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**Economic Liberalization, Political Democracy, and Social Justice in Argentina**

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This paper intends to present a brief study of the process of economic liberalization underway in Argentina since the transition to democracy in 1983 and of its impact on the social welfare of the population. It examines the consequences of the shift toward market policies in terms of the reconfiguration of Argentina's economic and political structures and the effects of these transformations on the country's social conditions, particularly considering changes in employment, distribution of income, levels of poverty, health, housing and educational circumstances against the background of the declining socioeconomic and political situations that culminated in the critical conjuncture of the 1980s.

In Argentina, the exhaustion of the process of import substitution industrialization (ISI) combined with external shocks, population growth, high inflation, growing foreign debt, and political instability contributed to impair the economic and social conditions throughout the 1970s and 1980s. By the early 1990s, after multiple authoritarian and democratic governments had failed to reverse these trends by applying populist, monetarist, and heterodox economic strategies, the Menem administration (1989-1995/1995-1999) implemented a new program for economic stabilization and structural adjustment that included important neoliberal components. This market-oriented strategy relied on promoting trade and financial liberalization, imposing fiscal discipline, privatizing state enterprises, deregulating economic activities, and pegging the newly created local currency (the *Peso*) to the dollar. This program was able to control inflation, reduce fiscal deficits, foster the growth of export-oriented activities, and increase productivity. In the political realm, economic stability helped to consolidate the democratic regime while, at the same time, making it possible for Menem to gather the support necessary to amend the constitution and be reelected for a second presidential period. However, these same policies had a negative impact on social welfare as they engendered high rates of open unemployment and underemployment, declines in real wages and social coverage, further reduction in the number of industrial workers, increases in the proportion of self-employed and service workers, decrease in the labor organizations' strength, and perpetuation or worsening of inequitable income distribution patterns. In political terms, these social problems generated growing opposition to Menem during his second administration, particularly as accusations of corruption against government officials and judges multiplied, and the president attempted to circumvent the constitutional norms to be able to run for an unprecedented third tenure.

### ***The Argentine Political Economic Setting: Structural Problems, Socioeconomic Tensions, and Restructuring Setbacks.***

The neoliberal economic program implemented in Argentina in the 1990s represents the most radical attempt to overcome the exhaustion of the existing economic models after successive military authoritarian administrations and civilian democratic governments failed to reverse the negative trends associated with the exhaustion in the 1960s of the import substitution industrializing strategy. The decline of Argentina's ISI started in the late 1950s when economic stagnation and the saturation of the domestic market by locally produced light manufactures indicated the need to promote the production of consumer durable, intermediate and capital goods. The changes in economic strategy resulting from this situation --which included IMF-sponsored adjustment programs aimed to reduce the growing balance-of-payments deficits, the creation of incentives to attract foreign capital and technology, and stabilization plans aimed at reducing inflation--affected the nationalistic and redistributionist premises of the Peronist regime contributing to its demise and led, between the late 1950s and early 1970s, to a succession of failed attempts by developmentalist military

and civilian governments to restructure the Argentine economy (Di Tella and Dornbusch, 1989; García Vazquez, 1995; Peralta Ramos, 1992; Smith, 1989). However, the semi-democratic and authoritarian administrations established during this period maintained the state interventionist policies while trying to shift the country's industrialization strategy in a direction which combined relative protection and support for local producers with incentives for foreign investment in an attempt to increase exports (especially of manufactures) and foster international competitiveness. These attempts failed as a result of adverse international and domestic economic trends and situations such as the relative scarcity of foreign investment, global recessions, unfavorable trade and financial environments, high inflation, hard currency shortages, and state mismanagement. Meanwhile, the struggle among socioeconomic groups interested in preserving or augmenting their respective shares of the national income remained centered on the state which was seen as an instrument for the attainment of their sectoral goals. As a result, inflationary pressures, social conflict and state paralysis were intensified worsening the economic crisis and heightening political instability (Portantiero, 1987).

Throughout this period the economically active population grew steadily but, at the same time, the number of adequate job opportunities declined as industrialization faltered and agricultural activities became more capital intensive (Lo Vuolo, 1994). However, unemployment rates remained relatively low because these trends were countered by a growing incorporation of workers into the services sector (particularly commerce and construction), a decline in foreign immigration and rural-urban migration to the established industrial areas (migrants looked more for job opportunities in provincial cities and less in the Greater Buenos Aires) as well as by the "withdrawal effect" caused by a decline in real wages that might have fallen below the reservation wage of some labor market participants (Riveros and Sánchez, 1990: 29-31). Moreover, job opportunities in the federal public sector and state enterprises remained high while there was a sustained increase in the number of provincial employees, particularly in the poorer districts. As a result, a trade-off between productivity and income, and employment developed as the less productive and lowest paid occupations became the main generators of employment while the more dynamic ones (modern industry and agriculture) registered very low or negative rates of job creation (Lo Vuolo, 1994).

The extensive network of social services that had been consolidated during the Peronist era remained in place although it began to show clear signs of financial stress. Thus, the health and recreation agencies controlled by the trade unions --the "*obras sociales*"-- continued to provide services to their members but gradually their quality declined, particularly in the case of the smaller and less powerful organizations. The educational system also faced financial problems and, although literacy rates remained relatively high in comparative terms with the rest of Latin America, the decreasing amount of resources was especially reflected in the decline of the infrastructure of the elementary and intermediate school system and teachers wages and a noticeable deterioration in the public university network. The financial difficulties affecting the social security system were reflected in the continuous reduction of the real value of pensions (particularly those received by the lowest paid workers), a situation that different administrations failed to solve and that was aggravated by the chronic inflation. Meanwhile, inequality in the distribution of income worsened, as an important negative trend --fostered in part by inflation-- affected the real wages of urban workers in the years following the fall of Peronism in 1955. In the 1960s and early 1970s, income inequality increased at a slower rate, resulting mainly from a growing concentration of income in the upper strata and a proportional decline in middle sector earnings. (Orsatti and Beccaria, 1986).

After Peron's fall, the General Confederation of Labor (CGT--Confederación General del Trabajo), its provincial affiliates, and many individual labor unions were able after a short period of disarray to regain sufficient strength as to prevent dismissals in the private and public sectors through the enforcement of labor laws and collective bargaining regulations (stability in the job, high severance payments, etc.) as well as by the use of strikes, demonstrations and other forms of direct action. The strength of organized labor made it very difficult to implement policies that could affect unionized workers interests, witness the collapse of the elected Frondizi, Illia and Perón administrations facilitated by growing union opposition as well as the inability of the 1960s military governments to remain in power when faced with widespread labor protests. Thus, both civilian and military regimes tried to accommodate labor demands, particularly those related to full employment and social benefits, although this was often done at the cost of declining productivity (by state and private firms) and real wages (by workers).

In 1976, the dramatic socioeconomic and political crisis fostered by the Isabel Peron administration led Argentina's economic elites and military to conclude that this political economic impasse resulted mainly from the incapacity of post-1955 administrations to escape from the populist and statist mold. The military and their civilian backers believed that the unrestrained use of force combined with the loosening of the free market forces --up to then fettered by the existence of an interventionist state and a semi-closed economy typical of the import-substitution industrialization strategy-- would not only create the conditions for renewed economic growth but also discipline the social actors' behavior destroying the socioeconomic and political basis for the emergence of populist and corporatist experiments (Canitrot, 1979). In a free market, open economy most socioeconomic groups and organizations would perceive the futility of trying to influence public policies in their favor because it would be the market, and not the state, that would assume the role of allocating resources and distributing income eliminating, as a result, the high levels of mobilization that in the past affected governability and led to the implementation of state-led and protectionist economic strategies. Those groups unable to abandon their traditional state-centered practices would be the target of repressive measures that would eliminate them as meaningful actors in the socioeconomic and political arenas. After this transformation was completed, the military rulers and their allies expected that a modern market economy will be consolidated and that, in the long term, a semi-authoritarian political regime with limited elections will be established without jeopardizing economic stability.

However, the restrictions imposed by the armed forces on the economic team's ability to reduce military budgets and privatize state enterprises, the application of misguided economic policies (especially the strategy of "foreign exchange rate lag" that led to the overvaluation of the peso), the persistent refusal of the economic agents to modify their expectations and behavior in the anticipated direction, adverse international conditions after 1979, and the eruption of the debt crisis in 1982 made it difficult in practice to implement this approach and the regime collapsed amid growing economic problems, foreign debt crisis, political turmoil, and the Falklands-Malvinas military fiasco (Schvarzer, 1981, 1983; Sourrouille and Lucangell, 1983; Vacs, 1986: 265-366).

During this period, the military government labor policies, although aiming to destroy the power of the unions through repression of labor leaders and the takeover and weakening of their organizations, were not intended to promote economic adjustment through massive dismissals in the private or public sector. Thus, to

prevent socioeconomic and political tensions, they tried to maintain high levels of employment, refusing to impose drastic cuts in public employment while easing the transition of wage and salaried workers to self-employment by offering high severance payments. Their policies, however, succeeded in changing Argentina's socioeconomic structure by generating deindustrialization, reducing the power of organized labor, dividing the middle sectors, creating conditions for the growth of new leading capital sectors (made up of large horizontally diversified and vertically integrated domestic economic groups and foreign corporations linked to the local and export markets) and the elimination of declining ones (which specialized in a single activity and produced for one specific market), and reducing the state commitment to social and economic policies favorable to domestic oriented producers and low income groups (Aspiazu, Basualdo and Khavisse, 1986; Filgueira, 1984; Nun, 1987; Villareal, 1987).

In this context the military government initial freeze on wages and salaries followed by inadequate raises decreed by the state or resulting from “micro-bargaining” at the level of the firms resulted in a decline of the real income of the lower paid workers and employees in the private and public sectors and a growing gap between the earnings of the highest and lowest paid members of diverse groups (i.e., managers vs. workers) and sectors (i.e., financial vs. industrial). At the same time, the process of deindustrialization, facilitated by the exchange lag and the liberalization of trade, and the decline in economic activity, particularly after the outbreak of the financial and debt crises in the late 1970s and early 1980s, led to the continuous increase in the numbers of unemployed and the multiplication of underemployed temporary workers whose income fell below the poverty line. In the social area, educational and health services were negatively affected by the policies implemented by the military government. In the educational area, the decay of the physical infrastructure continued while the ratio of students per teacher, particularly in the elementary sector, increased. In the health area, although expenditures increased in certain sectors, the low income sectors were affected by the decay of the public hospital system, the introduction of fees (“*aranceles*”) for a number of health services, including consultations, hospital stays and medications, and the growth in the number of people without unionization (unemployed, self-employed, etc.) who could not have health coverage through the *obras sociales*. Housing policies had a similar negative impact on the low income sectors because although the number of houses built with state funding continuously increased between 1976 and 1983, the conditions of payment made it very difficult or impossible for the poorer sectors to gain access to adequate housing and, after the economic crisis exploded, for those involved in the housing programs to repay the loans. (Marshall, 1988)

Thus, the Argentine society that emerged from the authoritarian period was much more fragmented than the one in which, before 1976, different socioeconomic and political organizations were able to advance their interests by influencing state policies. There was also a weaker state that had less resources and capacity to control the economic variables and affect social circumstances through its intervention. As a result, although the military regime had failed to consolidate a market economy and establish a long-lasting conservative political regime, it had brought about some of the conditions in which a neoliberal political economic transformation could be attempted in a democratic context.

### **Democratic Transition and Frustrated Heterodox Attempts (1983-1989).**

The elections of October 1983 resulted in the unexpected victory of the Radical party and the presidential inauguration of Raúl Alfonsín (1983-1989) whose electoral promises included the strengthening of the democratic regime through the respect for constitutional norms and human rights and the abandonment of the liberal economic model favored by the authoritarian rulers. Initially the Alfonsín administration tried to fulfill its socioeconomic pledges by implementing an economic program with Keynesian components (Machinea, 1990; Smith, 1990; Vacs, 1986: 367-393). This program was expected to facilitate economic growth and stability as well as a moderate redistribution of income through a general agreement on wages and prices accompanied by state intervention to promote investment and exports and a negotiated reduction of payments on the foreign debt. The attempt collapsed after a few months amid growing inflation, capital flight, stagnation and socioeconomic conflict fostered by the refusal of domestic labor and capital sectors as well as foreign banks and international institutions (such as the IMF) to support it. The weakened state inherited from the military lacked capacity to control key economic variables and to impose or promote any pact among the socioeconomic sectors that dominated the market (financial speculative institutions and large economic groups) or preferred to fight for their economic shares in a traditional way (labor, middle sectors, small and medium farmers and industrialists).

Some attempts were made during this initial period to revert the most negative social situations inherited from the military administration. In 1984 the Alfonsín administration introduced the National Food Program (Programa Alimentario Nacional --PAN) aimed at reducing the nutritional deficiencies that affected the poorest sectors (Golbert, 1993). This program offered poor households a box containing basic food supplies that covered 30% of the monthly calories consumed by a standard family. Although initially designed as a temporary device that would be eliminated after two years when the economic situation improved, the perpetuation and, after a while, the increase in the number of destitute households forced the administration to renew the PAN program until the end of the Alfonsín administration in 1989. There were also attempts to improve the health conditions of the poorer sectors by remodeling the system of primary health services increasing funding and transferring control over health centers to the municipalities with the intention of improving community-based services and ameliorating preventive health attention.

In June 1985, the original Keynesian economic program was discarded and replaced by the *Austral Plan*. This program combined several orthodox stabilization measures --raises in public tariffs and taxes, decrease in public expenditures, privatization of state enterprises, monetary stringency and a commitment not to print more money to finance the public sector, substantial devaluation, and introduction of a new currency, the *austral*, pegged to the dollar-- with some unorthodox ones --wage and price freezes, scheduled deindexation of debts, and fixed real interest rates. Initially, the plan succeeded in stabilizing the economy and improving the government's popularity: the monthly rate of inflation fell from around 30% to less than 3%, the exchange rate remained stable, and the international reserves increased.

However, after a few months, the distributive struggle and the sectoral pressures on the administration intensified as inflation began to rise --the CPI grew around 7% monthly after July 1986--, mainly because of the failure to reduce the fiscal deficit. Developments in the external sector contributed to worsen the economic situation: the relative prices of Argentine major agricultural export products declined in 1986 and the value of Argentine exports fell by more than 16% while, in 1987, Argentina's foreign debt reached US \$56 billion with interest payments of US \$3.9 billion (Vacs, 1990).

In this context, organized labor demanded raises to compensate for the decline in real wages whose purchasing power declined close to 17% between 1984 and 1987 (Muchnik, 1993: 49). Industrialists asked for lower interest rates and taxes, lifting of price controls and new subsidies for industrial promotion. Agricultural producers demanded the elimination of export taxes for their products, lifting of price controls, reduction of government expenditures and an end to the governmental transfer of resources from the agricultural to the industrial sector. The commercial associations requested the lifting of price controls and the establishment of a free market environment while the financial groups called for free interest rates and more participation of the private banks in the renegotiation of the foreign debt. The governmental attempts to satisfy some of these demands led to contradictory and ineffective policies, including wage raises and the lifting of price controls.

Meanwhile, fulfilling an agreement between government and labor sponsored by the International Labor Organization, a congress was held to reorganize the CGT. Peronist labor leaders won a majority and formulated a populist program that called for a moratorium on foreign debt interest payments, wage and pension increases, full employment, credits for the industrial sector, and adequate prices for agricultural products. The new CGT leadership reflected some of the changes in the composition of the Argentine working class that had taken place during the 1976-86 period showing an increase in the number of moderate service and public sector union leaders and a decline in the number of industrial delegates. Some of these leaders negotiated an agreement with the government and one of their members, Carlos Alderete, was appointed Minister of Labor. During Alderete's tenure as minister between April and late September 1987, the labor movement was able to make some gains (Gaudio and Thompson, 1990). The administration sent to Congress a package of labor legislation which satisfied some demands of the union leaders. These bills included those regulating collective bargaining, social services provided by the unions and the organization and rights of trade unions. The latter was particularly opposed by the entrepreneurs because it allowed large numbers of union delegates in the workplace, offered to these delegates job security and protection against dismissal without judicial authorization, and guaranteed the right to strike and "adopt other direct action measures". The entrepreneurs also rejected the collective bargaining mechanism as too favorable to labor and the increase in employers' contributions to social service funds administered by the unions. As promulgated these laws consolidated the political, economic and social power of organized labor and established the basis for a temporary recovery of the corporatist role played by the CGT and unions in Argentine society.

However, the CGT's attempts to force the government to decree general real wage raises were met by a refusal to promote massive wage increases that could result in inflation, entrepreneurial discontent, and loss of external support. By mid-1987, facing a new inflationary upsurge and an intensification of the distributive struggle, the government concluded that the "heterodox" economic programs had failed. The minister of economy, Juan V. Sourrouille, denounced the "populist and facile model...closed... centralized and statist" and announced a neoliberal economic package aimed to open and deregulate the economy, privatize public enterprises, reduce the size of the state and cut public expenditures (Vacs, 1990). However, inflation continued to climb (174.8% in the CPI in 1987), the GNP grew less than 2%, the fiscal deficit remained around 9% of the GNP, and real interest rates remained high. In August 1988, the government reacted by implementing a new economic program labeled the "*Spring Plan*" which included some measures tried before and a few novelties (Machinea, 1990). The "Plan" relied on the signing of voluntary agreements between the government and industrialists and retailers to stabilize prices. These groups accepted a temporary freeze on prices in exchange

for the administration commitment to reduce public expenditures and money supply and freeze public services tariffs and import duties. A multiple-tier exchange market was created, with a lower rate of exchange for agricultural exports in an attempt to control the expansion of money supply, and higher rates for non-traditional exports to promote diversification and economic modernization.

Initially these measures resulted in a reduction of the inflation rate, in part because the private and public sector had raised their prices and tariffs in anticipation of the freeze, creating a temporary buffer. However, the continuous opposition of the agricultural exporters to the exchange policy, the inability of the government to significantly reduce the fiscal deficit, and the growing reluctance of producers and retailers to respect the price agreements led to renewed inflationary strains by early 1987. The Radical defeat in the September 1987 elections showed that the political gambit of incorporating Peronist labor leaders into the administration was no longer effective. The government was not able to rely on this tactic to increase its popularity nor could the labor leaders perceive any advantage in remaining in the cabinet. The temporary alliance collapsed and the traditional lines of battle between labor and government were once again clearly drawn.

Meanwhile, as the economic situation worsened, real wages declined, social services deteriorated, delays in salary payments multiplied and unemployment grew. Workers purchasing power declined further as nominal wages adjustment fell behind the rate of inflation. In the Great Buenos Aires, poverty rates that had remained relatively stable between 1980 (20.6% of poor households) and 1986 (21.4%) jumped up to 26.2% in 1987, with a small decrease in the number of "structural poor" accompanied by a huge rise in the number of the "new poor" or "pauperized" (a category comprising former working and middle class individuals and families that as a result of the crisis experienced an acute downward mobility until becoming impoverished) that doubled from 6.3% to 12.3% between 1986 and 1987 (Minujin and Kessler, 1995: 78). Although similar data is not available for the interior of the country, it is logical to assume that similar trends affected the provincial populations as the crisis of the regional economies was extremely acute.

In September 1988, the CGT organized a general strike accompanied by street demonstrations to oppose the Spring Plan. The level of absenteeism was high but a demonstration in front of the presidential palace led to violent confrontations with the police. A call for a second strike to protest the repression was not supported by some important labor leaders and Peronist politicians who feared new violent incidents. The Peronist leadership was especially concerned with the impact that this violence could have on the undecided voters and tried to disassociate itself from it. As a result, the new strike failed and afterwards, heeding Menem's wishes, the CGT changed tactics and avoided new calls for general strikes. Localized conflicts in different sectors continued but without leading to open violence. Organized labor opted for bargaining with the government and was able to secure moderate wage raises. In December 1988, Congress passed a bill that reestablished union control over the *obras sociales*, the institutions providing health and vacation services to workers and which are financed with obligatory contributions from employers and employees. In exchange, the administration gained congressional approval for a national health insurance system. The year ended with the CGT strengthening its corporate power while playing again the traditional role of organizing and mobilizing support for a Peronist presidential ticket. The Radical administration had been unable to change this pattern



but, at least, the climate of confrontation with labor subsided and the electoral campaign proceeded in a peaceful manner (Vacs, 1990).

Nevertheless, a military revolt in December 1988 and a leftist attack on a military garrison in January 1989 created political uncertainty leading to pressures on the exchange market, increasing prices and fostering shortages. The run on the exchange market upset the administration's capacity to maintain an overvalued exchange rate. In February 1989, with the Central Bank reserves practically depleted and interest rates rising to 20% monthly the government was forced to admit the collapse of the "Spring Plan" and to announce a new set of short-term policies (Majul, 1990). The Central Bank announced the suspension of its sales of hard currency except for essential imports and allowed the exchange rate to rise freely (around 50% in one week). At the same time, it was announced that public sector tariffs and wages would rise 6% monthly and that a similar rate of price increases would be authorized in the private sector.

The resentment of the economic actors who had trusted the government's repeated promises of refraining from a devaluation and the loss of credibility associated with the surprise announcements made it impossible for the administration to renew the agreement with the private sector for the maintenance of controls on price increases. In the following two months, the economic situation deteriorated rapidly. The dollar rose around 175% although interest rates climbed to 24% monthly. The CPI grew 9.6% in February and 17% in March. In late March the pressure of socioeconomic groups combined with political developments (rise of Menem in the electoral polls and public calls for changes in the economic cabinet made by the Radical candidates) led to the resignation of the economic cabinet.

However, the new economic authorities were unable to reverse the economic trend. After a brief decline the dollar continued to rise (100% in April), commercial banks interest rates rose to 60% monthly, and the CPI grew 33%. Successive attempts to control the situation by creating a free exchange market, reintroducing price controls, and diminishing money supply by issuing new government obligations failed. Uncertainty was aggravated by the imminence of the presidential elections as each sector tried to protect itself by using different means: rise in prices and interest rates, run on the dollar, strikes for higher wages, refusal to supply goods and services, and lockouts. In the week prior to the election the dollar rose 24%, interest rates skyrocketed to around 100% monthly, and prices grew more than 50% (Vacs, 1996).

The Peronist victory in the general elections was predictable and Carlos Saul Menem secured 51.7% of the presidential votes. Following the election, the progressive paralysis of the Alfonsín administration combined with the misgivings concerning Menem's vague economic and social promises worsened the crisis. In less than one week the dollar jumped 65%, short-term loan rates fluctuated between 180% and 300% monthly, and prices and tariffs went up another 50%. Frantic attempts made by the administration to reach an agreement with the Peronists to manage an orderly transition, anticipate the transfer of power, and obtain support for some economic stabilization measures failed. A one-week bank and exchange holiday was decreed in late May was followed by a growth of close to 100% in the dollar exchange rate and a jump of interest rates to around 150% monthly. The enormous increase in prices was not accompanied by a similar raise in wages, igniting a social explosion that resulted in violent demonstrations and looting of supermarkets and food stores and the declaration of the state of siege. In June, the CPI rose 123%, the dollar 170%, and the monthly rate for

commercial bank loans reached 195%. At the same time, it was estimated that industrial production had declined 25% since June 1988 and that the purchasing power of wages had fallen 60% in the same period. Finally, on June 12, Alfonsín addressed the nation and announced that he and the vice-president, Victor Martínez, considering the critical juncture and the impossibility of reaching an agreement with the elected authorities had taken the unilateral decision of resigning their offices as of June 30 to facilitate Menem's early inauguration (Garfunkel, 1990).

At this time social conditions in the country had become catastrophic, particularly among the lower income sectors. Income distribution inequality had already become extremely by 1988 with the lowest 20% of the population receiving 4.6% of the income while the upper 20% absorbed 50.5%. In 1989 the number of poor in the Great Buenos Aires had reached an unprecedented 41.1%, with 17.8% of structural poor and 23.3% in impoverished households (Minujin and Kessler, 1995). Unemployment and underemployment rates had climbed to 8.1% and 8.6% respectively by April/May 1989. (Jabbaz, 1995). The purchasing power of wages declined to 60% of what it had been in 1984. Retired people were harshly hit, first by the stringent fiscal policies, and then, by hyperinflation with their inadequately adjusted pensions losing most of their real value. In this context, all socioeconomic sectors were anxiously waiting for the new administration to implement policies that could result in a reversal of the critical situation.

### **The Menem Administration and the Consolidation of Neoliberalism (1989-1997)**

After his inauguration Menem surprised many of his followers and adversaries alike by embracing the neoliberal economic policies he had denounced during the presidential campaign. The promises of huge wage raises and of a "productive revolution" based on the revival of the domestic market during the electoral campaign were replaced by a neoliberal economic program to be executed by some of the most representative figures of Argentina's conservative elites and orthodox economic thinking. The initial measures conformed a severe program for economic stabilization and structural adjustment, aiming primarily to contain hyperinflation which involved a devaluation and the elimination of subsidies; the lifting of restrictions on foreign investment; reduction of public expenditures to attain a balanced fiscal budget; privatization of state enterprises including the phone, airline, and railroad companies; and tax reform (Acuña, 1994; República Argentina, Ministerio de Economía, 1989). However, they also included a freeze on wages and salaries and on prices in exchange for a state commitment to maintain stable public tariffs, interest and exchange rates.

Meanwhile, Congress passed the state reform and economic emergency laws to facilitate the creation of a free market economic system (Garfunkel, 1990: 239-249). The state reform law authorized the administration to privatize a large number of state enterprises and services including, among them, the phone, airline, railroad, shipping, coal mining, and highway companies, the postal and insurance services, the public television and radio stations, and several petrochemical companies. The economic emergency law reduced the industrial and mining promotion subsidies and the preferential purchase regime for local manufactures, suspended hirings and authorized dismissals in the public sector, and canceled some special salary systems for state employees. Most labor organizations which were under Peronist control and had participated in the electoral campaign supporting Menem but some labor leaders refused to forego the possibility of strikes under a Peronist administration. After the inauguration, Menem loyalists among union leaders were appointed to

important positions in the administration and unconditionally backed the administration policies (El Bimestre, 1989a, 1989b). Organized labor split into two rival organizations weakening its traditional ability to influence policies: the loyalist sector fully supported the economic plan, including its adjustment and privatization components; the opposition group stated its support for Menem but announced that it would continue to fight for higher wages and against dismissals in the private and public sector.

Meanwhile, the exporters' opposition to the exchange policies resulted in growing reluctance to exchange their export earnings in the Central Bank, forcing the administration to announce substantial reductions in the export taxes applied to agricultural and industrial products. After a brief truce, business groups, dissatisfied with the inability of the administration to reduce the fiscal deficit and contain the growth of money supply, started to raise prices. External support (from the IMF, World Bank and developed countries governments) also faltered due to these problems as well as the governmental incapacity to accelerate the pace of the privatization process.

Faced with this growing opposition, Menem replaced the minister of economy but reaffirmed his decision to continue with the application of the neoliberal program including state reform, privatization and deregulation, and opening of the economy until the final establishment of a "popular free market economy". The preservation of some corporatist mechanisms (such as the voluntary price truce and the negotiations with the unions), the maintenance of state controls over the exchange market, protectionist tariffs and industrial subsidies, and the reluctance by different sectors to abandon the model of state-led growth in a semi-closed economy were seen as the main obstacles for the completion of this task.

The new economic measures implemented in late 1989 reflected the governmental decision of quickening the pace of economic liberalization: establishment of a completely free exchange market, removal of all price controls, elimination of the increase on export taxes, the conversion of public debt obligations into dollar denominated bonds, and a small wage raise (Clarín, 1989a). Subsequently, when faced with a new inflationary surge, other emergency policies eliminated the commercial bank short-time deposits and forced their conversion into ten-year dollar denominated bonds, froze public utility rates, and emphasized the government's determination to halt the expansion of the money supply by reducing the fiscal expenditures (Clarín, 1990a). This resulted in an abrupt decrease in liquidity accompanied by a decline in the exchange rate and a rapid rise in interest rates. The GDP declined 2.7% in the first quarter of 1990 with the manufacturing output falling 14% and construction plummeting 34%. In these recessionary conditions, high interest rates and a persistent demand for money rekindled the inflationary pressures. Prices climbed fast --the CPI rose 79%, 62% and 95% in the three first months of 1990-- with interest and exchange rates following suit while real wages plunged --in March 1990 average industrial real wages were 24% lower than in December 1989.

The economic team tried to check the hyperinflationary spiral by implementing another emergency package. This fiscal adjustment plan included a moderate increase in export and capital gain taxes and the application of a value-added tax to most transactions; daily indexation of all taxes; suspension of payments to state suppliers and contractors for public works; elimination of more than 100 state secretariats and under-secretariats and closing of state banks; termination of Treasury financing of public deficits; early retirement of civil servants and suspension of the collective bargaining contracts for public employees; and renewed

commitment to privatize most state enterprises (Clarín, 1990b). This tough adjustment package restored some degree of public confidence in the government's economic strategy and inflationary pressures subsided but did not disappear. In early September, worried about the possibility of a new inflationary surge, the government announced tighter controls on the expenditures of the central administration and state enterprises, dismissals of public employees, increases in the prices of fuels and public tariffs, elimination of remaining tax exemptions and indexation of tax payments, acceleration of the process of privatization of state-owned companies, and consolidation of the domestic public debt into 10-year adjustable bonds (Clarín--edición internacional, 1990b). As a result of these measures, the rate of inflation began to decline, with the CPI increasing 4.7% in December 1990.

The stringent monetary and fiscal policies, the growing trade surpluses, the increase in Central Bank's reserves and its repeated interventions in the exchange market contributed to stabilize the exchange rate. The cuts in public spending affected the quality and availability of public services (particularly health, education, and justice) but generated operational surpluses for the Treasury, reducing the quasi-fiscal deficit and contributing to curb the expansion of the monetary base. The trade surplus rose to unprecedented levels -- around 7.8 billion dollars by the end of 1990-- helped by an increase in exports and a decline in imports attributed in part to the recession (Clarín--suplemento económico, 1991b). The level of reserves increased giving the Central Bank the opportunity to regulate the exchange rate through commercial operations in the exchange market. However, the disparity between a relatively high rate of inflation and a declining exchange rate led to a sharp revaluation and a corresponding rise in real prices, especially those of food, clothing, and public services. An important consequence of these stabilization and adjustment policies was the continuation of the downtrend in the economy. Total investment comprised less than 50% of the capital necessary to replace obsolete equipment. The gross domestic product declined around 3.0% in 1990 while the industrial GDP was 4% less than 1989 (Clarín--suplemento económico, 1991c). To reduce the deficit the privatization program began to be implemented at a firmer pace (Manzetti, 1992; Menem and Dromi, 1990; Verbitsky, 1991). The national phone (ENTEL) and airline (*Aerolíneas Argentinas*) companies, the railroad services in the main grain producing areas, sections of the federal highway system, and of the national petroleum company (YPF) were rapidly sold. The minister of economics was put in charge of all the state enterprises with a presidential mandate to control spending, reduce the number of employees, and speed up the process of privatization. The haste with which the plan was devised and the lack of adequate regulatory provisions resulted in allegations of improprieties and corruption, inadequate valuation of the assets owned by the state companies, and large number of dismissals.

Meanwhile, social conditions deteriorated. Average real wages declined 3.5% in 1990. Open unemployment remained around 6% in the second semester of 1990, while the combined rate of unemployment and underemployment reached close to 14%. In early 1991, it was estimated that the average wage of unskilled and skilled industrial workers was sufficient to purchase only 72% and 79% respectively of a minimal basket of essential goods and services (Aronskind, 1990; Clarín--suplemento económico, 1991a). It was estimated that by 1990 more than 15 million people lived under the poverty line making it impossible for them and their families to meet their basic needs. The decline in the income of the low and middle income groups generated the consolidation of the expanding category of "new poor" while the increase in the transfer of income between strata was reflected in a growing concentration of income among the most affluent sectors of the population

(INDEC, 1990; Lauro, 1990a, 1990b; Minujín, 1992; Minujín and Kessler, 1995). It was estimated that in 1989 and 1990 in the Great Buenos Aires the participation in the national income of all the quintiles, except the richest one, had remained unchanged or worsened with the upper 20% taking 52.5% of the per capita secondary income in 1990 (Lloyd-Sherlock, 1997: 38-39). This growing inequality in the distribution of personal income was accompanied by a crisis of the regional economies, especially in the poorer provinces that were the most affected by the federal budget cuts. The elimination of federal subsidies, the suspension of payments for the exploitation of natural resources, the cancellation of the systems of industrial promotion, and the transfer to the states of health, educational and financial responsibilities imposed new burdens on the provincial governments that in some cases led to fiscal, economic, and political collapses (Sawer, 1996).

Earlier on attempts were made to address some of these social problems but the constraints imposed by the stringent fiscal policies and a good dose of governmental mismanagement made it difficult to overcome the difficulties. In 1989, the Menem administration replaced the PAN with a new program called the National Solidarity Emergency Voucher (Bono Nacional Solidario de Emergencia --BNSE) that offered poor households vouchers that could be used to purchase food and clothing (Golbert, 1993; Lloyd-Sherlock, 1997). However, this program was soon discontinued amid widespread charges of corruption and political manipulation in the distribution of the vouchers that led to the resignation of the secretary of Health and Social Action. In 1990, faced with a growing number of people with unsatisfied basic needs (estimated around 770,000), the Buenos Aires provincial government implemented its own nutritional program, the Integral and Solidarity Food Program (Programa Alimentario Integral y Solidario --PAIS) aimed at the creation of multifamily dining halls but this approach was only effective in ameliorating the situation of the poorest marginal sectors residing in the slums.

At the beginning of 1991, a number of situations that included charges of widespread corruption (particularly the accusations of bribery against high officials made by the U.S. ambassador), renewed inflationary pressures, less than expected fiscal revenues, and the rise of the dollar indicated to Menem the convenience of replacing the economic minister while reinforcing the neoliberal program. The new minister, Domingo Cavallo, was a former Central Bank president during the military government and had advocated market liberalization and an outwardly oriented strategy of growth instead of the traditional Peronist approach based on state intervention and the expansion of the domestic market (Cavallo, 1982; Cavallo, Domenech and Mundlak, 1989).

Cavallo's economic package --the "*Convertibility Plan*"-- completed the neoliberal turn: a new currency was created, the *peso*, freely convertible in dollars at a parity rate of 1 for 1; the more rapid privatization of public enterprises and a debt for equity plan were announced as well as massive dismissals in the public sector; the Brady Plan was accepted as the means to reduce foreign debt; and taxation reform and further opening of the economy were promised (Gerchunoff and Torre, 1996; Minsburg and Valle, 1995; World Bank, 1993). Later in 1991, a comprehensive executive decree deregulated most of the economy and established a free market environment lifting regulations concerning transportation, professional and commercial activities, import and export trade, financial transactions, collective bargaining, and social security arrangements while most official regulatory agencies were abolished.

Cavallo's economic policies succeeded in accomplishing some impressive results: inflation was contained (the CPI rate of growth declined from 84% in 1991 to 3.9% in 1994), the GNP grew at an annual rate of 7.7% in the period 1991-94, consumption increased 40%, the fiscal deficit was eliminated, the rate of exchange remained unchanged, privatizations moved forward, and capital inflows increased spectacularly (Gerchunoff and Torre, 1996). Convertibility, however, meant that the economic authorities lost the ability to control the monetary and exchange variables fostering a growing vulnerability to external shocks, particularly those related to short-term capital flows (Valle and Marcó del Pont, 1995). At the same time, the program reinforced the trends toward regressive income distribution, concentration of wealth and oligopolization of the economy, facilitated import growth and hindered exports leading to a growing trade deficit, and failed to reduce unemployment (Minsburg and Valle, 1995). Although wage-earners were favored by the price stability (particularly in terms of food consumption and purchase of durable goods on credit), those working in sectors open to external competition suffered a decline in their real wages (10% in industry between 1991 and 1994) and levels of employment (Gerchunoff and Torre, 1996: 23-24). The middle sectors, in turn, were affected by the higher cost of private services --especially education and health-- and of the newly privatized public services.

Meanwhile, by 1993 unemployment rates began to rise steadily, passing from 6.9% in 1992 to 10.8% in 1994, and hourly underemployment rates increased from 8.3% to 10.4% in the same period (Jabbaz, 1995: 321). At the same time, since 1993, labor demand fell below the rate of growth of the economically active population with a larger number of workers moving into the informal sector. This lack of adequate employment growth, at a time when the economy was expanding rapidly (in the period 1991-1994, the economy grew 34% but employment only increased 5%) has been attributed either to the rigidities created by labor legislation --as the government believed and tried to correct by introducing more flexible rules-- or to a continuous growth in productivity in the more modern firms accompanied by the closing or size reduction of the less competitive ones --as the administration critics believed (Barbeito and Rodríguez, 1995; Lozano and Feletti, 1995; Monza, 1995). It was also argued that the job cuts resulting from the reductions in public employment and in jobs in the privatized enterprises contributed to the decline in family incomes and forced new groups (especially older and younger people, and women) to search for jobs, increasing the numbers of those actively seeking employment. It was also asserted that the reduction in import tariffs and the relative overvaluation of the local currency favored the importation of capital goods and inputs, reducing the cost of capital relative to labor and facilitating the use of capital intensive technology and imported inputs over labor intensive activities and locally produced materials.

In this context, the strongest opposition to the neoliberal program emerged among public sector employees who were threatened by dismissals and led to strikes and demonstrations. In the private sector, trade unions were reluctant to engage in a direct confrontation with the government and employers as long as unemployment rates remained high. Perceiving these divisions and the generalized weakness of the labor movement the administration refused to budge and reacted forcefully against its opponents dismissing state workers, imposing obligatory conciliation in conflicts in the private sector, and recognizing the pro-government branch of the labor confederation as the only legal representative of the workers (Clarín--edición internacional, 1990a). A bill limiting the right to strike of public and private workers employed in health services, public utilities, telecommunications, public transportation, education, and justice administration was sent to Congress and, after a majority refused to pass it, the measure was enacted by presidential decree in October 1990

(Clarín--edición internacional, 1990c). Afterwards, new measures were promulgated that further weakened labor's capacity to challenge the neoliberal policies: new rules for collective bargaining decentralized the negotiation process and eliminated state intervention; labor contract laws were modified making it possible for employers to change the conditions of work, fringe benefits, and wages; wage and salary raises were tied to increases in productivity; and new legislation limited the capacity of the trade unions to control the social coverage institutions (*obras sociales*) that provide health and recreation services for workers which had traditionally been the main source of funds for organized labor (FBIS, 1992a, 1993).

Nevertheless, political support for the stabilization features of the program remained high as the Peronist victory in the 1991 congressional elections demonstrated. Meanwhile, the neoliberal policies were generating structural, market-oriented transformations that seemed irreversible: the interventionist state and the distributive socioeconomic coalitions that had been the basis of the populist and developmentalist experiences of the past were no longer viable as the processes of deregulation, opening and privatization unfolded. Thus, in November 1992, a general strike organized by some labor leaders --but disowned by the pro-Menem groups-- to demand higher wages and full employment failed. Menem denounced it as an attempt by labor leaders who lived in the past "to play some role in the leadership of the state" adding that,

they can hold one or 20.000 strikes, but they can alter neither our path, nor the economic model, nor the proposals we are submitting to the parliament to make the labor legislation more modern and flexible (FBIS, 1992b).

Popular support for the administration's strong stance on the maintenance of the economic program was confirmed in the congressional elections of September 1993 in which Peronist candidates obtained 43% of the votes (against 30% of the Radicals) and were able to win nine extra seats in the lower chamber. Interpreting these results as a confirmation of his popularity, Menem called for a constitutional reform convention that would permit his reelection. Negotiations with the president of the UCR, Alfonsín, resulted in an agreement in which, in exchange for supporting the reform, the opposition obtained the president's promise to replace three pro-Menem Supreme Court justices for less partisan personalities and a commitment to support constitutional provisions aimed to limit executive power, create the post of chief of cabinet, shorten mandates, reform the judiciary, and reinforce controls on the administration. Although both Peronists and Radicals obtained less votes than, in the past their combined majority in the constitutional assembly secured the passing of the reform, including the presidential reelection amendment.

The 1995 elections resulted in a major victory of Peronism, a tremendous defeat for the Radicals, and an encouraging outcome for an emerging political coalition, the *FrePaSo* (*Frente para un País Solidario*--Front for a Country in Solidarity) made up of leftist groups, Peronist dissidents and some provincial center-left organizations (Clarín, 1995). Menem was reelected for the 1995-99 term with close to 50% of the votes while Peronism won most congressional and gubernatorial races. The Radicals gathered less than 17% of the votes, falling to the third position in electoral terms and losing a number of congressional seats and provincial governorships. The *FrePaSo* obtained close to 30% of the votes doubling its congressional representation. Most smaller parties and coalitions performed badly with the exception of a few provincial parties that were able to gain some congressional seats.

The 1995 vote confirmed the preference of the population for the continuity of an administration that had secured economic and political stability. It also showed the Radical inability to overcome the negative consequences of the hyperinflation, social turmoil and political debacle characteristic of the final months of the

Alfonsín administration. The electoral rise of the *FrePaSo* made it clear, however, that a significant portion of the population opposed the administration policies and would prefer the application of a less orthodox economic strategy aimed to generate employment and income redistribution; less stringent social, educational and health programs; different military and human rights policies; and more control over the Executive's actions.

After Menem started his second presidential period in July 1995, the economic situation began to deteriorate. The Mexican crisis of December 1994 --with its massive devaluation, dramatic capital flight and recession-- had a devastating effect on Argentina whose economic program was seen as a replica of the Mexican one and consequently prone to similar problems. The so-called "tequila effect" sowed fears that the Argentine government might also announce a massive devaluation and, as a result, financial capital flew (an 8 billion dollars flight), interest rates skyrocketed, and an economic crisis characterized by illiquidity, fall in investment and consumption, and general recession began to develop (Bouzas, 1996). As a result, in 1995 the positive economic trends were reversed --the GNP declined 4.4%, consumption faltered, the fiscal deficit rose as tax revenues diminished, and a financial crisis emerged-- while the negative ones worsened --declining employment, regressive income distribution, and external vulnerability.

Throughout 1995 and 1996, the continuous rise in unemployment, the decline in workers' income, and the growing political and social discontent generated by these developments became critical political economic problems for the administration. Amid the 1995 recession, unemployment reached a record 20% in May before diminishing to 17.5% in October. Economic recovery in 1996 did not result in a significant improvement in the situation: on the contrary, in May the unemployment rate was 17.1% while in October it reached 17.3%, even if the economy was expected to grow 3% by the end of the year (Clarín--suplemento económico, 1996a, 1996c). Compounding the problem was the fact that hourly underemployment also increased steadily during this period, reaching 13.6% in October 1996 (Clarín--edición internacional, 1996b). As a result, it was estimated that more than 30% of the economically active population was affected by employment problems. At the same time, real wages declined between 15% --including fringe benefits-- and 10% --excluding them-- since 1994 although labor costs, according to the administration and several analysts, remained high in relative terms (Bour, 1995; Lozano and Feletti, 1996).

Attempts were made to use public social expenditures to correct some of the most conspicuous social problems affecting the low and middle income sectors, particularly in the areas of health, education, housing, nutrition, and social security, and to generate new job opportunities. Thus, it has been estimated that between 1991 and 1996 public social expenditures grew 85%, outpacing the growth of total public expenditures (65%) and the GNP (60%) in the same period (Boragni, 1998; República Argentina, 1994). However, there was according to many experts, including some governmental ones, a marked inefficiency in the distribution of these expenditures that only partially benefitted the poorer sectors. An important proportion of these public expenditures (around 30%) benefitted the richest groups, particularly because they included a substantial proportion of social security payments and health services that went to these sectors. Moreover, it was pointed out that mismanagement in the areas of health and social promotion resulted in a very inefficient use of resources and the existence of important proportions of loans granted by the World Bank for these purposes that remained unused. Finally, educational expenditures also had a questionable impact as a substantial proportion was devoted to the public universities, benefitting the higher income groups while reducing the resources available for elementary and secondary education that could help the less affluent sectors.



Meanwhile, faced with the political and social repercussions of the declining economic situation, which included a resounding defeat in the elections called to appoint the first autonomous Federal Capital administration and strikes organized by increasingly disgruntled unions and the CGT, the government blamed workers' tax exemptions and the high cost of labor for the growing fiscal deficit, recession, and employment problems. Consequently, in early 1996, it attempted to reduce the family component of wages and to tax food benefits as part of the workers income while trying to decrease labor costs by eliminating some employers contributions, cutting fringe benefits, and altering the conditions and outcomes of collective bargaining. However, the strong opposition to these measures combined with the growing political and economic dissension between the minister of economy and the rest of the administration, led in July 1996 to the resignation of Cavallo and his replacement by Roque Fernández, the up-till-then president of the Central Bank. Fernández, an orthodox specialist in money and banking with a Ph.D. in economics from the University of Chicago, who promised when inaugurated to maintain the neoliberal program and, especially, to preserve its convertibility component while trying to overcome the growing fiscal and social problems. The first measures announced by the minister were aimed to reduce the fiscal deficit, extending the value added tax to services (transportation, education, health, and entertainment), increasing fuel taxes and reducing transfers of federal revenues to the provinces (Clarín--edición internacional, 1996a). At the same time, the administration began to promote a labor reform intended to promote more "flexible" work regulations and conditions. The proposed reform was intended to decentralize collective bargaining transferring it to the firm level, to make it possible or the government to modify existing rules and regulations through new collective agreements, to abrogate special labor statutes, to transfer the cost of severance payments and unemployment insurance from the employers to the workers by creating a fund financed by employees' contributions, and, in general, to facilitate modifications in the workers' job descriptions, work hours, vacations, and amount of wages and fringe benefits (Clarín--suplemento económico, 1996b, 1996c, 1996d). The response of the CGT to these proposals was to call for a general strike and street demonstrations, successfully held in September 1996, and to try to negotiate an agreement with the administration to protect most labor rights (Clarín--edición internacional, 1996b). By the end of the year, as unemployment remained high and the labor-government negotiations stalled, the administration suspended talks and introduced the by decree new rules that weakened the collective bargaining regime and announced its intention to do the same with the severance payment regulations (Clarín--edición internacional, 1996d). Organized labor response was to call for a new general strike and demonstrations held by the end of 1996 as employment and real wages continued to decline. Throughout 1997 unemployment and underemployment rates remained high. In May 1997, the unemployment rate was 16.1% while underemployment reached 13.2%; in October, the rate of unemployment had declined to 13.7% but the underemployment figure remained practically stable at 13.1%.

These developments affected Menem's popularity and his mobilization capacity, forcing him to promise new policies aimed to generate jobs and improve social conditions. The feasibility of these policies, however, was limited by the constraints that the neoliberal economic program imposed on the state actions. As the congressional elections of October 1997 approached, the main opposition forces --the Radical party and *FrePaSo*-- realized that if they organized a coalition there were excellent prospects of defeating the Peronism. The rise in unemployment, the numerous allegations of corruption and police brutality, the growing insecurity and distrust of the judiciary affected the government's popularity, particularly in the larger cities and most populated provinces. In August 1997 the leaders of the two main opposition groups agreed on establishing an electoral front , the Alliance for Work, Education and Justice (*Alianza por el Trabajo, la Educación y la Justicia*) that presented common candidates in most electoral districts and advocated a program calling for creation of jobs, elimination of corruption and increase of the educational, health and other social expenditures. Benefitting from the proliferation of charges of corruption and governmental mismanagement, the Alliance was

highly successful in the October 1997 elections, obtaining more than 45% of the votes against 36% of the Peronists and 18% gathered by the minor parties.

As a consequence of these results, the Peronists lost their absolute majority in the Chamber of Deputies and a period of intense internal debate started in the PJ in anticipation of the presidential elections of 1999. One of the most controversial aspects of this debate was focused on Menem's apparent intention to find a way around the constitutional clause that prevented him from running for a third presidential period. Taking advantage of the resounding defeat of the candidates supported by the governor of Buenos Aires, Eduardo Duhalde, Menem withdrew his support for Duhalde's presidential candidacy in 1999 and began to explore the possibility of himself becoming a candidate. After months of confrontation between Duhalde and Menem, condemnation of the president's intentions by the opposition, and growing dissent among the Peronists, Menem recognized the impossibility of gathering popular support for this initiative and announced in July 1988 that he did not intend to seek a third term. Nevertheless, the negative repercussions of this frustrated attempt on the administration and the Peronist party were clear: Menem's popularity remained extremely low and the party was affected by an acute internal strife that affected its electoral chances.

Menem's political reversals were accompanied by a continuous inability to improve socioeconomic conditions. In May 1998, the National Institute of Statistics and Census reported that the unemployment rate was 13.2%, a slight decrease of 0.5% in comparison with the figures of October 1997 (La Nación, 1998). At the same time, it was noticed that this improvement was concentrated among the best educated and more experienced job applicants, while employment opportunities for the less educated, poorer and youngest job seekers continued to deteriorate. In July 1998, a study based on figures provided by the same Institute pointed out that income distribution remained extremely unequal and that a substantial sector of the population remained under the poverty line (Página/12, 1998a).

In this context, the likelihood that the Alliance would be able to defeat Peronism in the 1999 presidential elections increased but it depended, to a large extent, on the ability of the diverse groups that converged in its creation to eliminate internal dissensions, agree on common candidates and present a credible governmental program. In this regard, the presentation in August 1998 of the Alliance's general proposals in a "Letter to the Argentines" seemed to indicate that, although the Alliance intends to take a firmer stance against corruption and to implement some moderate socioeconomic programs to promote growth, combat poverty and improve social conditions, it does not plan to alter the main economic policies formulated by the current administration (Página/12, 1998b; Clarín, 1998). The promises made in this Letter included the creation of new jobs, increase in the educational budget, strengthening of the health system, modernization of the judicial system, elimination of corruption, and incentives for regional development. However, all these measures would be implemented respecting the pillars of the existing neoliberal economic program: convertibility, privatizations, opening of the economy, and fiscal balance. Thus, even if the Alliance were successful in the coming elections, the maintenance of these policies would reduce the margin of maneuver of the new administration, leaving room in the best scenario (one characterized by continuous economic growth and stability) for the application of very moderate and gradualist distributive and social welfare programs.

### **Conclusions**

In Argentina the exhaustion of the import substitution industrialization model and the parallel decline of the populist experience marked the beginning of a quest to reestablish conditions for economic growth, social peace and political stability. Since the mid-1950s, the attempts made by democratic and authoritarian governments to modify the political economic structures by eliminating some of its redistributionist and

nationalistic features while favoring a developmentalist state-led strategy of growth failed due to adverse international trends and the effective opposition mounted by powerful socioeconomic and political actors whose fortunes were linked to the interventionist state. The 1976-1983 authoritarian regime attempted to solve this problem by combining the use of harsh military repression with the implementation of neoliberal programs aimed to atomize and weaken these socioeconomic and political groups. The use of military repression and free market policies succeeded in changing Argentina's socioeconomic structure and processes but failed to attain its ultimate goal of creating a stable liberal economy and conservative political regime. The military government implemented some liberal trade and financial policies but, for political and social reasons, could not complete the application of a uncompromising neoliberal program nor guarantee in the long-run the creation of a free market economy. The continuity and deepening of the neoliberal restructuring seemed to require the existence of critical economic conditions and of a political regime able to legitimize the new economic model and ensure its survival during periods of economic and social strain. Argentina's authoritarian regime failed to meet these conditions and was finally forced to transfer power to a civilian elected government amid an acute socioeconomic crisis and humiliating military defeat.

Although initially reluctant to embrace a neoliberal program, the elected democratic government rapidly found that attempts to implement Keynesian or heterodox economic programs faced strong domestic and foreign opposition and led to critical situations. Thus, the Alfonsín administration followed a hesitant path toward increasingly orthodox economic policies but was unable to satisfy powerful internal and external actors that demanded a complete neoliberal restructuring that comprised fiscal discipline, elimination of subsidies, moderate taxation, market-determined interest and exchange rates, trade and foreign investment liberalization, privatization of state enterprises, deregulation, and complete respect for private property rights. The Radical administration's wavering attempts to follow a moderate redistributionist approach while negotiating corporatist socioeconomic agreements with labor and capital and its inability to overcome the opposition of important groups to the privatization, deregulation and opening of the economy contributed to generate an economic crisis characterized by stagnation and hyperinflation.

The catastrophic failure of the Alfonsín government generated some of the necessary preconditions for the more successful formulation and implementation of a radical neoliberal program in Argentina. Popular fear of the repetition of the 1989 hyperinflation generated strong support for any program able to promote economic stability even if it was done at a high cost in terms of income distribution fairness, levels of consumption, social conditions, and rates of employment. As a democratically elected government with ample control over Congress and the provincial administrations, the Menem administration was better prepared than its military and civilian predecessors to effectively apply neoliberal policies, reducing public expenditures, promoting a trade liberalization that supposedly would favor consumers over specific groups of producers, gaining support for crucial privatization and deregulation decisions, and reducing uncertainty concerning the respect for property rights. Neoliberal restructuring was presented as the only viable strategy to ensure economic stability and growth considering not only the collapse in Argentina of the state-led model of import-substitution industrialization but also the simultaneous crumbling of socialist and populist experiences in other parts of the world as well as the trend toward market globalization that severely limited the role of the state in the national economies. Furthermore, the critical socioeconomic situation in which Menem assumed power facilitated the concentration of power in the executive branch, and especially in its techno-bureaucratic economic teams, that had the political opportunity and resources necessary to impose their on Congress, parties and socioeconomic organizations. Moreover, the Peronist tradition of personalistic leadership encouraged this concentration of power in the hands of a popular president reinforcing the trend toward the exclusion of other political or socioeconomic actors from the decision making process who were denounced for their propensity to favor economic and social policies that could unleash, according to the administration, a new inflationary surge.

Finally, the capacity of the neoliberal policies to promote, after some initial difficulties, economic stability and some economic growth gave the government the support necessary to complete most structural transformations before the shortcomings of the program in terms of employment, income distribution, and social conditions became apparent.

The impact of Menem's neoliberal policies on employment, labor organization, income distribution, and social welfare has been substantial. The pattern of maintaining a relatively high level of employment and a relatively low number of underemployed workers --characteristic of Argentina since the 1940s-- was shattered and replaced by the emergence and consolidation of a situation typified by the high level of structural unemployment and a significant number of underemployed. Since 1990, with the implementation of the Convertibility Plan, Argentina has been characterized by a continuous increase in the size of the economically active population accompanied by a very low growth in the total number of jobs and a decline in the number of jobs available for the less educated and poorer sectors.. At the same time, there has been a decline in the real salaries and wages which has paradoxically been accompanied --in conditions of fixed exchange parity and economic opening-- by strong indications of a rise in labor costs. This situation has led to attempts by the administration to "flexibilize" labor legislation and rules in the belief that it is the rigidity of these rules -- particularly in terms of compensation, work hours, severance payments, and fringe benefits-- what leads to growing unemployment and economic stagnation. This interpretation has been disputed by other analysts who point out that the unemployment problem might have resulted from a combination of growing labor productivity, privatization and shrinking of the state, indiscriminate trade liberalization, and overvaluation of the local currency that reduced the demand for labor, cut state jobs, and generated the closing of less competitive firms. In any case, the impact of these developments on employment remained less noticeable during the expansive 1990-1994 period but became evident as soon as the repercussions of the Mexican crisis hit the Argentine economy in 1995.

Institutionally, the application of these neoliberal policies significantly weakened the capacity of organized labor to promote its traditional redistributionist and full employment goals as well as its ability to exercise political influence. The socioeconomic changes fostered by the Menem administration--including the decline in the numbers of industrial workers and public workers, the rise in self-employed, and the growing "unemployed reserve army"-- have reduced organized labor traditional basis of support while raising fears in those workers that remain employed. Moreover, the fact that these policies were implemented by a Peronist administration created a dilemma for organized labor that since the 1940s had been considered the 'backbone' of the Peronist movement. Many labor leaders supported Menem and others refused to oppose him openly. Those who did were isolated by the administration that did not have any reservations in splitting the labor confederation and denouncing any labor opposition as inept and corrupt. The consequence was that organized labor became ineffective in resisting the application of the neoliberal program and, even after 1995, when rising unemployment and decline in real wages led to growing workers' discontent, the lack of labor organization, leadership and strength made it impossible to promote any realistic alternative to the neoliberal policies.

Income distribution inequality was worsened by the application of the neoliberal program both in terms of personal and regional disparities. Trends in the distribution of personal income have shown a growing concentration among the upper strata, a continuous decline in the middle sectors, and an expansion in the numbers of those classified as poor, particularly newly impoverished ones. The erosion in the real value of pensions, particularly of the minimal ones, has also contributed to the increase in the number of old citizens leaving below the poverty line and unable to satisfy their basic needs. Regional distribution inequalities have also remained considerable as many of the poorer regions of the interior were negatively affected by the reduction in federal transfers and tax sharing, elimination of industrial promotion programs, privatization of

state enterprises, and cuts in the numbers of federal and provincial states employees. Fiscal constraints and inefficiencies in the distribution of public social expenditures have led to the deterioration of the educational and health services and the levels of nutrition of the poorer sectors.

Nevertheless, the commitment to preserve economic stability and the depth of the structural transformations already completed make it very difficult to formulate and implement an alternative strategy of development. In this sense, Argentina's neoliberal restructuring seems to have reached the point of no return narrowing the range of options faced by supporters and opponents of the present administration alike. The decline in labor strength, the breakdown of the redistributionist, industrialist and state-led model that favored full employment, and the current inability to find an alternative to the neoliberal policies indicate that there is a high probability that in the coming years --even if there were variations in the intensity of the neoliberal drive or of some of its contents-- the existing free market model characterized by relatively high levels of unemployment and underemployment, concentration of income, deficient social conditions, and substantial pockets of poverty would remain in place.

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