in this respect.

In conclusion, while the COPROSO's dissolution was triggered by mismanagement, the productive incompatibilities and long distances between member municipalities made it impossible to carry out the consortium's activities. It should be added that numerous municipalities adhered to different cooperation schemes. These facts, along with the weakening of the provincial government's support, are cited as the reasons for the breakdown of other corridors such as CIDERE and COPROA. In other cases such as COPROBA, COPRODER and ZCC (*Zona de Crecimiento Común*), political and legal misunderstandings between their members have represented the main causes of inactivity and subsequent breakdown: COPROBA was dissolved soon after its constitution (between 1996 and 1997), and the other corridors were terminated between 2002 and 2005 (although they were apparently probably inactive long before their formal dissolution).

### **5.3. Conclusions**

Throughout the previous discussion we identified various restrictions that institutions and the national and provincial PMPs impose on local development, particularly regarding the dependence of LGs on upper level resources and the decisions—frequently discretionary—made in the national and provincial arenas. Faced with these restrictions, LGs generally undertook development policies only as a response to a sudden demand from their populations. Furthermore, though *infra-municipalismo* calls for coordination among LGs in order to enhance local development, only very few of the numerous partnership experiences that emerged throughout the country have prevailed over time and seem to have been successful according to their own goals.

A number of facts emerging from the preceding analysis should be highlighted. First, a strong determinant of the success of a cooperation agreement has to do with its origin: a cooperation agreement arising from the consensus of its members (“bottom-up”) seems to be more rewarding than one born from the imposition of higher levels of government (“top-down”). This is as expected, since the latter generally lack conviction, inter-temporal consistency, social capital and a regional vision (which ultimately is the main determinant of effective

implementation). At the same time, a lack of consensus inherently restricts coordination. The experience examined here shows that most of the initiatives were designed at the federal or provincial levels, missing the advantages offered by the “bottom-up” approach.

Second, the variety of characteristics and attributes of the municipalities engaged in the coordination action is vital. Provincial legislation that provides flexible options for association and/or regionalization creates an environment conducive to the emergence of sustainable initiatives and, consequently, a positive impact on regional economies. This legislation provides the needed juridical frame to obtain and manage resources, decide how to use them, and design the control and penalization mechanisms as well.

Third, the viability of a successful agreement appears to be shaped by the sort of income and financing on which each of the LGs depend, the degree of discretion to which this income is subject, and the influence of each LG on tax compliance.

Fourth, the search for political projection beyond the local level and the personal incentives of the partners are additional keys in understanding the surge and functioning of the cooperation efforts. In those experiences where mayors are seeking to extend their influence outside their own neighborhood, results have generally been more positive.<sup>38</sup>

Given the experiences analyzed, the clear link between the processes of association and productivity gains should be highlighted. The ENINDER initiative, although probably not replicable, represents the clearest example of beneficial cooperation in both the private and public sectors. Private-sector benefits included cost reduction after the implementation of the Primary Zone Customs and the establishment of an ONCCA office, and facilitating linkages and organizational improvements within the manufacturing sector.

The CIDETER experience, on the other hand, clearly shows the difficulties faced by LGs in promoting local development when operating under a constraining legal framework with limited powers and resources. However, the LGs have engaged in the initiative by following the

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<sup>38</sup> In addition to these general observations, some other inferences can be posted:

- Technical capabilities of the LGs in many cases have been exceeded, harming the expected outcomes of the cooperation process. Mismanagement, coupled with the emergence of various irregularities, also marked some of these processes.
- Differences in production structures, along with other features such as the geographical distance between cities, also seem to produce a negative impact on integration efforts.
- The usual political disputes between mayors and an exacerbated localism have been damaging, too.
- Survival may be too risky and failure too frequent, meaning that the sustainability of the projects will depend on the development of structures that become stronger than the leader(s), when projects are pushed forward thanks to the strong personal commitment of a bunch of leaders.

demands of the private sector as much as their means have allowed, without additional cost to the program.

Finally, the whole analysis of this section illustrates that PMPs at the local level not only depend on those at the national and provincial spheres, but that they replicate the main features of the latter. Thus, exploring public coordination actions to foster local development helps to understand the burden that Argentina's PM imposes on productivity at various levels of government. At the same time, the lack of planning at the local level mirrors the short-term bias observed in the national PMP.

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**Interviews with actors (Section 5):**

Omar Berruet, Current Chief of Cabinet, former Mayor of Coronel Pringles; Román Vera, Director of Municipal Issues (Director de Asuntos Municipales), Buenos Aires Province; Germán Rau, Production Secretariat, Saavedra, Buenos Aires Province; María Isabel Borghi, Manager, CIDETER; Edgard Bernaus, ENINDER Director; Marina Beinotti, former representative at ENINDER from Las Varillas.